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# Local enterprise and the unemployed

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by Rupert Nabarro Robert Davies Chris Cobbold Nora Galley

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## **This Study**

considers how the unemployed can benefit from policies and programmes to promote small firms and other forms of local enterprise.

The Study, carried out for the Calouste Gulbenkian Foundation during 1984 and 1985, was directed by Rupert Nabarro and Robert Davies. Chris Cobbold and Nora Galley undertook the research. An advisory group, chaired by Baroness Seear, assisted in arriving at the final report. The members of this group are listed on the opposite page.

The work of the Study was conducted in three ways. *First*, a desk study was conducted of the premises, finance and training requirements of small firms and the entrepreneurs who run them. The literature concerning the role of small firms in the economy was studied and discussions were held with a wide range of 'service providers' for small firms, in the public (government departments, local authorities), private (banks and Enterprise Trusts) and non-statutory sectors (national and local charities, employment schemes and Co-operative Development Agencies).

*Second*, a special study, conducted through a combination of desk research and interview, looked at Third Sector Enterprises – co-ops, community enterprises, and local employment schemes and the resources needed to support them.

*Third*, three area studies were carried out to look at local policies towards small firms and how these could be geared to the needs of the unemployed. The areas chosen were known to be of special interest: Strathclyde, since the Regional Council had made special efforts to stimulate Third Sector Enterprises and had the good fortune to have the highly innovative LEAP initiative in its area; Leicester, of special interest because of the concerted efforts of the local authorities to co-ordinate a wide range of disparate small firms activities; and Orkney, which offered special opportunities for small firm development because of its isolation.

This report begins with a summary of some of the main findings. In Chapters 1–6 there follows a discussion of small firms policy; in Chapters 3, 4 and 5 the requirements of small firms are considered (for premises, for finance, and for advice and training); Chapters 7, 8, 9 and 10 are concerned with the special role, prospects and needs of various sorts of third sector enterprise (firstly co-ops, then initiatives flowing from the welfare tradition, followed by the special needs these enterprises have and the prospects for development that they offer). Finally the Appendix contains case studies on small firms development in Strathclyde, Orkney and Leicester.

# SUMMARY

As unemployment has risen at a rapid rate over the last ten years the position facing the worst-off among the workless has become increasingly difficult. The number of long-term unemployed, and the number drawn from among the less skilled and from minority groups, have grown everywhere faster than the average. In certain areas, often those which have been disadvantaged for many years such as inner rings of provincial cities, poor council estates, and some remote rural areas, the position has become impossible. Here a labour market disadvantage that exists everywhere is overlaid by a regional or urban decline in the economic base.

It has become widely accepted, although rarely admitted, that the prospects for these areas and people are very bleak: that they are unlikely to benefit from new growth in the economy, from a general reflation, or from any of the local economic development measures that are currently being tried. In many cases the prognosis is increasing dependence on public expenditure and welfare benefits, themselves subject to tightening restrictions.

This study has attempted to look at one economic policy, that of stimulating the formation and growth of small firms. It has been supported by all three main political parties and is seen as a means both of facilitating national economic growth and producing an increase in jobs. A large number of measures have been aimed at small firm development:

At National Level, the Loan Guarantee Scheme has eased the flow of loans to small firms, and the Business Expansion Scheme has encouraged equity investment in them. There have been changes in the tax environment of small firms, and the framework of employment legislation within which they work; there have been a number of minor changes to town planning regulations. Regional policy has been adjusted to concentrate on the needs of small firms and special emphasis has been focused through the Scottish and Welsh Development Agencies and through the English Development Corporations. A number of measures covering fiscal incentives and direct public sector development have attempted to increase the availability of small firms premises. The Manpower Services Commission has set up the Enterprise Allowance Scheme and a number of training courses for new entrepreneurs.

At a local level most local authorities now offer some assistance to small firms, and in a number of cases have available a comprehensive package covering loans, business advice, premises, and product development.

Many non-statutory initiatives have also been launched. The number of Enterprise Agencies have grown from a handful to nearly 200 in five years. Similarly the co-operative movement has revived the mutual aid tradition and many Cooperative Development Agencies have been established. Alongside this, charities and philanthropic bodies have sought ways of stimulating small enterprises.

It has concerned us that the needs of communities and individuals facing long-term unemployment have not been well met by the public policies designed to help small enterprises. The Gulbenkian Foundation sponsored this study to ask whether a policy of enterprise development targeted at the unemployed was realistic and, if it were, how existing small firms policies and development activities could be made more sensitive to the needs of the unemployed. We set out to answer two questions:

Are there barriers, because of shortage of finance, or of business premises, or of vocational training or management capacity, to the development of small firms; or are the barriers in the way of the development of this type of small firm endemic in the economy itself?



Does the range of public measures to assist small firms effectively overcome these barriers, and how well do they meet the special needs of very small enterprises which might be established by the unemployed?

To try to answer these questions we developed the concept of the microfirm. The microfirm is the type of enterprise that might be established by an unemployed person, or someone recently made redundant. It could be a very small conventional limited company, or a group of individuals working together, or a sole trader. The legal and organisational structure adopted by the microfirm seemed to be less important than the kinds of products and services they were providing and the implications of these for capital, management and premises. Thus the study is concerned with very small enterprises trading for profit and self-employment as well as community enterprises, worker co-operatives, neighbourhood co-operatives and community trading.

The microfirm would typically have limited capital and be serving a local market. The type of activity that might be carried out is illustrated by a recent government scheme to promote small firms: under the Enterprise Allowance Scheme 70% of workers entered small building, retailing or miscellaneous service jobs (see Chapter 2). The literature of small firms in fact contrasts 'high-fliers' with 'craftsmen': our sample will be at the end of the spectrum occupied by the latter group. In fact, this type of potential firm is similar to the vast proportion of existing small firms. Very few small firms ever get to employ significant numbers and the typical picture is of small units 'getting by'. The 'archetype' of the competent businessman spotting a new opportunity and making a success of a new venture clearly exists. It is not, however, typical in terms of the numbers involved.

If attempts are to be made to assist a higher rate of new firm formation among the unemployed, a number of questions will be raised:

- *Do new market opportunities exist for microfirms, or will the establishment of new firms merely displace existing activity?*

In part it must be accepted that encouragement of new locally-oriented, largely service sector firms will either displace, or reduce profitability of, existing firms. However, there are many instances where existing firms will move more into other markets; or where entirely new opportunities can be identified; or where changing resource costs encourage the development of new products. There has been much greater interest in recycling in recent years brought about by increasing raw material costs. The Orkney case study illustrates how high transport costs have opened up a number of small firm opportunities that do not exist elsewhere. Industrial restructuring, the application of new technology, changing patterns of work and the breakdown of big organisations will all throw up new small firm opportunities. Thus, it is very difficult to give an unambiguous answer to this point: each case should be considered on its merits, usually at a local level; national rules, such as those developed through MSC in its attitude to trading on Community Programme Schemes, should be avoided.

- *What abilities are required by unemployed or low skilled people to establish new enterprises?*

Here we challenge the existing view that entrepreneurship is an 'innate' and 'given' quality without which no business will succeed. The essential components of small business acumen are recognised as motivation; management ability; a product that sells; and finance, labour, and premises, to provide the resources for the business. Government initiatives to encourage small business have operated in all these fields and have developed a large number of different programmes. The emphasis in virtually every individual programme has, however, been to spot winners and to support the thrusting small business with high growth potential.

By contrast, certain local programmes have started from the viewpoint that motivation and management ability can be developed over time, that accepted

market research techniques can help a firm identify new products, and that resources can be targeted on individuals with very little previous experience of business.

- *If the unemployed are encouraged to start their own businesses what resources and assistance do they require?*

Here our answer is unequivocal: despite the great and rapid expansion of small firms support initiatives over the past five years, they tend only to benefit tangentially the group of interest to this study — government measures are fragmented, inaccessible, complicated, concentrated on growth-orientated enterprises and in many cases do little more than assist small enterprises which could be viable without special government assistance. This critique holds good for most of the small firms' measures we have examined. Many more small premises are provided than in the past by both public and private developers — but there are still difficulties in the way of the smallest firms seeking flexible provision. Small firms requiring finance are impeded, both by entrenched attitudes in the financial community and by inadequate understanding of their particular needs. Resources for business training are concentrated on the most conventional new enterprises with the best prospects.

The Enterprise Allowance Scheme of the MSC has been very successful in attracting recruits and is described in Chapter 5. It may, however, be seen as the exception that proves the rule: very little support has been given to those who have taken it up; it has not been tied in with any other type of small business support.

- *If a new emphasis were to be given to grass-roots entrepreneurship, what kind of results could be expected?*

The type of business opportunity likely to be developed by microfirms means that national economic benefits, measured in terms of increased output, are likely to be small; equally, the areas of the country which would be likely to benefit most would tend to be the more prosperous. However, stimulating local enterprise would produce many benefits in terms of increases in wage payments replacing welfare benefits. It would provide a wider choice of local products and services than would otherwise be available; and, most importantly, would provide new employment choices where none exist at present.

An enterprise policy for the unemployed would need to be structured very differently from the current range of small firm policies. It would have four broad components:

First, it should be comprehensive, integrate local and national small firms development measures, and coordinate the bodies which initiate, promote, administer and supply them. Measures should be integrated at the local level — where local opportunities can be spotted, and local service providers and business interests drawn into a single effective framework.

Second, an enterprise policy should enable the entrepreneur to assemble a tailor-made package of appropriate support which should include finance, premises and advice on a range of matters including product development, management and personnel, marketing and so forth. The approach would entail an outward-going service which enables skills and attitudes of entrepreneurship to be taught, nurtured and positively developed; and should be continuously available throughout the life of an enterprise.

Third, it should aim to promote the concept of enterprise, and the capacity of individual and small group action to achieve self-help employment options. This might come about in a large number of ways — encouraging the type of third sector enterprises that are described in Section III of this Report; by removing barriers to part-time and casual work, especially in regard to Social Security claimants; by giving greater attention to enterprise training in schools and further education; by dropping any distinction between service and

manufacturing employment in financial incentive packages; by making known the range and type of self-employment opportunities in an area that might be exploited.

Fourth, by concentrating attention on population groups and areas where unemployment is particularly severe — and making long-term, co-ordinated commitment to developing enterprise among disadvantaged groups.

Section II of the Report discusses resources either available at present to, or needed for, small enterprise development.

Premises provision should be part of a local strategy for enterprise in which local authorities have a key role as providers of grants and owners of property, and as monitors of the local availability of small workspace premises. There is also a role for the private sector, especially along the lines of BSC(I) activities, in response to the consequences of industrial restructuring; and at times combining small unit provision with assistance in advice and training.

Local policy towards premises for small firms should aim at creating a hierarchy of different sized units and flexibility in lease terms. There is a strong case for encouraging a new institutional form, such as an intermediary not-for-profit organisation, on grounds of cost-effectiveness, social benefit, sensitivity to development in residential areas and an ability to provide support to new business tenants. There are a number of interesting examples of housing associations providing small business and third sector enterprise services and there may be considerable advantages in developing these initiatives.

### **Finance**

Financial packages are essential and it is clear that there are substantial shortages for both start-up and working capital for very small and insecure firms. This is compounded by ignorance of what is available, and discrimination against the less conventional entrepreneur. In general, measures are needed to improve the cash-flow of start-ups, and especially in easing pre-launch costs. There is scope for improved incentives, by making more assistance available such as taxation and benefit changes for the individual entrepreneur and incentives for private sector companies. Private firms can also help through their purchasing policies, provision of materials and advisory help.

### **Business Advice and Management Training**

Advice and training is the keystone of a policy for enterprise. Training and advice needs to be local and free, accessible, available throughout all the development stages of the enterprise and tied into a complete package of assistance, particularly financial. Such provision should take full account of the distinctive approach required to promote business training for women, ethnic groups and young people. Within the available advice services, specialised advice should be highlighted to include market information, linking up enterprises with common features or products into networks, market gap analysis and technical help in product development. Specific grants and loans should be available for training; in certain circumstances, taking a training course would be the condition for finance and other assistance being made available. Special attention should be paid to 'on the job' counselling and training tied to business advice. There is a clear role for specialised agencies providing training for very small enterprises. A distinctive need is for 'animation', so that there is positive promotion of training and advice as a stimulus to enterprise.

### **Third Sector Enterprises**

Section III of the Report considers the special requirements of third sector enterprises. Initially these widely varying activities are classified according to the extent to which they pursue commercial objectives; and whether they have developed from the mutual aid

(co-operative) or welfare/charity tradition. Worker co-ops have grown very rapidly in recent years, and are subject to normal commercial constraints. They now employ more than 10,000 people, and play an important role in employment creation. They also allow groups of workers to achieve objectives that individually would have been beyond their means, and stimulate action among groups with a limited tradition of individual entrepreneurship. Some local cooperatives have led to commercially viable services which would not otherwise have been provided.

Many charitable bodies have played an important role in enterprise development — although this is nearly always subsidiary to their central purpose of providing community services. The voluntary sector has the capability of playing an important role in any employment-led reflation.

In many cases third sector enterprises have similar requirements to conventional small businesses. Their premises requirements are largely identical. They experience many difficulties in raising finance — in part familiar to all small businesses, in part a result of discrimination against the co-operative ideal. While this financial problem should clearly be overcome we only advocate special support to co-operatives and community businesses when they are willing to tackle social, or employment problems. We have, therefore, outlined an incremental system of support covering finance for feasibility studies, loans, equity finance, management grants and labour subsidies which would become increasingly available according to the extent to which co-ops addressed needs — and which could be used to stimulate activity in very high unemployment areas. There are particular criticisms of the ways in which central government Urban Programme and MSC funds have been made available to Co-operative and Community Enterprises.

A final special requirement of third sector enterprise concerns 'animation'. It has been well established that many new worker co-ops have resulted from the setting up of Co-operative Development Agencies. Agencies have also helped in the particular training needs of co-ops and their rather long induction periods.

In all fields our study points out the extent to which the absence of a settled institutional form to promote microfirms impedes the development of new enterprise.

For conventional businesses we believe that consideration should be given to the development of local specialised Small Business Investment Companies. These should have the capacity and expertise to act as managers and brokers of small business investments — whether the finance is in allowance, loan, grant or equity form — and should be able to assess projects, provide on-going advice, assistance and project monitoring as part of the package of financial assistance. The mandate for this should come from central government, but could be taken up without central support by individual local authorities acting as instigators.

Local enterprise trusts, in certain circumstances, might develop along the same lines. This might entail some form of government support, perhaps through diverting funds and resources (including staff) away from the Small Firms Counselling Service. Advice and training needs to be viewed as an integral component of the support and development strategy for the small firm sector, with a role in the development of business ideas, understanding of the opportunities in local markets, and the development of marketing strategies for the products and services of local small firms.

The same form of comprehensive and co-ordinated structure is required for third sector enterprise and has been successful in Strathclyde and other areas where Cooperative Development Agencies have been established. In certain cases it may be possible to combine their special emphasis on development of co-operative and community skills with the more conventional business development approaches discussed above.

## **SECTION I**

# **Small firms, entrepreneurship and unemployment: are they related?**

## **CHAPTER 1. The scope for small firms to reduce unemployment**

1 This chapter examines the role of small firms in the creation of new jobs and explores whether certain types of firm are likely to be more important to the job generation process than others. We assess the relative importance of small firms policies in an overall strategy designed to tackle economic and employment problems and to put discussions of the role of microfirms in a clear context.

2 A distinction may be drawn between long run and short run employment objectives. The achievement of long run employment objectives depends critically on the sustained recovery of the UK economy, and the steady expansion of UK output. This is a necessary condition for reducing unemployment in the long-term. Britain operates in a competitive world economy and the key determinant of economic prosperity is the competitiveness of UK industries. Long run employment objectives are, therefore, inextricably bound up with the industrial and economic policies of national government.

3 By contrast, short run employment objectives are essentially developed in response to the current level of unemployment. Unemployment management takes a variety of forms, ranging from policies designed to stimulate the demand for labour (employment subsidies, public works programmes) or to reduce the supply of labour by removing part of the economically active population from the labour market (incentives for early retirement, or national service schemes) or by seeking to redistribute work more equitably (job sharing, overtime bans, reduced working hours).

### **Economic Development and the Small Firm**

4 The Bolton Committee reported in 1971 that small firms produced around one-fifth of the GNP and employed more people than the whole of the public sector (1). Small firms have a valuable role to play in many parts of the economy. In many industries the optimum size of production unit or sales outlet is small. Small firms supply specialist consumer or industrial markets that could not be economically served by large firms. In addition, many individuals prefer to work in small rather than large firms. There is no reason why a small firm should be inherently inefficient.

5 In considering the type of firm likely to contribute most to economic development, we can distinguish basic and dependent industries. Basic industries sell their products or services to external markets and therefore bring income into an area. Dependent industries sell primarily to local markets. In any economy the basic industries are the key determinants of economic prosperity. If those basic industries decline, income and employment in the dependent sector must decline as local purchasing power is reduced. In the UK the manufacturing sector is the most important basic industry, although in certain areas agriculture, mining, tourism, financial services or government itself are significant.

6 Of the 1,300,000 small firms existing in 1976 (Business Statistics Office), only 100,000 were engaged in manufacturing (2). The definition of small manufacturing units, as those employing fewer than 200 people, makes them considerably larger than the average small service firms in other sectors. Although the Bolton Committee identified a long-term decline in small manufacturing firms, it seems that this has been reversed since the early 1970s (Table 1.1).



9 It has been noted that employment in small manufacturing firms is increasing at a time when large firms are reducing the size of their work-forces, and that there may be some economic factors which will accord small firms a more significant role in economic development, and thereby employment creation, in the future. As advances in technology enable manufacturing industry to increase productivity very rapidly, it is likely that employment in the service sector — both public and private — could expand considerably. The majority of service sector firms are small and less amenable to improvements in productivity. Small firms might accordingly play a more significant role in employment creation in the future, although this should not detract from the fact that the growth of employment is critically dependent on growth in output in the manufacturing sector.

10 Studies of employment change also demonstrate that only a very small number of firms grow to any significant size. Fothergill and Gudgin note that the contribution of small manufacturing firms to employment generation is more a reflection of the large numbers of new firms than their rapid growth (8). Storey summarises the evidence rather bleakly:

“Put bluntly, the chances are that today’s small firm will show virtually no growth, and that the next most likely outcome is that it will not exist in ten years’ time. Very few prosper, but those which do, can more than compensate both for those which die and those which fail to grow .... Current estimates suggest that the probability of a wholly new firm employing more than 100 people in a decade is between half and three-quarters of one per cent.”(9)

### **Small Firms and Economic Development: Some Conclusions**

11 Clearly a small firms policy is no substitute for a national or regional strategy designed to enable British industry to realise its potential for expansion and growth. Furthermore, substantial reductions in unemployment depend on the recovery of the UK economy. In these circumstances, there would seem to be little justification for discriminating in favour of small firms. The national interest may be better served by ensuring that key sectors of the economy which are in general dominated by large firms achieve their full potential for growth. This was broadly the conclusion of the Bolton Committee when it reported in 1971. The Committee counselled against positive discrimination at that time since it felt that the small firms sector was still viable without special government aid. However, small firms should not be ignored; they form a significant part of the UK economy and there are indications that their importance in economic development may increase in the future. Moreover if the economy recovers it is likely that many of the new jobs created in the process will be in small rather than large companies.

12 Encouragement of those small firms which do make a significant contribution to economic development might be achieved by developing policies targeted at specific industrial sectors with clear growth prospects. There are likely to be more similar problems facing small and large firms within a particular industry sector, than facing small firms in different industries. Furthermore, the limited number of small firms that contribute significantly to economic development may be better helped by selective policies to ensure that at least these firms do succeed.

13 The alternative to selective policies is to create a generally favourable environment for the small firm, for instance through a favourable tax climate. Changes in tax, however, can be criticised on the grounds that one section of the population is being given favourable treatment, and the public benefits of so doing can be far from apparent. Moreover, such a policy is likely to give the greatest advantage to those with the greatest wealth and to be regressive in character.

14 A further approach is to ensure that small firms have the resources they need to develop adequately, be they premises, finance, training or advice. This has the merit, at least in principle, of giving the less well-off person the opportunity to establish businesses.

### **Small Firms and the Reduction of Unemployment**

15 Policies devised to tackle employment problems in the short run should be flexible, appropriate to the scale of the problem, and sensitive to the nature of local employment

problems. Short run temporary job creation schemes are appropriate to cyclical fluctuations, but are not appropriate in tackling the deep-seated and long-term problems of Britain's older industrial areas.

16 Small firms policies score well on the immediate employment grounds and should contribute to meeting long-term growth goals. They are best implemented at a local level and they capitalise upon local initiative and skill. Moreover, since any jobs created are not subsidised in the long run, small firms policies may be considered more appropriate than temporary job creation measures.

17 There are two possible disadvantages of small firms policies as a tool of unemployment management. Firstly, the time span for any job creation is relatively long. Public works programmes, for example, would provide a quicker boost to employment. Secondly, small firms policies will do least to help the most depressed regions where demand is weakest, and where there is an historic dependence on large employers and less of a tradition of small scale entrepreneurship than in more prosperous regions.

18 The key question concerning the appropriateness of small firms policy revolves around whether the development of new small firms is likely to result in the creation of additional jobs. There is always the danger that public subsidy will be given to firms who would, in any case, have undertaken that activity (the "deadweight" effect) or that firms receiving subsidy displace other activity already being undertaken by unsubsidised firms (the "displacement" effect).

19 Given that small firms are being established all the time, publicly funded assistance to new firm founders is likely to be given to at least some people who would have started businesses anyway, without this help. Moreover, as most small firms are established in the dependent sector of the economy they are inevitably likely to be competing with other local firms, and in areas where small firms would be likely to develop of their own accord. However, even accepting that most new firms may be formed in the dependent sector, it is by no means certain that jobs in new firms will displace jobs in existing firms, although new firms compete directly with existing firms. The effect may be to cause these firms to reduce overheads, profits, or wages, or move into different markets rather than to close a contract. There are always opportunities in local markets capable of being exploited. Some of these opportunities, however, would not be viable in times of full employment, but could become viable as people's wage expectations are forced down. Lower wage levels also enhance the competitiveness of small firms compared to large firms.

20 There are also economic opportunities especially suited to exploitation by small firms: some arise due to changing resource prices and technological advances. For example, rising raw material costs are encouraging recycling and re-use of waste or second-hand products. Rising transport costs encourage production for local markets (the point comes out clearly in the Orkney case study). Industrial restructuring and technical changes create opportunities for small firms serving markets which large firms no longer find it economic to satisfy. Moreover, there are many product ideas and resources, often owned by public sector organisations, which could be exploited if an individual or firm were prepared and assisted to take the initiative.

## Conclusions

21 Our conclusion from this review is that policies to promote small firms are best viewed as short or medium term measures to alleviate unemployment. Small firms promotion will have only limited impact, but may be cost effective. Such policies are compatible with long run objectives and may contribute to meeting them. Since most small firms policies have a social purpose — namely the reduction of unemployment — it is appropriate to target resources on those areas at the greatest disadvantage and on those individuals and firms most likely to create new jobs for the unemployed. Indeed, this is already recognised in the operations of COSIRA in rural areas, and the Urban Programme which focuses on disadvantaged urban areas. It is this contention — that small firms



policies ought to be directed at areas of greatest need and to maximise the benefits for certain categories of disadvantaged person — that is the theme of this report. In the next Chapter we move on to discuss the qualities of individuals that typically “make” a small entrepreneur.

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## CHAPTER 2. Small firms and the non-traditional entrepreneur

1 Those most likely to experience long-term unemployment are the less skilled, particularly young people who have failed to acquire educational or trade qualifications, and older workers whose skills are no longer in demand. Long-term unemployment is more prevalent in some areas than in others — in particular, those areas where the local economy is dominated by traditional and severely contracting basic industries and in inner city areas. Long-term unemployment is not solely confined to the unskilled and traditionally vulnerable: the skilled, too, are unemployed, as are professionals and managers. However, these latter groups are generally more mobile and have considerably less difficulty in finding employment with any upturn in labour demand.

2 Long bouts of unemployment act as a levelling force. Skills erode without practice and purpose, links with the working world become more fragile, and resources diminish. Recent reports suggest that the skilled unemployed do not form the backbone of the so-called black economy: not only does inactivity tend to breed inactivity, but even more critically, the unemployed lose out on ‘contacts’ that allow them to establish their markets and the tools and equipment to serve these markets (1). Moreover, as the periods of unemployment lengthen, the chances of recovering any earlier tendencies toward entrepreneurship diminish.

3 Small firm policies to improve the prospects of the unemployed may be pursued by making special assistance available to small existing or new firms that employ people from ‘priority’ groups. This has been the approach adopted by the Greater London Enterprise Board. Alternatively, priority groups may be encouraged to start their own small businesses. It is this ‘self help job creation’ which is examined in this and the following chapters.

4 Ritchie, Eversley and Gibb have written that “pitiably little” is known about the “dynamic complex of personal, social, cultural, economic and geographical factors which mould the aspiring entrepreneur” (2). This does not mean that a standard view of the entrepreneur does not exist; on the contrary, conventional wisdom sees the ‘entrepreneurial spirit’ as being comprised of strong-headed independence, hard-headed practicality, a drive to succeed (success being measured by profits and expansion), and a penchant for taking risks — coupled with sound technical knowledge and the skills needed to manage a business. The traditional entrepreneur positively ‘enjoys’ the adventure of running a business and thrives on bending the cut and thrust of the market to his own advantage.

5 It may be that the entrepreneurial potential among the unemployed is of a kind which is at odds with widely held views as to what small entrepreneurs are and (by implication) what they ought to be like. This conventional view helps to explain how these non-traditional entrepreneurs are excluded from the quality of training and the level of resources they need to realise the full value of self-help job creation. There are two major issues:

- i) the nature of the barriers which have inhibited the development of entrepreneurial capacity;
- ii) whether or not small firm policy initiatives do — or could — overcome the barriers affecting them and the types of firms they set up.

### **The Nature of the New Small Business Entrepreneur**

6 The vast majority of new small businesses are established by men who have had some previous exposure to small business practice and are 30 to 40 years old (3). They come from a wide variety of occupations, although most reach managerial level before setting up on

their own. New small businessmen often make repeated attempts to start up in business. Research by psychologists suggests, in addition, that entrepreneurs experience a lack of 'affinity' with established social and cultural groups and are driven toward individual achievement and independence (4).

7 Evidence about the motivation of small firm entrepreneurs is mostly based on the recollections of those who have already been in business for a period and has all the dangers of post-hoc rationalisation. However, it is widely agreed that the small firm operator typically formulates his entrepreneurial ambition over a period of time, with the actual point at which this ambition is realised being dependent on a wide variety of triggering factors.

8 A useful distinction may be drawn between the 'high flier' small firm at one extreme and the 'craftsman' small firm at the other. The high flier is typically the graduate entrepreneur who creates the growth firm — the typical 'seed bed' of future medium/large size industry. The high flier is less dependent on technical ability than on the ability to manage, seize opportunities and take risks. The craftsman entrepreneur is typically the City and Guilds artisan whose chief interest is in using his skills to make a living on a modest scale.

9 Between the extremes lies a large 'grey area' which best describes most new firms. Pointedly left out are those who turn to entrepreneurship because they have little immediate or longer term alternative to starting up on their own. Storey's study shows that more than one quarter of new firm founders had taken this course of action because they had been pushed into it by unemployment.

10 Little is known about entrepreneurial capacity among the unemployed, partly because it is still very rare. It is currently thought at most, that between 1.5 — 2.00 per cent of the total number of registered unemployed attempt to set up in business — a figure which includes those leaving the Unemployment Register to become self-employed or those participating in the Enterprise Allowance Scheme. The EAS aims exclusively at unemployed people and it has had considerable success in drawing in young people (19% of participants are under twenty-five), the longer term unemployed (one half had been out of work for more than six months), and in attracting the least qualified. Only one-third of those setting up businesses under the EAS did so in the industry where they were previously employed, with some 25% of the firms established in the distributive trades.

11 Johnson and Rodger studied 64 new businesses set up by 41 men made redundant in the late 1970s from the divisional headquarters of a multi-national company (called HQ founders) and 24 men made redundant from a total of six manufacturing plants (non-HQ founders; including manual and non-manual workers)(6). Seventy-two per cent of founders said they would not have set up in business had they not been made redundant; more than three-quarters of this group also thought that they would have been unable to get another job at a salary similar to the one they had just lost. The businesses formed were predominantly in the service sector. The origins of new businesses established varied widely: fifteen founders had already been trading on a part-time basis prior to redundancy; 11 developed personal interests or hobbies; 13 set up in lines which used their previous experience or built on skills they already had; and eight set up on the initiative of others. The remaining 17 businesses appeared to be almost accidental combinations of circumstances and opportunities. By 1981, 35 out of 40 of the HQ founded businesses were still trading, although only seven had three or more employees. Nearly all the founders were earning less from their business than they had from their previous jobs.

12 The researchers suggest that the degree of success was, not surprisingly, related to the founder's motivation. Motivation was itself related to the founder's age, experience and financial circumstances. Firms that grew did so because their founders wanted them to; in only a few cases were the lack of financial assistance or market position a constraint. The researchers could find no basis for distinguishing between the personal characteristics of the fast and slow growers, although the presence of a co-founder suggested some variation in success achieved, presumably on the 'two heads are better than one' principle. The

researchers concluded that, “With the right conditions, combination of circumstances and stimuli ... founders (even of fast growing businesses) may emerge from diverse backgrounds and circumstances.”

13 Robson-Rhodes’ (1984) evaluation of borrowers under the Small Business Loan Guarantee Scheme (LGS) provides further evidence on microfirms and their operators (7). The researchers were able to isolate the characteristics of surviving firms, as distinct from those that failed: “The most successful, and now well established, survivors achieved their success by great determination and a drive and acumen that was very clear to see”. In general, survivors succeeded as a result of their own hard-learned ‘trial and error’ business aptitude and still shaky financial sense; learned at great personal expense and by hard work. However, “The day-to-day strains on their businesses, which remain incapable of recovering from any serious setbacks, are considerable”.

## Businesses Established by the Unemployed

14 The personal circumstances of unemployed people who establish firms are likely to result in the firms being heavily concentrated in sectors with easy ‘entry’ requirements, requiring either little skill or capital. Thus 70% of EAS participants establish businesses in the construction, distribution (primarily retailing ) and miscellaneous services sector. In the manufacturing sector, most common are jobbing engineering firms, small joinery businesses, small printers and manufacturers of toys and sports equipment (Table 2.1).

Table 2.1

Industrial Category	% of EAS Participants
All Manufacturing	12.9
Construction	23.6
Gas, Electricity, Water	5.8
Distributive Trades	24.8
Insurance, Banking, Finance, Business Studies	2.9
Professional & Scientific Services	3.6
Miscellaneous Services	24.1
	100.0

Source: Manpower Services Commission 1983

15 Unemployed business founders have less capital to commit to a new business than those who have been in paid employment up to the point of the business formation. Table 2.2 summarises the investment that EAS participants proposed to make in their business.

Table 2.2

Proposed Level of Investment in Business in First Year	% of Participants
Up to £1,000	40
£1,000–£2,000	29
£2,000–£3,000	20
Over £5,000	11
	100

Source: Manpower Services Commission

Note: It is a requirement under the Scheme for participants to have £1,000 to commit to the business.

By comparison, a survey of new manufacturing firms in Scotland found that 39% of all firms intended to invest over £5,000 but 28% less than £1,000 (8). Robson Rhodes further support this point: at the time of borrowing under LGS, 46% of the new firms depended entirely on loan finance with no money being put in by the founders of the firms themselves.

## **Can Entrepreneurial Ability be Learnt?**

16 Ritchie, Eversley & Gibb studied entrants to a 1979 “Build Your Own Business Competition” and followed a sample of new entrepreneurs over an 18 month period while they made decisions to realise their competition ideas, quit their jobs and start-up in business (9). The business study concluded that the qualities necessary for small entrepreneurs are learnt over time and that the crucial period for forming entrepreneurial abilities is that leading up to and following start-up of trading.

17 Although the group conformed to the profile of the ‘standard’ small firm entrepreneur outlined above, the researchers noted that, while their sample was well-equipped in conventional terms to run businesses, there were major gaps in their previous experiences. Four components were seen as essential for the aspiring entrepreneur:

- motivation (including determination)
- ability
- a well-developed idea (including a notion of the market)
- resources.

The researchers concluded that:

“.... it is clearly evident that all four of the characteristics determining success may change dramatically over time: abilities can develop rapidly, the idea can be adapted fundamentally as it becomes exposed to the market and resources can be added to by a variety of means. An evaluatory picture therefore at any one time must be recognised as only a snapshot .... judgments made at any one time may need to be radically revised later.” (10)

18 Important conclusions can be drawn from this research:

- i) While ability may be more talent than acquired skill for some entrepreneurs, it is probably not for the majority of aspiring small business operators;
- ii) As business skills are learnt, they should be able to be facilitated by specific business training;
- iii) An untried entrepreneur’s motivation may be rather fragile and susceptible to discouraging reactions from business advisers. Of over-riding concern to Eversley and Gibb was that the motivation to start a business should be protected and should not be eroded by an adviser inaccurately equating technical failings in the business proposal with inherent lack of ability in the entrepreneur.

## **Conclusions**

19 It is both feasible and practical to encourage the unemployed to establish small firms, even though many do not conform to conventionally held notions of the typical entrepreneur. However, if such a policy is adopted, it must be combined with appropriate training to make up for the limited experience of management of many of the unemployed, and to overcome the demotivating effects of unemployment.

20 Nevertheless the vast majority of new small firms established by the unemployed are in the dependent sector of the economy, and their growth potential is limited both by market constraints, and by the particular outlook and motivations of their founders. As Storey says:

“For every boffin businessman intending to manufacture and market a wholly new and technically sophisticated product, there are scores of insurance agents, garage mechanics, hair-dressers and carpenters who will begin in business providing very familiar goods and services. The experience of management which individuals bring to their enterprise varies considerably as do their ages and social backgrounds.” (11)

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## **SECTION II**

### **Resources for the development of the microfirm sector**

1 In this part of the Report we consider the current range of measures that are available to encourage the growth and development of small firms. Our objective is to assess the capacity of existing initiatives to eliminate barriers to the development of entrepreneurship, particularly at the less ambitious end of the small firms sector. We argue that current measures do not add up to the 'integrated package of resources' that is needed to realise the job creation potential of local, self-initiated enterprise. The lack of a concerted 'enterprise policy' which fixes support for small firms either within the range of overall efforts to regenerate local economies or under the clear direction of one Government Department, affects all would-be entrepreneurs. But it particularly diminishes the chances of those who fit less easily into the traditional entrepreneurial mould. There can be no doubt that many of those who fall outside this mould could, were the right resource packages locally available, own, manage or assist in some form of small local enterprise.

2 Many of the essential components of this 'package of resources' already exist as discrete small firm support initiatives. However, the 'viability' of a small enterprise will often depend on a development process that stretches from pre-start-up to trading, through expansion or diversification. In the short-term this requires the support of a concerted 'local enterprise' policy which both:

- i) integrates separate national and local small firm development measures and co-ordinates the bodies which initiate, administer or supply them; and,
- ii) enables the entrepreneur to assemble a 'tailor-made package' of appropriate support locally.

In the longer-term this requires a national 'movement' aimed at 'generating enterprise', in which the skills and attitudes of entrepreneurship are recognised, and, where necessary, are taught, learnt, nurtured and positively developed.

3 The ad hoc and piecemeal approach to small firm support that is currently practised works to the benefit (or at least not to the disadvantage) of the 'traditional' independent, opportunity-seeking entrepreneur. It is assumed that they are capable of sifting through the maze of current provision, with at most some very general assistance from a 'signposting' official. Failures to take up needed assistance are blamed either on imperfections in the flow of information available about the types of assistance on offer, or sheer stubbornness on the part of the overly independent entrepreneur.

4 We begin our discussion of small firms measures with policies which offer assistance in the form of premises (Chapter 3) and finance (Chapter 4). Many difficulties that arise (e.g. loan failures or rents that fail to return a profit to the developer) do so simply because a significant proportion of those who make use of these services are not ultimately able to sustain a going concern, in spite of the help they have received. The reason they cannot is very often because the 'hardware' (money and a place to work) are less useful than they might be without proper attention to the 'software' (knowing how to run a business). Chapter 5 is, then, devoted to a detailed consideration of advice and training provision to small firms.

## CHAPTER 3. The premises needs of small firms

1 Most gaps which remain in the availability of suitable premises for microfirms can be attributed to problems of undersupply in specific local areas and to premises either being 'too expensive' (particularly when new and purpose-built) or available on inappropriate leasing terms. The small workshop movement has in the past several years acquired a kind of cachet; since 1980, the provision of small units by English Estates (the former English Industrial Estates Corporation) and other public development companies, local authorities and the private sector has increased enormously. Between 1976 and 1982, floorspace in units of 5,000 sq.ft. and below has almost doubled (1).

2 For the purpose of the discussion which follows, it is worth first briefly reviewing the premises needs of microfirms. Given the diversity of microfirms, it is impossible to specify their needs precisely; however, some basic principles can be put forward.

- i) Size: The need is for premises ranging from 100 sq. ft. to 2,500 sq. ft. suitable for use by both manufacturing and service sector industries.
- ii) Location: Microfirms require premises in close physical proximity to the proprietor's home. Cooper and Lybrand found from a survey for the Department of Trade and Industry that the small business wants premises within 20-30 minutes travelling time from home (2). A later survey reached similar conclusions (DTI 1982)(3). A number of reasons explain this preference:
  - a) familiarity with the locality and convenience
  - b) dependence on local markets
  - c) the need to avoid the additional financial strain of changing houses when starting a business, and the possibility of the proprietor's house being offered to secure a second mortgage
  - d) physical proximity to the workplace reduces the problems of working long and unsocial hours.
- iii) Costs and Leasing Arrangements: To keep costs to a minimum, small firms need premises which are built to standards which just meet rather than exceed their requirements. This will often mean that converted premises are more suitable than new which tend to entail higher rents.

Letting terms are also important. There is substantial evidence that small firms prefer 'easy in — easy out' terms with leases of three months maximum periods (4). In addition, management problems for individual businesses are reduced when insurance and maintenance charges are included within the rental price.

3 Many small businesses are run from home. This option is largely confined to the home-owner and is almost always illegal for council tenants.

4 Services related to premises provision have also proved valuable for small firms. 'Managed workspace' includes a range of common services — cleaning, security, secretarial and clerical help, book-keeping, telephones and so on. For new businesses the provision of on-site (or visiting) business management advice may be important. The cost of this has generally proved to be too high to provide on an economic basis and is more commonly



available in subsidised facilities with a job creation motive (e.g. initiatives set up by local authorities, either alone or in partnership with the private or voluntary sector, and other public agencies such as BSC Industries Limited).

## **Fiscal Incentives**

5 The Industrial Building Allowance (Small Workshops Scheme) introduced in the 1980 budget is designed to stimulate private sector provision of small manufacturing industrial units. Tax allowances for new and refurbished (since 1983) units under 1,250 sq. ft. currently run at 100% (until the end of the 1985/86 fiscal year, when the IBAs are due to be abolished). IBAs were extended in 1983 to include both new and converted premises and to units occupied by tenants under licence. In addition to manufacturing, units serving certain repair and servicing activities and for warehousing of goods for use in industrial processes now also qualify. IBAs, however, are still not easy to use for small workshop complexes, particularly in respect of constraints on tenant turnovers and services industries generally.

## **Public Provision of Small Units**

6 The public sector has been extremely active in providing new and refurbished small units: 56% of all district authorities in England, 70% in Scotland and 84% in Wales have small industrial units of less than 2,500 sq. ft. available in their area (5). The Scottish Development Agency, the Welsh Development Agency, English Estates and the Development Commission (COSIRA) all provide units, either directly or in partnership with local authorities. The Development Commission has been very active in promoting conversions of redundant farm buildings, and has recently started to build some craft houses (NCVO/Development Commission, 1982). In a number of cases, local authorities have entered into partnership arrangements with private developers in order to overcome the reluctance of the private sector to become involved in secondary locations, or to 'lever' private capital into a scheme (see Barrett and Boddy, 1981)(6).

7 Local authorities alone are responsible for approximately one-fifth of all small units of 5,000 sq.ft. and below. In general, however, local authority developments have tended to shy away from units of 500 sq.ft. or less, although they tend to be more flexible about letting arrangements than other parts of the public sector. So, although the supply of small units has improved dramatically, there may still be some question as to how far the majority of these units go toward meeting the needs of the microfirm sector.

8 Enterprise Agencies have used their particular skills to lever private sector funds for public-private partnered investments in workshop spaces, particularly in locations of little interest to the market (for example, LENTA's conversion of a 30,000 sq.ft. Victorian warehouse in Spitalfields to provide 40 small units). Many such schemes make use of Urban Aid funding or other local authority loans and grants.

9 A number of voluntary and community organisations have been involved in workspace provision. Govan Workspace, Hyson Green Workshops Ltd. and Pallion Residents Enterprises have all been involved in complex property developments in marginal locations. They have relied to a considerable extent on Urban Aid funding, reflecting their difficulty in raising commercial finance and the low returns available in areas in which they are involved.

10 COMTECHSA in Liverpool and CLAWS in London are examples of innovative additions to the workspace movement. CLAWS is funded chiefly by the GLC and undertakes free feasibility studies (including design, construction, finding sites and targeting demand) for non-profit groups wishing to develop workshops — providing a high standard of service to groups who lack the necessary property development expertise and would otherwise be forced to buy it on the market.

## **Workspace, Working Communities and Enterprise Workshops**

11 Recent years have seen the growth of schemes that provide very small workshops (typically with some level of common services) that are particularly suitable to the needs of microfirms. These schemes have been initiated by public sector organisations, voluntary and community organisations, and to an extent by private sector organisations in partnership with local authorities or, less commonly, on their own.

12 The schemes vary in detail, but a number of basic themes can be identified (DoI 1982; BSC(I) Ltd. 1982)(7):

- i) The provision of very small units: most schemes provided units from 200 sq.ft.
- ii) Monthly licences or short tenancies: often premises are let at an all-inclusive monthly fee, which is designed to assist the businesses by ensuring they know very precisely the cost of their premises and do not have to pay various other charges.
- iii) On site management: the manager of such schemes is normally encouraged to undertake not only estate management functions, such as rent collection, lettings and site maintenance, but also to provide business advice to tenants. Considerable emphasis has been placed on the importance of good management in determining the success of a scheme (8).
- iv) Common services: in addition to on-site management, a number of other common services may be offered. These have been identified (DoI 1982) as being (9):
  - a) office support — conference rooms to hire, and administrative services such as typing and telephone answering
  - b) business advice — generally of a low level ‘signposting’ type
  - c) machinery and equipment — these tend to be provided only in local authority schemes, such as Enterprise Workshops and Innovation Centres.

13 Surveys of such schemes have found that tenants express a preference for services that are ‘basic and minimal’ (DoI 1982) (10). Telephone answering tends to be highly valued, but secretarial services are rarely used. The low level business advice provided is also valued. In some centres machinery has been provided so that the new business can develop prototypes. Almost without exception, however, those centres have found it to be under-utilised. The types of firms established in such centres are extremely diverse. Even in Birmingham where many new firms are in the metal trades, metal-working machinery has been under-used. This might be explained by the fact that a first priority for the business owner will be to acquire the machinery he wants for his own use, so that he can be guaranteed its use when he wants.

## **The Way Forward**

14 This brief review of schemes suggests that local authorities are the key to many developments, especially in the economically marginal areas which are central to this study. They have the ability to subsidise refurbishment schemes, offer grants and loans, establish ‘not for profit’ organisations and pay for feasibility studies. However, more large firms might usefully examine whether they could follow the lead of BSC (I) Ltd. and BAT in developing schemes to provide small industrial units, in response to the redundancies caused by their own industrial restructuring. In addition to assistance with premises, these large firms have the opportunity of tying their small unit provision with assistance in advice and training and even, in some instances, small ‘starter’ contracts for the products or services of the new firms they assist.

15 It seems likely that most activity in the areas of high unemployment will always need to be subsidised by public sector organisations, or assisted by voluntary organisations supported by public funds. The following points need recognition:

- a) Public authorities cannot assess potential schemes solely by their financial return. Employment, environmental and community benefits should also be considered in determining priorities.
- b) Authorities should aim at creating a hierarchy of different size small units, and distributing very small units widely. They should remain aware of opportunities to improve the supply of premises in areas where they remain in short supply, and adopt an outward going approach to ensure that demand is met.
- c) The diversity of small business calls for the provision of a diverse range of units — refurbished, new, suitable for craft, industrial or office use. Where new units are built, the expressed preference for basic units ought to be borne in mind.
- d) Flexible letting policies should be adapted to suit individual requirements. Short-term tenancies ought to be offered, and the requirement for personal guarantees on rents should be waived.
- e) There is a need for flexible attitudes toward new developments in non-industrial areas. Local authority ownership and a licensing arrangement is one way of guaranteeing that industrial property does not become a nuisance to surrounding residential areas.
- f) There is a need in certain instances for flexibility in the enforcement of building and other statutory regulations. It has been argued that some form of licensing system could be introduced (Franklin and Stafford, 1977) as an alternative to total compliance with building regulations. Alternatively, local authorities could use their powers to offer financial assistance to offset the additional costs of high standards where these make a scheme unviable.
- g) Local authorities ought to link their tenants to existing business advisory services.

## **A New Institutional Form?**

16 A number of suggestions have been made for an intermediary organisation to provide premises for small firms, along similar lines to Housing Associations in house provision (Falk, 1979, Cooper and Lybrand, 1980)(11). Indeed, the recent growth of 'not-for-profit' organisations involved in the provision of small industrial premises may be seen as an ad hoc response to an obvious need. Intermediary organisations have been justified on the following grounds:

- i) **Cost effectiveness:** it has been argued that local authorities may find development more costly than an intermediary organisation or may overdesign small premises (Cooper and Lybrand). Intermediary organisations can be very effective at packaging funding to finance development from a variety of government and non-governmental sources. For example, many schemes have used MSC funded teams to undertake building conversion work (e.g. Lambeth Industries Ltd.) Some have raised finance from charitable organisations and made effective use of support from industry through secondments; others have attracted private sector backing. Intermediary organisations may be capable of being more entrepreneurial than local authorities.
- ii) **Social benefit:** as intermediaries are non profit organisations, they may be prepared to accept lower rates of return, and therefore consume less public subsidy than private developers. Subsidising such organisations may also be desirable since they are likely to plough their profits back into a particular locality.

- iii) Many industrial buildings are in residential areas. An intermediary organisation, especially if it has sprung from the local community, may be capable of undertaking more sensitive developments than a private developer. A number of Housing Associations are seeking ways of tackling the problems of mixed use housing in the inner city and, as a by-product, have become involved in the provision of small business premises.
- iv) Intermediaries might well be prepared to offer more support to business tenants than private sector organisations. For example, the Spitalfields Small Business Association, a spin-off of a Housing Association, provides its business tenants with essential business support and advice.

17 If intermediary organisations are to develop further, local authority support is likely to be essential, not only in the form of grants and loans to finance developments, but also to assist in the early years with management costs. In addition, finance will be necessary for feasibility studies. Housing Associations have probably taken the leading role to date in developing the intermediary organisation concept — and some of their efforts are described in the accompanying text. Even here, however, the Housing Corporation will need to take a less restrictive attitude in future towards the involvement of Housing Associations in providing small business premises.

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## *NOTE TO CHAPTER 3:*

### *Housing Associations Involved in Employment and Premises Development*

#### *Solon Housing Services/Spitalfields Small Business Association*

*The SSBA was set up on the initiative of members of the East End Solon Housing Co-operatives. The aim was to tackle problems of property in mixed use. The SSBA deals with the commercial element of the scheme, and the housing element of the scheme is dealt with by the Housing Association. They seek to advise small businesses and co-operatives as well as to rehabilitate property. (Urban Aid and GLC funded)*

#### *Nottinghill Housing Trust Ltd. London*

*NHT have set up a subsidiary company to deal with the commercial element of the property they have acquired. The subsidiary purchases a lease on the commercial property from the Housing Association which retains the freehold. All finance up until recently was raised commercially; now they have local authority 'soft loans'. They report very high management costs due to the marginal nature of the businesses, and recommend that others avoid involvement until some proper funding structure is sorted out with the Housing Corporation or with local authorities.*

#### *Merseyside Improved Houses*

*MIH have a Community Projects Advisory Service that provides technical and professional support to community organisations, many of which have an employment aspect and use MSC funds. They are able to offer access to architects, quantity surveyors, landscape architects and advice on fund raising and finance. This service is, in effect, subsidised by MIH, although where possible fees are charged. MIH is also an MSC CP sponsor for the Merseyside Development Corporation. They provide management and design services, principally land-scaping, and are reimbursed for these services by the MSC.*

#### *Circle 33, London*

*Circle 33 have set up a separate charitable company with a trading subsidiary; it is, therefore, different from MIH and Nottinghill H.T. At the time of writing they were developing two activities: one was the development of properties in mixed use requiring improvement. They hoped to acquire some property from the GLC and funding from GLEB, as well as commercial sources. They were also looking at schemes to acquire property in which they would be able to put new housing; in particular, two schemes being considered entailed the partial demolition of non-residential uses, creating space for housing development along with the refurbishment of the non-residential use. It is suggested UDG and Urban Programme funds can be used for this activity. Circle 33 were also looking at ways of providing a consultancy and technical resource service, and were involved in discussion on this with Hackney Borough Council.*

## CHAPTER 4. The finance needs of small firms

1 Failures by microfirms to attract needed finance occur for a number of reasons, and there is a general and persistent shortage of risk money available for loans to, or investment in, very small firms — particularly those owned or started by non-traditional entrepreneurs. There are, however, a number of factors which militate against the market providing these funds — unless substantial guarantees are provided against the risks. In some cases public subsidies are available to offset start-up or early running costs through the provision of incentives, rent or rate relief, employment subsidies, loans or grants.

2 Microfirm operators, typically, will not have even the relatively modest capital sums conventionally expected of the average small firm entrepreneur. The early results on the investment committed by participants in the Enterprise Allowance Scheme revealed that a substantial proportion of EAS participants had to borrow the qualifying £1,000 of initial finance (Table 2.1, Chapter 2). Storey showed that personal savings are the most important source of finance for the majority (56%) of small firms; by contrast only 7% received loans or gifts from friends and relatives, and just 4% mortgaged their houses (1). Similarly, the Wilson Committee found that 68% of service firms which had started in the previous five years had used their own capital to finance their start-up, and a further 10% had used family loans. However, the Wilson Committee concluded that:

“There is no reason to believe that the availability of proprietorial funds is necessarily related to the viability of a business, or to an individual’s managerial talent... Borrowers who do not have assets to pledge may demonstrate their commitment in a variety of other ways, including expenditure of time and effort or income foregone in the early stages of a project before it gets off the ground.”(2)

3 The unemployed and the young are particularly unlikely to have personal resources to commit to a business. Recipients of supplementary benefit cannot have, in law, more than £2,000 in savings. For the young unemployed, there has never been a period of employment in which to build up any savings. In the communities hardest hit by unemployment, the financial assistance available from friends or family may be non-existent and home ownership may also be low, precluding the second mortgage as a means of financing a business.

4 The lack of sufficient personal savings to finance even the initial costs of setting up in business has far-reaching implications. A particular difficulty of the overall financial structure of very small firms is that, although the costs of setting up are often low, the requirement for working capital is disproportionately higher. The greater difficulties experienced by microfirms in raising sufficient working capital pose critical problems for their survival and force an untenable dependence on maintaining trading turnovers within very tight margins (often on very high gearing ratios). The capital structure of the very small business is “not well appreciated by borrowers, their accountants or their bankers” (3). Moreover, the amount of cash required to sustain the business during its ‘learning curve’ period is simply often not available.

5 Bank managers are not only conservative by nature, but tend also to be ill-equipped to judge the business proposals put to them by small firms. Because they are adept at assessing a borrower’s surety, they tend to rely on this evidence over and above an objective view of the quality of a business proposal. Moreover, bank managers do not see it as in their interest to view one loan request (which they see as an isolated instance) as part of the process of a firm’s development over time. Nor do they assess the loan request in terms of the firm’s longer term financial requirements.

6 Bankers have long maintained that there is no shortage of finance for good business proposals, clearly a moot position. Part of the banks’ conservatism can be attributed to the disproportionate costs of evaluating the case for and administering small loans, against the

level of returns that are likely to be achieved. Part is also due to the differences in the notion of viability between microfirm operators and bank managers. While the bank manager looks for low risk and growth potential, the microfirm operator often takes a different view. The growth potential of microfirms does tend to be limited and reflects the typically modest ambitions of microfirm operators, just as it does their actual capacity to expand. Perhaps most important is the 'fragility' of the microfirm — often acutely sensitive to very small fluctuations in trading. There are, however, those who maintain that the commercial banks are missing profitable opportunities for lending to small firms (4).

## **Grant Aid**

A wide range of grants are available from public organisations to assist in overcoming the type of finance problems discussed above.

### **National Provision**

#### **The Enterprise Allowance Scheme (EAS)**

7 Set up in five pilot areas in 1982, and extended to the whole country in 1983, the Enterprise Allowance Scheme (EAS) is intended to remove what is believed to be a barrier to the creation of small firms by the unemployed: the lack of an income (without critical cash flow difficulties) during the early trading period. The EAS provides the recipient with £40 a week for 52 weeks. To qualify, an applicant must have been unemployed or under redundancy notice for 13 weeks, be able to invest £1,000 in the business and pledge to work 36 hours a week at it. The EAS is currently budgeted to the end of the 1987 financial year. By the end of 1984, 55,000 people had taken EAS allowances and 62,500 places were to be available for 1985/86.

8 EAS applicants' business proposals are not carefully scrutinised. Allowance recipients are given 3 free sessions with Small Firms Service counsellors, but apart from the introductory session (where the EAS recipient's proposal is 'reviewed') take up of this free advice is voluntary.

9 Estimates of the success of EAS funding in stimulating new firms are necessarily tentative and do not take account of firms that would have started without its help. Early results showed that after three months one-third of firms felt they were doing better than expected and 18 per cent felt they were doing worse. After nine months, however, the proportions were reversed with 14 per cent saying they were doing better and one-third doing worse. Seventy percent of new businesses were still trading after 18 months, and over 50 new jobs had been created for every 100 companies established.

10 The scheme is an interesting initiative with decided potential for helping the cash flow struggles of microfirms. There have, to date, been no attempts to link EAS support to regular advice and counselling. As is often true of non-EAS microfirm operators, there seems to be little attempt by participants to seek advice additional to the two free counselling sessions provided under the Scheme. It may be noted that similar schemes to the EAS have been operated by local authorities (for instance, Swansea), although they have now largely been superseded by the MSC initiative.

### **Local Initiatives**

11 Community Development Services (Training) Ltd. (CDST) in Liverpool makes available a £500 interest free loan per job created to new firms with no other source of start-up funds but with a viable idea. Although strictly labelled a 'training allowance' this eases cash flow difficulties. Unlike EAS, however, the 'loan' (from a revolving fund) is seen as part of the wider financial and training needs of the new microfirm. Recipients receive considerable individual advice and assistance and their expenditure of funds under the loan is closely monitored for at least six months. Furthermore, the scheme is operated by people who have a full understanding of the particular needs and constraints of microfirms and

who are able to ensure that 'trainees' understand their markets, pricing requirements, financial management and so on. The 'recipe' has been markedly successful — only one of the 25 firms started in the first year of the scheme's operation failed.

12 In 1982 the Princes Trust introduced a bursary scheme for young people under the age of 25 who are starting their own business. The maximum grant available under the scheme is £1,000. Since the establishment of the scheme, there has been a strong demand for bursaries, which are only given on the condition that suitable advice and training arrangements are made.

13 In addition to these sources of financial assistance — essentially grants to individuals — there are a wide range of grants to business available from public authorities. These are generally for specific purposes and are available to firms of all sizes.

### **Rent Relief Grants**

14 Local authorities and development agencies provide rent relief grants as a device to attract mobile firms to their locality and to act as an injection of working capital. The relevance of such a policy can be questioned. A Coopers and Lybrand study found that rents were only 1.5% of turnover in the majority of firms. Even among microfirms, rent relief is unlikely to have a major impact on relieving a firm's requirements for working capital. As with all statutory schemes, many grants go to firms who do not intend to undertake any additional activity and there is some evidence that small firms themselves do not think that rent relief should be given. Coopers and Lybrand also make the point that small firms may not realise the full costs involved in running their business if offered rent relief, and that if the practice becomes widespread, it could distort the market for small industrial units. It may be concluded that any scheme should operate selectively and not offer blanket assistance to all comers.

### **Assistance with Industrial Improvement and Development**

15 Local authorities have a wide range of powers to assist in the acquisition, improvement and servicing of industrial land and buildings. The primary purpose is to attract firms to a particular area, or to ensure that existing firms can expand or maintain employment. Environmental improvement is also an important objective. Assistance of this nature, however, is not generally of direct importance to very small firms who are rarely in a position to undertake building work for their own benefit. When they have premises they are likely to be tenants rather than freeholders, and most grants are directed towards schemes of a considerable size. Cumbria County Council has, however, offered grants of up to £1,000 in any one year for the cost of improving or converting buildings, and buying or installing machinery. The scheme is limited to businesses with less than five employees. In such instances grants provide a contribution to the capital costs of starting or continuing a very small firm, most probably small firms in manufacturing sectors.

### **Costs of Relocation**

16 Many local authorities assist businesses with relocation costs. These are generally not relevant to microfirms. Some authorities, for example Birmingham City Council, do assist small firms with the costs of relocating within the same area. However, it is rarely the case that this significantly affects the smallest firms.

### **Interest Relief Grants**

17 Interest relief grants may be attached to loans for specific purposes, such as industrial development, or may be given on loans raised for an investment project. The intention of interest relief loans is to enable firms to bring forward new investment proposals by reducing the cost of finance. The scheme operated by the West Midlands County Council in conjunction with ICFC is primarily aimed at larger small firms (50 or more employees) and medium size firms.

18 This review of grant aid only touches upon a small part of the numerous schemes of grant aid available from the public sector to business. Local authority support has been



examined closely since it is more likely to be relevant to microfirms than central government assistance. In practice, it is apparent that relatively few grants are channelled towards microfirms even by local authorities. The majority of schemes operated by central government have no real bearing on microfirms. Where grant aid is being provided to microfirms, any evaluation of effectiveness is handicapped by the lack of evidence and systematic analysis.

## **Loan Finance**

It has been argued that there are likely to be individuals who are unable to find finance to run a business due to lack of personal resources. This is not necessarily a criticism of the commercial banks: there is no available assessment of how secure the firms that miss out or complain really are, and it would be difficult, if not impossible, to acquire such information. The level of lending under the Small Business Loan Guarantee Scheme suggests that banks are willing to take more risks when they are able to share the costs of failure. Where banks fall down is in not being able to evaluate risks with sensitivity or to take steps to monitor their lending, construct finance packages, or refer potential borrowers to sources of much needed advice. It would, for instance, appear to be the case that few bank managers recognise the utility of business training and the potential it has to affect the quality of proposals put to them.

### **National Loan Schemes**

#### **Small Business Loan Guarantee Scheme**

19 The Loan Guarantee Scheme (LGS) was introduced in the 1981 Budget for a trial three-year period and has since been extended to the end of the 1985 financial year. The Scheme is operated by the Department of Trade and Industry in conjunction with banks who can make loans to small firms of up to £75,000 for between two and seven years. The government initially guaranteed 80% of the loan which was reduced to 70% in 1984. The bank making the loan typically charges up to 5% above normal bank lending rates to finance losses.

20 The scheme was initially budgeted at £50 million p.a. but was so successful that £150 million of loans were approved in its second year. By the end of 1984, 15,876 guarantees had been issued covering £519.6 million in bank lending. The average loan under the scheme was £33,000 per borrower in 1983-84 and the failure rate roughly one in three.

21 There are no formal criteria for borrowing under the Scheme; “applications may be from sole traders, partnerships, co-operatives and limited companies”. It is estimated that 61% of borrowers are new starts and 39% existing businesses. Roughly two-thirds of the loans go to service industries.

22 Apart from the premium interest rate, the greatest problems with LGS arise from the tendency of borrowers to request the minimum they require, and bank managers to lend the entire amount requested under LGS, rather than spreading it across other types of finance. The Scheme has best served those who already know how to manage a firm and whose gearing is low enough to reduce the impact of the loan repayments on their cash flow. Robson Rhodes show that businesses by LGS borrowers that fail are clearly distinguished from survivors by their gearing levels (debt to equity): infinity in 41% of cases and greater than 20:1 in 9% of cases. Furthermore, over half of the failures had trading or cash flow forecasts that required them to achieve at least 75% of forecast sales to break even. Only 29% of failed businesses had initial capital gearing of less than 5:1 (5). Robson Rhodes indicted both bank managers and the borrowers’ accountants, who were rarely more than passive observers of their clients. They concluded that:

“A better flow of information and enhanced awareness would, if implemented, no doubt serve to narrow any perceived gap in the financing of small businesses. There are, however, more fundamental questions to be asked in assessing the gap that remains — one which, in our view, increasingly focuses on the sort of

business ... which has no track record, is under-capitalised from the outset, and under financial strain. There is the view that it is inherent in the nature of these sorts of firms that they are unattractive to outside finance — whether by way of debt or equity. If the need is for increased borrowings, they typically lack the collateral. If... the gap is defined in terms of debt finance, then the LGS is ... making a direct and substantial contribution toward filling it.’

If the need is defined in terms of genuine outside equity,

“ ... there is good cause to question whether (this need) can ever realistically be met in the present market place ... The level of risk associated with LGS-type business is outside the parameters the market place is presently willing to accept. The gap will only be filled on non-commercial terms — possibly in the form of ‘grant equity’ subsidised from the public sector, or friends, business contacts, relations and local funds.’”(6)

### **Barclays Enterprise Loan Schemes**

23 Barclays Bank has established a number of special loan funds in particular areas. These are designed to provide small unsecured loans to unemployed people wishing to start their own businesses. The limit of lending under the loan is £2,500 which is unsecured, although the banks ask clients to take out a life assurance policy. Interest payments can be deferred for six months. The scheme is operated through local branch managers. A limit has been set on the funds available for this purpose since the criteria being adopted for lending fall outside conventional banking practice and entail the bank accepting higher risks. Yet by operating the scheme through branch bank managers, conventional criteria tend in practice to be maintained.

### **Development Agency Loan Schemes**

24 The provision of loans by the Scottish Development Agency, the Welsh Development Agency, COSIRA and the HIDB tends to give priority to certain sectors of economic activity and sizes of firms, and are less often relevant to service sector microfirms. COSIRA looks closely at the needs of new starts and gives loans and grants for buildings, equipment and working capital. In the 1981/82 financial year, the distribution of loans across these categories was 80%, 15% and 5% respectively — on a total of £2.5 million. A large proportion of these loans is made in conjunction with the provision of personal advice and consultancy. Mid Wales Development (MWD) gives ‘special loans’ (interest somewhat below commercial rates) to businesses employing 20 or fewer people. The emphasis is on manufacturing and “sufficient new jobs” must be created as a consequence of lending. The Highlands and Islands Development Board has a number of programmes. Loans to firms are given for up to ten years for working capital and can be given at fixed, non-commercial rates.

25 BSC (Industries) Limited offers small loans to businesses in steel closure areas. They have lent in excess of £4 million and say that the failure rate is only 3%. Their experience suggests that these small flexible loans can be very effective in assisting the development of new enterprises. It may be noted that BSC Industries have the capability to provide a package of support to the small firm — finance, premises and advice. This may be one reason why it is apparently successful in minimising failure rates.

## **Local Loan Provision**

### **Local Authority Loan and Low Security Loan Schemes**

A large number of local authorities lend money for industrial development or improvement and a smaller number lend to enable purchase of machinery and equipment. Some interesting cases are described by Collinge, although most appear to be irrelevant to microfirms (7). More interesting are recent initiatives by some authorities to establish Enterprise Boards to act as financial intermediaries and brokers. Although the West Midlands Enterprise Board does not deal with microfirms, the Greater London Enterprise Board takes a wider viewpoint and does provide financial assurances to small firms, as well

as to medium and larger firms. Loan assistance from GLEB is aimed at improving chances for women, ethnic minorities and co-operatives and to increase worker participation in more conventional enterprises. Small firms are excluded on cost-efficiency and political grounds if they do not offer particular (and offsetting) opportunities to disadvantaged groups.

## **Equity Finance**

### **National Schemes**

#### **Business Expansion Scheme**

26 BES allows personal tax relief (at the basic rate) for higher rate income tax payers on any investments in small firms. Most of the promotion for this scheme has been on the substantial tax benefits for the investor — not on how these investments could be translated into low cost financing for the small firm. They appear to have very little relevance to the needs of the microfirm.

27 The only other major development toward the provision of equity funds has been the appearance of local authorities as equity investors. Metropolitan County Councils have taken the principal initiative. Collinge reports that the funds they have available are equal to those raised by the new institutions formed around BES (8). As reported by the Wilson Committee, the SDA and WDA have been slowly building up their portfolios. Again, however, these schemes are unlikely to have any relevance for microfirms.

## **The Way Forward — Filling the Gaps**

28 It is clear that there remain substantial shortages of both start-up finance and working capital for very small firms. Considerably more understanding is required of the specific financial requirements of microfirms — not just their general need for money to pay for feasibility studies, cover start-up costs and provide for their longer term financial requirements, but how their finance should be structured to ensure maximum survival rates. For some microfirms, simple improvements in the information flows on the finance that is available, accessible and appropriate would help.

29 Measures to overcome the cash flow problems of new starts would be particularly helpful. For example, local authorities might give further consideration to the provision of facilities to reduce pre-launch costs. These might include funding appropriate and adequate advisory services geared to the needs of microfirms and using their purchasing power in favour of local producers. They could also fund local innovation and product development centres which could cater for microfirms as well as potential 'high fliers'. National government could ease the taxation and benefit structure to encourage business starts by the unemployed. For example, unemployment benefit levels might be retained during the period in which a business is starting up. Consideration should be given to allowing tax beneficial loans for microfirms to be made by family members of entrepreneurs. The government might encourage local authorities to set monies aside for small revolving loan funds and start-up and feasibility study grants. We also believe that the experience of promoting small firms in recent years supports the case for giving renewed consideration to small business investment companies, to act not only as 'expert' intermediaries between lenders and borrowers, but also to allow small investors to purchase a share in a portfolio of microfirms, thereby spreading risk as well as administration costs.

30 There are cases where large private firms have proved invaluable in providing initial contracts, used equipment at low prices and even grants and loans to redundant workers in setting up businesses. The means by which private companies can help need to be more widely advertised and promoted. In addition, consideration should be given to ways in which assistance by the private sector — particularly for firms laying off workers — might be promoted by government in the form of incentives.

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## CHAPTER 5. Advice and training for small firms

1 In this Chapter current advice and training provision is assessed against the nature of the need for this provision. The focus is on those who do, or might, operate a microfirm, and who do so because they seek an alternative to conventional employment. We argue that advice and training should be regarded as the lynchpin of small firm assistance: it is both the means of, and the insurance policy for, securing investment in any other forms of help for small firms.

2 In Chapter 2 we identified the gap which exists between the typical entrepreneur's previous experience and the skills and abilities required to run a business. This gap is even wider for the non-traditional, marginal entrepreneur: in spite of the increase in recent years in the availability of small business advice and training, much still remains to be done for the marginal entrepreneur.

3 Mere provision of advice and training is of itself not enough. Two broad types of consideration determine whether or not the gap between previous experience and necessary business ability can be filled. The first is whether or not the client group which needs the service is being reached, i.e. does the microfirm operator have access to the type of advice and training that is needed? The second is whether or not the service is good enough to enable the client to start up and run a business. In the discussion which follows we examine these issues of access and quality and suggest the type of training and advice service which would improve the chances of microfirms and their operators.

### **Access to training and advice**

4 The question of accessibility needs to include both questions of who services are aimed at as well as whether any small firms are prepared to use them.

There are a number of basic access requirements for advice and training: services must be available locally, they must be affordable, and they must be flexibly time-tabled.

The business training and advice which is of most use to microfirms is that which is based on a knowledge of the local area in which the trainee either will run, or does run, his business. This need arises from a number of practical considerations:

- i) instruction and advice can anticipate the problems and obstacles to setting up, running and developing an enterprise in a particular locality. Similarly, the adviser or trainer is in a better position to pass on information about local support services available to the new and practising small firms operator, while advice may more easily be related to other forms of local assistance.
- ii) the trainee's market is likely to be local, and help with specific market opportunities and marketing problems can be focused and practical.
- iii) the trainee can more easily maintain contact with the training or advice source for on-going development aid and assistance.
- iv) the trainers and advisers themselves, if part of the local business community, are more likely to be considered credible.
- v) local provision of training and advice can be tied in with other forms of local

small firm assistance: for example, if a local bank manager were certain that qualified advisers/trainers were locally available, financial assistance might be made contingent on a borrower making use of this help.

## Cost

5 The amount of assistance required by a significant proportion of the firms seeking advice raises important questions about cost. Constrained by limited resources, advice agencies are forced to limit intensive advice and monitoring to those clients who appear to be 'worth more' than others. While not a direct cost to a client, this consideration can limit access to this type of service even if it is needed. Clearly, however, few small firms are in the position to buy advice and training services at market rates.

6 The Small Firms Service of the Department of Trade and Industry (DTI) charges nothing for its information service or for a first session with a counsellor. Enterprise Agency advice services also tend to be free, although some agencies feel that it is unwise to advertise this on the principle that the real go-getters will 'come and get' anyway. Local authority advice is also free, although it is becoming more common for local authorities to give grants to local business advice agencies and to refer enquiries to these 'specialists'.

7 In practice it would appear that most small firms seek 'assistance' from accountants 'bought' in the marketplace (for help with finance proposals and tax issues) than rely on free or subsidised advisory services. 'Assistance' is used loosely — Robson Rhodes found that accountants rarely gave their clients advice, whether requested or not, and just as rarely helped them set up (or even understood the need for) management accounting systems.

8 Most training courses run by local enterprise agencies charge a fee. The London Enterprise Agency, for example, charges £150 (1984) for a four weekend course on starting up in business, and charges £25 for a one-day start-up course each month (1984) which is directed at helping people evaluate their business ideas ("Choose the Right Business Idea")(See 5.1). Fees are also charged by most business schools and polytechnics for small business courses. The "Community Entrepreneurs" course, run for the South Bank Community Centre by South West London College, costs £70 for 15 days' instruction (1984).

### *(5.1) THE LONDON ENTERPRISE AGENCY (LEntA)*

*LEntA was established in 1979 under the sponsorship of the London Chamber of Commerce and Industry and is financed by 11 major British Companies (1983). Other companies contribute additional resources for specific projects, including seconded marketing and innovation advisers.*

*LEntA place considerable emphasis on training and operate an unusually comprehensive range of training advisory services. Roughly half of their clients are existing small businesses. The core of their programme is a series of one day conferences and four-weekend-conferences spread over a three month period.*

*They also conduct regular 'Meet the Buyers' seminars where clients are invited to meet the purchasing directors of major companies, as well as a number of other activities aimed at improving the product and market mix of small supplier firms.*

9 Most trainers and advisers acknowledge that many new starts require not only initial assistance but also a period of follow-up and monitoring. This not only costs money but also raises questions about the amount of control that should be exercised over the firm. For example, the Scottish Co-operative Development Committee maintains a very close

watch over the co-operatives which it assists and expects them to follow the advice they are given. This approach would not be accepted everywhere, although here it has shown good results.

## **Unemployment Benefits and Business Training**

10 Much needs to be done to ensure that those who are dependent on transfer payments have the opportunity, at a price that is not penalising, of making use of advice and training services. The initiative in these instances must come from government. Rules governing eligibility for benefit pose particular difficulties:

- i) the eligibility for work rule (unemployment benefit): clearly someone actually setting up in business is not eligible for work. However, without some form of income, the individual is unlikely to be able to survive at all.
- ii) the £4.00 a week earnings limit (unemployment and supplementary benefit) makes it difficult for someone to start a business part-time.
- iii) the 'no full-time education' rule (21 hours a week or more; unemployment benefit) excludes those who might take advantage of a course that is not MSC funded.

11 CDS(T) in Liverpool offers a soft loan (essentially a training allowance to cover the learning period during start-up) to many of the firms it assists. Similarly, under the MSC's "Create Your Own Job" pilot scheme, small "job development" grants were made available to ease the transition from dependence on unemployment payments to actual earnings, and high priority was placed on advice and assistance for recipients of this grant. The Enterprise Allowance Scheme, although not a training allowance, can be substituted for transfer payments by the unemployed. Although receipt is conditional on the commitment to work full-time on the enterprise, advice time is allowable.

## **Equal Opportunities and Business Training**

### **i. Business Training for Women**

12 Women are little represented among those who make use of training and advice resources and little has been done in the way of training women to start up their own enterprises. Ninety-three per cent of the MSC's New Enterprise Programme trainees are male, as are 83% of its Small Business Course trainees. Only 14% of the first 3,000 places on the Enterprise Allowance Scheme went to women.

13 A rare instance of special provision is the Mid Wales Development Initiative, a scheme with European Social Fund backing for women 25 and over, called the Women's Entrepreneur Programme (piloted December 1983). The course caters for women in rural Wales and is intended to counteract prejudice against their business management capacity, lack of self-confidence and the lack of support from their husbands. The MSC now offers traditionally male TOPS skills courses specifically to women, but has yet to extend this positive discrimination principle to its business training courses. A particular problem concerns the time-tabling of courses: many, especially those of the MSC, are only available on a full-time basis.

### **ii. Business Training for Ethnic Minorities**

14 A recent report on ethnic minority community businesses was only able to cite two enterprise development projects: the Handsworth Employment Scheme (HES) in Birmingham and the Stonebridge Bus Garage Project (SBGP) in Brent (1). Both are community centres which promote the development of local employment creation opportunities through providing small business support and advice, training and work

experience. SBGP was developed from a local bus depot, refurbished to provide workshops, training and community sports and recreation facilities. Although no figures are available covering ethnic minority participation in small business courses, there seems little doubt that it is on a very small scale.

### iii. Business Training for Young People

15 In the past two or so years, there has been a considerable growth of interest in providing enterprise opportunities for young people, which has helped to remove some of the early barriers. Most schemes aim both to encourage the young to start their own businesses and teach them to develop an innovatory approach to life, seek out opportunities and handle changing circumstances to their advantage. While these schemes are not yet widespread, there has been recent interest from teachers, educationalists, private businesses, youth support and activity organisations and, more recently, the MSC itself. Examples of some of these appear in 5.2.

#### (5.2) PROJECTS TO HELP YOUNG PEOPLE SET UP IN BUSINESS

*INSTANT MUSCLE: a nationwide network of independent small businesses set up in 1981 by four teenagers from Farnham, Surrey, with assistance from an ex-manager of a large company. These small businesses provide services (such as gardening, small household repairs, decorating, etc.) to local residents for a price. Thirty, out of the fifty groups formed thus far, are trading successfully.*

*LIVEWIRE: a national competition scheme organised by the National Extension College, Cambridge and sponsored by Shell U.K. which gives cash awards for young people whose small business ideas have particular merit.*

*PROJECT NORTH EAST: a Newcastle-based organisation which receives assistance from a number of large companies. The project provides advice and training as well as workshop facilities for the young entrepreneur as well as others.*

*PRACTICAL ACTION, YOUTH ENTERPRISE SCHEME: a national organisation set up by the National Association of Youth Clubs to promote enterprise among the young and to provide financial assistance in the form of low interest loans (start up capital) of up to £2,500.*

*PROJECT FULLEMPLOY: provides small business advice and training courses specifically for 'hard to employ' young people (under TOPS rules) in London and Sandwell. Fullemploy also offer sheltered nursery workshop premises in London, Sandwell and Glasgow, and has plans for extending their enterprise assistance services to Liverpool, Manchester and Bradford.*

*YOUTH BUSINESS INITIATIVE: set up and run by the Prince of Wales' trusts primarily to provide grants to unemployed young people who want to set up businesses. Grants up to £1,000 are given for training and other start up costs.*

16 A considerable body of thinking has recently gone into developing 'pre-entrepreneurial' schemes for young people in school, which are often aimed at the less academic. In 1982, the Education for Enterprise Network (EEN) was established: its membership is made up of some 38 representatives of youth support organisations and small business groups (see 5.3). They provide training courses for teachers and others involved in helping young people educate themselves for enterprise. EEN support the principle that the behaviour and attitudes of entrepreneurship (risk-taking, openness to change and challenge, positive and often innovatory responses to problems and opportunities) are best learnt through doing rather than "studying about". Recognising that only a proportion of those exposed to self-employment modules will actually end up starting businesses, EEN argue that the basic skills acquired through such experiences have much wider applications, including helping young people cope better with bouts of



unemployment and enforced leisure. EEN suggest that there might be potential for small enterprises to contribute to developing self-employment skills within YTS in co-operation with colleges, or alternatively with developing post-YTS self-employment training along Project Fullemploy lines or in simulated or semi-real conditions.

### (5.3) EDUCATION FOR ENTERPRISE NETWORK

*The Education for Enterprise Network (EEN) is a loose grouping of individuals and organisations who have the common goal of helping young people create their own means of making a living.*

*EEN members meet to exchange information and develop projects to promote the enterprise option among the young — including developing courses and training packages for use in schools, improving information availability, exploring areas of policy and legislation and lobbying for changes they feel are necessary.*

*EEN was set up in late 1982 in Cambridge as a result of the efforts of the Cambridge-based Industrial Training Unit. The Unit had been engaged on an MSC-sponsored research project on the teaching of enterprise and felt there was a need to bring interested people in the field together. EEN members take a thoughtful and long-term view toward the importance of enterprise as an employment option; that the teaching of 'enterprising' skills (risk-taking, teamwork, opportunity seeking) should begin early. Although it is recognised that only a small proportion of those exposed to these learning opportunities will actually start up businesses, it is felt that 'enterprising skills' have wide and general applicability.*

## **Quality or Quantity in Training and Advice**

17 A further set of restrictions limit entry to business advice and training. Many services have qualifying rules, in large part associated with definitions of "the personal qualities" associated with the traditional entrepreneur. Often, because of limited resources and the need to return the 'best value for money', this results in restricting the best, most intensive, advice and training to apparent 'winners'. In the following section we look at 'eligibility rules' and 'practice' barriers to access experienced by microfirms and their entrepreneurs.

## **Eligibility Rules**

18 The main MSC training initiatives operated under Training Opportunities Schemes (TOPS) exclude those who are under 19 and do not permit an individual to take up two courses under TOPS consecutively, effectively making it impossible to learn a vocational skill with MSC support and then to add to this training with a TOPS small business course. The ex-YTS 17 or 18 year old is in a particularly difficult position if a regular job is not available once the YTS experience is over. The Skills into Business Scheme currently under trial is an experiment in getting around this restriction by making provision for a four week skills refresher course as part of the scheme.

19 The MSC's rules governing the Community Programme also deny the 'enterprise training' opportunities which would, for revenue earning projects, be a natural concomitant of work experiences. However, the part-time work on offer leaves CP participants the time to do other things. In addition their "wages" are earned, and there is no limit on what may be earned in addition. The Youth Employment Research Unit suggests, for example, that those on the Community Programme should be given additional support and encouragement to develop their abilities as workers in the informal economy through the agencies running the CP projects (2). They also suggest that, instead of a 52 week

entitlement, the worker should be given a set number of days so that as new options or ventures become more viable, the amount of time spent on the CP project can be gradually diminished.

## Agency Practices

20 Most small firm advisers admit that it is often a matter of sheer luck that interest has been taken in the ideas or proposals of a particular individual. In part this is a problem of staffing with secondees from large businesses who may be ill-equipped to understand the attitudes of the aspiring small entrepreneur.

21 Some interesting results have come from a recent experiment by the Department of Industry's Small Firms Service and the Development Commission's COSIRA (3), when the two services were run together. The SFS fielded, in the areas under study more than 10,000 enquiries, roughly 10 per cent of whom were taken on as clients. COSIRA, on the other hand, fielded just over 3,000 enquiries, but more than one-third were taken on as clients. Of the 1,000 or so clients taken on by the SFS, 18 per cent were given further assistance; thus, SFS took forward less than two per cent of those who first made an enquiry. In contrast, COSIRA gave additional assistance to nearly 40 per cent of the total number of enquiries.

22 COSIRA's greater success may be explained by their being involved at the grassroots level in the areas in which they operate. They provide both business and vocational skill training and are backed by local voluntary committees made up of people who know about the small industry needs of their communities. These may all be arguments for reviewing the non-local "objective" style of the SFS and redirecting it to serve something of a development role in concert with other private, public and voluntary bodies who play a part in their local communities.

23 The MSC's New Enterprise Programme is the only small business training or advice programme that has been systematically evaluated. The evaluation indicated that costs would be warranted if roughly one-third of the trainees actually started businesses. Assuming that six businesses (out of a maximum of 16 possible per course) were started for each gross expenditure of £50,000, and that each of these businesses employed five at the end of one year, ten at the end of two years and fifteen at the end of three, the MSC estimated that between 1977 and 1983 the Exchequer would gain a total of £4.12 million from savings in unemployment benefit and gains in tax and insurance revenue. In practice, between two-thirds and three-fourths of NEP trainees have gone on to start businesses, but it is not known how many people these businesses actually employ, nor whether employees were claiming unemployment benefit prior to being hired.

24 In spite of the large number of applicants for each NEP course, MSC claim that finding 16 suitable applicants for each course is difficult and have speculated that "...the most entrepreneurial spirits may not be coming forth because they would 'not waste time on a training course'"(4). Experience with interviewing applicants has led them to conclude that people can either sell themselves as having entrepreneurial spirit or they cannot: "...there is rarely a half-way house".

25 Small Business Courses, on the other hand, are aimed at those whose businesses are seen as unlikely to expand to employ more than two or three people. Entry is less competitive — for example, 1,586 places were available under this scheme in 1983-4, roughly 15 times more than for NEP, and the individual attention and back-up services of the NEP are not offered.

26 The lowest per unit expenditure by the MSC on small business training is on its Self Employment Courses. They are aimed at skilled workers who are either unemployed or facing redundancy (the traditional craftsman entrepreneur), with 700 full-time places available in 1983-4. Courses run for between three weeks and seven weeks, and cost an average £500 per place including allowances.

27 There must be in-principle objections to putting self-employment instruction at the bottom of the cost and provision heap: the less experienced the individual, the shorter or patchier the previous work experience and the narrower the skill base, the greater the need for careful, well-thought-out training with sufficient follow-up provision.

### **Will Microfirms Accept Advice?**

28 In spite of the reported high demand for existing advice and training provision (and the current stretch on resources), only a small proportion of new start and existing firms make use of these services. Part of this may be due to confusion among potential clients as to which service they should make use of. The Association of British Chambers of Commerce (5) has cited the typical example of Leeds to illustrate how this confusion can arise. In Leeds, there is the Leeds Chamber of Commerce and its associated Leeds Business Venture, the City Council's Department of Industry, the DTI's SFIS and SFCS, the West Yorkshire County Council, the West Yorkshire Enterprise Board, Leeds Polytechnic, Leeds Council for Voluntary Service, Leeds Small Business Association and various banks and accountants. While the ABCC note that all of these organisations may well have a role to play, it is their experience that few of those using the services have any idea as to which organisation is meant to do what and why.

29 Even more problematic, however, than the need to unravel the tangle of overlapping agencies, is the self-assessment required of a potential client. Not only must the entrepreneur acknowledge that advice/training are concomitants of good business management, he must also be able to assess where his particular problems lie. The adviser in particular is very often dependent on the 'self-diagnosis' of the entrepreneur seeking help: this 'self-diagnosis' may be inaccurate and misleading. For example, it is the experience of Highland Craftpoint that "however specific the initial request from a client, it rarely represents the real problem or the only problem that has to be solved ... a full appreciation of the client's position, circumstances, abilities and objectives must be obtained before effective action can be taken" (6).

### **Some Conclusions on Business Training**

30 The skills required to produce many types of products and services are not great and are often readily within the reach, or indeed already in the possession, of many who cannot find a market for these same skills among conventional employment opportunities. Equally, the markets open to those wishing to create their own jobs very often have low entry costs, both in terms of the skills required and in the financing that is necessary to get an enterprise off the ground.

### **Basic Skills**

31 The needs that must be addressed if an individual is to get to the point where self-employment can be considered a tenable option are:

- i) literacy and numeracy
- ii) the self-confidence to believe that success is possible
- iii) the motivation necessary to keep trying, in itself partly a function of self-confidence
- iv) a basic enjoyment in taking risks, again partly a function of self-confidence in that there needs to be a firm belief that success is possible
- v) some practical awareness of the demands of the commercial world and the basic skills and abilities that are required to deal with it.

## Lobbying for Small Business Training

32 Price Waterhouse have recently criticised small business courses run by polytechnics and universities (7) and it is worth restating the principles on which small business training is based:

- i) The teaching institution must be able to respond to a variety of demands, recognising that the small firm faces very different problems from larger firms.
- ii) There is not necessarily a relationship between academic ability and the potential for entrepreneurial success; educational material and textbooks should take account of the individual's educational background.
- iii) Small business entrepreneurs respond best to instruction related to their specific needs and to practical solutions to their particular business problems. They learn best from sources they consider credible, especially local small business people.
- iv) Learning is an on-going process, not confined to short periods in specialised teaching centres. Trainees are more likely to succeed when there is provision for follow-up once the business is underway or has begun to change markets, diversify or expand.

33 There are two ways in which advice and training could bring long-term unemployed up to the point where self-help job creation is a viable prospect:

- i) to lobby for and promote the inclusion of self-employment modules in schools, vocational training programmes and support services for the unemployed;
- ii) to help devise the forms these modules might take as guidelines for those who are in a position to offer them. There are few actual models at present for what these 'ways and means' might be, although there are now several different types of programmes which are aimed at those still in school.

## Practical Examples

34 Work experience schemes for the unemployed which build in a component of training for small business management or self-employment are very unusual. CDS(T) in Liverpool, and the handful of Community Programme schemes which have turned into independent revenue earning enterprises are the exception: they have set out to see that the momentum in terms of the level of responsibility achieved, confidence gained and skills learned through seeing a project through and being directly involved in its management, was not lost, but indeed was capitalised on to the employment advantage of those involved (see 5.4).

### *(5.4) CO-OPERATIVE DEVELOPMENT SERVICES TRAINING LTD.*

*Co-operative Development Services (Training) Ltd. (CDST) is an offshoot of Co-operative Development Services, a housing co-operative agency in Liverpool. CDST, formed in 1982, offers a range of services and assistance to new co-operatives and small enterprises. The original idea for CDST arose from CDS's work with setting up and assisting housing co-operatives in the inner city. Many of the residents involved in the co-operatives were initially unskilled and unemployed. CDS found that many of those who became active in setting up and managing their own housing co-operatives developed abilities which improved their employability. CDST was set up to assist the formation of workers' co-operatives and small businesses.*

*CDST offer training and advice services, but can also provide small interest free loans to cover 'training' expenses during the initial start up phases of the enterprises. This Wage Training Grant Scheme, which is financed by a grant from*

*the European Social Fund, recognises the importance of training in the start up period and the need to remove some of the financial disincentives to attempting to set up a business. Although (1984) few of CDST's clients have actually come from the ranks of the unskilled and unemployed, it remains their goal to provide the training opportunities that will allow these potential clients the opportunity to participate in a co-operative enterprise or to run a small business. By the end of their first year (1982-83), CDST had helped finance 25 projects, creating 56 jobs.*

35 The example of Manchester City Council (1984) suggests another approach: they have replaced their more conventional industrial strategy with what they now call a 'corporate economic strategy'. Training, from its narrowest (vocational) to its broadest sense (ways of dealing with excess 'leisure') is a major element. The emphasis has been switched from the previous 'firm based' programmes to one where the needs of different client groups in the area (from firms to different sections of the community) and the resources available to meet them are identified. Skill development and 'the provision of services and facilities for the unemployed, including the promotion of the informal, 'self-help' economy are two of the four main programme areas being developed under the new strategy.

### (5.5) LOCAL ENTERPRISE AGENCIES

*The Local Enterprise Agency movement began in the mid-1970s as a means of developing the role of the private sector in local economic regeneration. Individual agencies have started in a number of ways but share in common the aim of assisting small scale local enterprises. Agencies are typically funded jointly by local authorities and private companies, the private portion often donated in kind (usually in the form of managerial staff on loan to the agency). Assistance to small firms is generally in the form of advice, but some agencies give or administer grants, run training courses or provide small premises. The agencies tend to vary considerably in the way they operate and how well they perform their service — in part a reflection of the individual personalities running the agencies and in part due to their very local orientation.*

*A recent study by the Centre for Employment Initiatives on the impact of local enterprise agencies included a survey of 12 agencies around the country and 370 agency clients. The results suggest that for over half the recipients of agency assistance, their help was either of critical importance in aiding start-up or preventing failure or had made these tasks considerably easier. In the researchers' view, however, a proportion of potential clients were likely to find the image of the agencies too "up-market".*

## **An Institutional Framework**

36 Our two main conclusions concerning small business training are that a twin-pronged approach should be taken:

1. Funds should be made available in the form of grants or loans which permit the new starter and the on-going entrepreneur to "buy in" the needed advice and training; and,
2. Existing financial assistance should be administered through an agency with the capacity to link assistance with on-going advice.

Measures to allow an increase in "bought in" assistance might include:

- a) That start-up financial assistance is either topped up with a sum to be spent on 'start-up in business' training or is given on the stipulation that a specified portion of it is spent on appropriate advice over a set period (say 18 months) over the early life of the firm.

- b) That funds are made available in the form of “on-the-job” training allowances:
  - i) to the new start for in-house consultancy services over a set period during the early life of the firm;
  - ii) to allow the on-going business to employ the needed expertise to work in-house to get the firm over a crisis period.
- c) That funds made available under the Loan Guarantee Scheme (or any other subsidised funding arrangement) are contingent on the borrower whose gearing is beyond a certain level buying in needed consultancy and advice services.
- d) That existing financial assistance should be administered through an agency with the capacity to link assistance with on-going advice.

37 We believe that consideration should be given to the development of local specialised Small Business Investment Companies which have the capacity and expertise to act as managers and brokers of small business investments, with the finance in allowance, loan, grant or equity form, and which are able to assess projects, provide on-going advice, assistance and project monitoring as part of the package of financial assistance. Advice and training needs should be viewed as an integral component of the support and development strategy for the small firm sector, with a role in the development of business ideas.

38 Consideration should also be given to ways and means of allowing those who have slipped through the education and/or work experience net to have the opportunity to make up for the lack of reasonably suitable pre-entrepreneurial experience. While clearly the first requirement is for genuine vocational skills training, recognition is needed of the opportunities which exist for linking ‘self-employment’ modules to work experience programmes, voluntary work schemes for the unemployed and to the secondary and further education system.

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## CHAPTER 6. Product development assistance to small firms

1 A number of interesting attempts have been launched in recent years to improve the quality of product and service offered by small firms. These cover market research, developing special franchise arrangements, and straight product development advice.

### **Market Information**

2 The most common form of assistance given to small firms to identify new markets, is ensuring that information on potential opportunities is widely and freely available to potential entrepreneurs. The normal process by which small firms are started is by entrepreneurs identifying markets from their own experience in business or employment, and from their knowledge of what is happening in other areas. Some advisory services have maintained records of business opportunities — franchises for offer, investors seeking people willing to exploit their ideas, opportunities for supplying the local authority, or other local firms. On a slightly more sophisticated basis, some local authorities have established 'capacity registers'. In practice it has often been very difficult to match local production capacity to local needs. In manufacturing trades product specifications are so varied that firms sell to national markets. 'Can you make it' exhibitions have also become a feature of attempts to promote local purchasing. All these activities aim to generate more business by improving market information to people involved in business or about to start a business. The development of computerised data bases for market research may bring about considerable changes in the effectiveness and ease of market research in the future. INDIS, operated by the West Glamorgan Enterprise Trust, is an example of such a scheme.

### **Networking**

3 Most of the recent growth in franchising in the UK has been in 'business format' franchising. The essence of the business format franchise is that the franchise raises the capital to buy and establish the franchise and then sells the franchiser's product in a specified way, normally under a common trade mark. The potential for franchising in expanding small scale activity is interesting because the franchiser provides back-up in business development. The idea could be developed as a means of helping unemployed people with little business experience to run their own business. The other advantage of franchising is that it gives the organisation some of the advantages of size, while retaining the small scale nature of the individual business. If small scale firms are more likely to be labour intensive than large, it is perhaps an alternative form of business organisation that would distribute the benefits of work and ownership more widely in society. These two ideas lie behind the notion of technical franchising being developed by the Intermediate Technology Development Group. Networking is a similar concept to franchising except that it does not involve formal contracts. The co-operative movement seeks to encourage co-operation between co-ops. One way that this is achieved is by the free flow of ideas between Co-operative Development Agencies. The rapid expansion of wholefood retail outlets by co-operatives is one example of how networking can work. Another example drawn from the voluntary sector is the rapid adoption of a standard project package for home insulation schemes for the old and disabled, under the name Neighbourhood Energy Action. A package of funds were agreed with the Manpower Services Commission and the Department of Energy, and a central promotional unit established.

### **Market Gap Analysis**

4 Attempts have also been made to identify market gaps from economic studies. The notion of a market gap suggests that profitable opportunities will go unexploited for lack of

market information; or, alternatively, that there are opportunities that can be identified from the needs of consumers and residents, or the skills of the unemployed, that could be the basis for viable enterprises. In practice, attempts to undertake this kind of analysis have been unproductive. A study in Wandsworth examined the structure of the local economy and looked for unutilised skills among the unemployed. However, the complexity of economic relationships is such that tremendous expenditure of effort is required to identify market opportunities on a systematic basis. As a consequence, the Wandsworth study and others undertaken by the National Co-operative Agency have ended by seeking business ideas from individuals, local businessmen, local inventors and people thinking of starting firms.

5 Taylor(1) concludes that attempts to identify market gaps on a systematic basis are unlikely to be effective. It is those individuals in touch with the marketplace who are in the best position to judge opportunities available for new small scale production. These may be purchasing officers in public and private organisations, or individuals and groups in the local economy wishing to start a business. Taylor suggests that identifying and helping this latter group to develop their ideas is likely to be the most productive approach since they will reflect the skills of the people suggesting them.

## **Product Development Assistance**

6 Some pioneering initiatives have been focused on assisting the very small scale enterprise with product development. Hull Innovation Centre, for example, was established so that unemployed people with innovative ideas could come to the centre for advice and make use of specialist items of equipment. Small workshops are provided on a communal basis with on-site management. A variant on this theme is the product development service provided by the Unit for the Development of Alternative Production (UDAP) at Lanchester Polytechnic. This Unit was established to carry forward product development work initiated by the Lucas Aerospace Shop Stewards Combine Committee. UDAP provides product development assistance for co-operatives and community employment initiatives, and is also involved in developing socially useful products itself, with the intention that products at a sufficiently advanced stage could be manufactured commercially. The GLC has followed a similar path by establishing the Technology Network which is designed to forge links between community organisations, unions and educational establishments. The aim is to use technical resources of educational establishments for new product development and, in particular, for the development of 'socially useful' products which can be produced by co-operatives or community businesses. Special workshops are also being set up to make facilities for product development widely available. The Intermediate Technology Development Group have considerable experience in developing low cost technology suitable for adoption by small scale producers in the third world and are trying to extend the concept to the different circumstances in the UK.

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# CONCLUSIONS TO SECTION II

## Small firm support provision

### Tying the threads together

1 In the introduction to this Section we argued that assistance to the small firms sector needed a central focus, which should have no less an aim than to raise the level of enterprise in the country. In our discussion of premises, finance and training support for small firms we have identified measures that have been introduced in recent years, some of which overlap and some of which are rather restrictive.

The wealth of provision is confusing; the overwhelming emphasis is on manufacturing, seed bed and innovatory (often new technology) enterprise. This tends to reduce the effect of such schemes in developing the potential of the unemployed to help themselves. We suspect, in fact, that many small firms measures are largely irrelevant to the types of business that the unemployed might be expected to develop.

2 It has been indicated recently that the government is intending to reduce its non-tax measures to four umbrella groups of schemes: export, regional, grant-aid and advisory schemes. In addition, many of the restrictions on support for small service sector firms are also to go, “restoring the balance in favour of the service sector”. Guidance appears likely to emerge linking Local Enterprise Agencies with the small firms counselling service — and ‘One-stop’ advice shops will be encouraged. Even should this be achieved, however, the various policies of the Department of Trade and Industry, the Department of Employment, the Department of Education, the Manpower Services Commission and the Department of Health and Social Security which affect the chances of the unemployed in creating their own jobs will not be co-ordinated. There will still be a need for better integration of existing small firm support services at the local level. And there remains the necessity of giving emphasis to advice and training services.

3 One way in which this might be promoted is to make small firms’ financial assistance contingent on the take-up of adequate business and financial management and marketing advice. One option would be to provide loans, on similar terms to those under the Loan Guarantee Scheme, which are made available specifically to buy in assistance — usually in the form of ongoing financial management advice over, say, the first 18 months of a firm’s life.

4 The difficulty with this option is that few accountants would appear to be accustomed to taking more than a reactive role in responding to the needs of their small business clients. Nearly three-quarters of the borrowers examined by Robson Rhodes whose businesses failed exhibited their terminal weakness at the time of their LGS application — and these weaknesses were neither picked up by the bank manager or (when used) the accountant although there was sufficient information available to allow them to do so. Robson Rhodes concluded that a significant proportion of bank managers lending under the LGS scheme lacked the ability to assess accurately small business proposals, and that there was only limited incentive for them to do so. And even where advice is available, those in a position to grant financial assistance to small firms often doubt the quality of a good deal of what is on offer. In these circumstances something of an impasse has been reached, which is as expensive to the government in terms of its losses under failed LGS as it is to LGS users whose businesses fail. The impasse is likely, too, to reinforce the strand that runs through so much of public support for small business — public support for businesses that would be likely to become established and thrive *without* that support.

5 It is our opinion that a new approach needs to be taken if the aim is to stimulate enterprise among the unenterprising. The previous four Chapters have suggested the criteria against which this approach should be judged. The approach should be:

- comprehensive: covering the finance, premises, and advice and training needs of potential entrepreneurs as one package, and not as individual items of assistance a new business must seek out

- continuous: available continuously from a pre-start-up stage through to establishment (and even the subsequent restructuring) of the very small firm
- available to all types of business — meaning here both manufacturing and service, and to all business structures — not only limited companies, but also to co-operatives (see Section III), sole traders, partnerships and the casual self-employed
- innovative: not necessarily in supporting innovative technology but in being prepared to take in novel approaches to making a living
- capable of drawing together the many interested parties in the small firm sector be they centred on local government, Chambers of Commerce, housing associations, community groups, etc.
- local: which is the level at which all small businesses start and the vast proportion are likely to remain

6 Few of the individual initiatives discussed under the headings of premises, finance, training, or product development needs of small firms meet many, and none all, of these criteria. In a number of places we have, however, raised the prospect of the establishment of specialised Small Business Investment Companies which would be able to formulate and then implement a local enterprise policy. In the case studies in Leicester and Strathclyde we see early moves in this direction — for the special support unit for community business set up in Strathclyde; and in the BAC (Business Advice Centre) in Leicester. Similarly in Orkney the local authority has attempted to promote development through a wide range of small firms measures. We have outlined how this might be done more widely in the Conclusions at the start of this Report.

## SECTION III

### Third sector enterprises

Most small businesses in Britain are ordinary private limited companies, partnerships, or sole traders. However, there is a minority of businesses that are neither privately owned nor owned by the state. They have emerged at a local level from collective action of local people rather than from the efforts of an individual acting on his or her own behalf. Moreover, the collective initiative is reflected in the legal form of these businesses: they include worker co-operatives, community co-operatives and 'community businesses' or 'community enterprises'. They have on occasions been termed Third Sector Enterprises, a phrase which emphasises their distinction from private businesses and state enterprises.

Section III of this report seeks to answer a number of questions about these enterprises. Principally:

- i) How may the various forms of enterprise be distinguished?
- ii) What is the pattern of development? What factors underlie the growth or decline in the number of such enterprises?
- iii) What are the key factors determining the success of these ventures? What problems hamper their development?

These initiatives have diverse origins, diverse objectives and diverse legal forms; they defy simple definition. A central issue is whether they can achieve viability within a reasonable time scale or whether they are a form of community activity that requires continuing subsidy. It may help to define three 'levels of activity':

- i) **Businesses or Enterprises:** Here there is a clear commercial context with organisations needing to earn a sufficient return to be able to replace their capital. Any special government support received by such an enterprise is essentially of a short-term nature and, after a given time, any further government aid should be on 'commercial' terms. It is important to note that within this definition, we do not include organisations that subcontract exclusively to a public authority, since we regard this not as a trading enterprise but as a form of decentralised public service provision.
- ii) **'Community Trading'** is a term used for all community or voluntary initiatives that engage in some degree of trading activity, but do not operate as formalised businesses. Their main purpose is to provide a social, recreational or cultural service. Some initiatives are self sufficient with income covering outgoings. However, the extent of trading activity is of a strictly limited nature and it may rely on substantial voluntary effort or on activities that are subsidised by government or money raised from charity. A wide range of initiatives are covered, some of which may be 90% self sufficient, others only 10%.
- iii) **Voluntary service/self help aid** refers to organisations that are engaged in community services but rely wholly on funds raised from external sources or voluntary effort.

A further distinction can be made between activity that stems from the mutual aid tradition and the 'welfare' tradition. The former encompasses all those initiatives established by individuals in conjunction with others for their mutual benefit. These organisations are controlled by the beneficiaries of the organisations' activities. The welfare tradition encompasses all the initiatives established by a group of people to benefit others or for some generally defined public purpose. The involvement of people running the organisation is intrinsically 'altruistic'.

Using these classifications, it is possible to divide Third Sector initiatives into the following categories (see Table).

In practice the distinctions between different forms of charity and organisation are blurred. It is hard to define the point at which a community trading initiative becomes viewed as a formal enterprise. This is especially the case where substantial capital sums are injected into a project by the public sector. The distinctions between organisations stemming from the welfare tradition and the mutual aid tradition are also blurred. Traditional welfare organisations have often become involved in assisting self-help or mutual aid activity. Also, organisations themselves have differing degrees of consumer participation in their management. It is important to remember that particular organisations may display features of both mutual aid and welfare tradition organisations, and they will do so to different degrees.

The Mutual Aid Tradition

The Welfare Tradition

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Enterprises:

- i) Worker co-operatives
- ii) Consumer co-ops
- iii) Agricultural and fishing co-ops
- iv) Community/neighbourhood co-ops

- i) Subsidiary trading companies of charities
- ii) New 'voluntary' trading companies

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Community Trading:

- i) Housing co-ops – self build housing associations
- ii) Credit unions
- iii) Food co-ops, machinery co-ops
- iv) Arts & cultural societies
- v) Voluntary transport schemes

- i) Training workshops, ITECs, MSC funded projects
- ii) Museums
- iii) Cultural organisations, recreational charities
- iv) Housing associations

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Self Help:

- i) Tenants & residents
- ii) Disability groups

Voluntary Service:

- i) Community service activities, day care centres, etc.

## CHAPTER 7. The mutual aid tradition

1 Most enterprises that stem from the mutual aid tradition are co-operatives. They follow six basic principles:

- i) Membership of a co-operative is voluntary and open. All co-operatives are owned and controlled by their members. In a workers' co-operative open membership means that any employee is entitled to become a member, although he or she may not always be obliged to join. In a community co-operative the condition for membership is residence or birth within a particular locality. Open membership in this case means that any person who fulfils the residential criteria can join the co-operative.
- ii) The co-operative is controlled democratically by members on the basis of one member, one vote. Most worker co-operatives in the UK limit membership to employees and do not permit membership by external organisations or individuals. Community co-operatives limit membership to those fulfilling a residential requirement.
- iii) Under co-operative legislation, only limited interest may be paid to shareholders. This reflects the principle that a co-operative should operate for the benefit of members, be it through the provision of services, or of work and not to benefit the owners of capital. The founders of the co-operative movement feared that if members could receive unlimited interest, their concern about the quality of the services provided or the quality of the working environment might be displaced by a desire to maximise their personal financial gain.
- iv) Any surplus generated by a co-operative should be distributed equitably. This means that surpluses are to be distributed to members according to their effort or purchases and not as an additional return to capital.
- v) Provision should be made for the education of members, officers, employees and the public.
- vi) Co-operatives should co-operate between themselves in every way possible.

### Workers' Co-operatives

2 Workers' co-operatives are owned and controlled by their employees. In 1975 there were only twelve worker co-operatives; today there are around 700 trading worker co-operatives, employing around 10,000 people in total. This rapid expansion reflects a growing desire on the part of workers for more control over their working environment. Much of the growth of the co-operative movement in the 1970s involved people from the 'alternative' movement, generally young people who rejected many of the conventional values of Western society and sought to put their own ideals into practice by establishing democratically controlled businesses, engaged in socially productive activity. This accounts for the concentration of co-operative activity in wholefood retailing, printing and bookselling.

#### *CLYDECLAN, Glasgow*

*Clydeclean is a small workers co-operative established in 1980 with the assistance of the Scottish Co-operative Development Committee. The co-operative undertakes a variety of cleaning contracts for both public and private organisations. The project was initially heavily dependent on SCDC support, who in effect initiated the venture. It is now managerially self-sufficient, with its own manager and 14 part-time workers.*

*Source: SCDC, SCDC Clydeside Co-operatives Development Project*

3 Unemployment and lack of economic opportunity has provided the second major spur to co-operative development. In many cases, co-operatives have been formed by people 'pushed' into entrepreneurship by the experience of unemployment or redundancy, frequently in groups with former colleagues. The Bitteswell Employment Alliance is an example. In some instances redundant workers have established a business from the remnants of the firm that formerly employed them. This was the case in the establishment of the Inchinnan Engineering Company.

*INCHINNAN ENGINEERING LIMITED, Strathclyde*

*In 1981 plans for the closure of Dunlop's Inchinnan plant in Scotland were made public. AUEW were fighting the closure, but it was agreed that two of the engineering Shop Stewards Committee should follow up a suggestion made by one of Dunlop's senior managers that the machine building shop at the Inchinnan plant might be turned into a workers co-operative.*

*The Scottish Co-operative Development Committee investigated the proposal in conjunction with the two shop stewards. Dunlop provided the premises rent and rates free for a year, and leased equipment to the new co-operative at a cheap rate until such time as the co-op could purchase outright. Dunlop also indicated they would give the co-op guaranteed work for 15 people for six months, and a site clearance contract for 25 people. The co-operative was founded with 44 members each contributing £1,000 in the form of a loan, drawn from either their redundancy pay, or made up over a period of time by deductions from wages.*

*The co-op began trading in January 1982. At the end of its first year it made a profit. However, the co-op has had to concentrate its efforts on diversifying its product base in order to reduce its reliance on Dunlop.*

*BITTESWELL EMPLOYMENT ALLIANCE, Coventry, West Midlands;  
Lutterworth, Leicestershire*

*In mid 1982, British Aerospace announced a number of redundancies at the Bitteswell airfield on the edge of Coventry. The workers at the airfield fought the redundancy plans but ultimately without success. However, a small committee made up mostly of senior shop stewards and trade union representatives, decided to take positive steps to create jobs for themselves and others made redundant from the airfield, since they believed that there would be few alternative ways of finding employment. This group established the Bitteswell Employment Alliance, an association of about 200 of the former Bitteswell employees.*

*The Alliance has encouraged members to establish a number of working groups to develop ideas for worker co-operatives. These groups are working on gas detectors, cycle lockers, aids for the disabled and a dish television aerial. BEAUT (Bitteswell Employment Alliance Utility Transport) is selling lightweight vans, based on a vehicle kit, for which the co-operative has designed a variety of bodies. The intention is that individual working groups will establish themselves as worker co-operatives, which will be represented on a federal organisation, the BEA. The legal structure for the umbrella organisation is still being developed.*

*The work of the Alliance has been assisted by the West Midlands Economic Development Unit and Leicestershire County Council. BEA initially received small grants for administration and office costs, and a more substantial sum from the West Midlands County Council in 1983 to fund development work. However, to date the members of the Alliance have been unpaid, and surviving principally on their redundancy pay. A grant of £15,000 to the end of April 1984 and £60,000 for the following year will allow a number of key staff to be paid.*

4 The growth in the worker co-operative movement has also been assisted by support structures at a local level. There are now around 30 local Co-operative Development

Agencies that employ full-time staff and a number of local authorities employ Co-operative Development Officers. Taylor (1983) has argued that areas with local CDAs experience a greater increase in the number of co-operatives, a slower decline of the manufacturing employment in co-operatives, and a greater diversification of co-operatives into new fields of activity, than those areas without local CDAs. Effective CDAs can provide intensive support to new and existing co-operatives, and develop 'packages' of support including advice and training. It is increasingly common for CDAs to provide finance and premises as well. The role of local CDAs in promoting business activity is examined more fully in Chapter 9.

5 The majority of worker co-operatives established in recent years are new businesses. There are relatively few 'phoenix' co-operatives where the former employees of a failed company have taken over its assets and re-established the business. As a consequence, the majority of worker co-operatives are small and employ fewer than 10 people (see Table 7.1)

Table 7.1

Number of Jobs	Number of Co-operatives	
	Total	Set up in 1981-1982
0	39	19
0.5 — 1.5	16	8
2 — 5	183	72
6 — 10	121	38
11 — 20	58	18
21 — 50	25	10
51 +	14	0

Source: Taylor, 1983, ICOM Co. Publications.

Like other microfirms, co-ops are concentrated in service sector activities, and those sectors of manufacturing dominated by small firms. Around 70% of all co-operatives are service businesses (see Table 7.2).

Table 7.2

Changes in the worker co-operative movement, by industry, 1980-82

	Co-ops				Jobs			
	1980		1982		1980		1982	
	No	%	No	%	No	%	No	%
Professional services	16	5	41	9	129	3	205	4
Building & Design	21	7	44	9	195	4	400	8
Other manual services	6	2	26	5	40	1	170	3
Crafts, woodwork & furniture	19	6	27	6	274	6	196	4
Footwear, clothing & textiles	16	5	32	7	899	19	897	18
Printing & typesetting	33	11	54	11	465	10	483	10
Other manufacturing	26	9	37	8	1527	33	1378	27
Publishing	22	7	21	4	192	4	176	3
Transport	6	2	8	2	131	3	98	2
Arts & Media	27	9	51	11	142	3	257	5
Bookselling & distribution	36	12	43	9	135	3	204	4
Wholefoods	60	20	73	15	466	10	512	10
Other retailing	12	4	22	5	84	2	113	2
	300		479		4679		5079	

Source: Taylor, 1983, ICOM Co. Publications.

6 A thorough assessment of the performance of worker co-operatives is, however, hard to make since it is only recently that there has been a sufficient number to make research worthwhile. ICOM, however, report that of the 66 worker co-operatives registered in 1978, 55% are still trading. There are no comparable data for conventional small firms, although of the businesses that registered for VAT in 1978, only 45% were still registered in 1982.

## Consumer Co-operatives

7 Consumer co-operatives are owned and controlled by the people who use a particular service. The co-operative movement founded by the Rochdale Pioneers in the 19th century concentrated on the development of small local co-operative societies that provided retail and other services for members. The societies grew in response to the dearth of retail facilities in newly urbanised areas, and as a means of bypassing the exploitative practices of employers who frequently owned what local shops there were in a particular area.

8 In recent years the Co-op has faced intense competition from other major retailers and has adopted similar policies in developing superstores and closing small local shops. Nevertheless, the Co-op movement's share of the retail trade has been declining, although it remains among the largest of retail concerns.

9 Some new consumer co-operatives have recently been established in the UK, largely in areas that, for a variety of reasons, the private sector has not been willing to invest in. (Glencairn and Galliagh are interesting examples of these consumer co-ops.) Often retail co-operatives depend heavily on voluntary effort (as is the case with many community shops in rural areas), cross subsidy from different activities, or on public subsidy.

### *GLENCAIRN CO-OPERATIVE ENTERPRISES LIMITED*

*Glencairn is a large working class housing estate in West Belfast built during the late 1960s and early 1970s. In October 1981 the only shop on the estate closed. A meeting was set up to discuss the possibility of the residents taking over the shop.*

*Four hundred local residents bought shares in the co-operative, a total of £10,500 being raised. A firm of accountants reported that it could be viable. The Northern Ireland Housing Executive leased the building to the company and by December 1982 the new supermarket was open.*

*The company is also involved in sponsoring temporary job creation activity that undertakes local environmental improvements and is examining other forms of co-operative development.*

### *THE GALLIAGH CO-OPERATIVE SOCIETY, Derry, Northern Ireland*

*Galliagh is a large estate in Derry built following the clearance of old housing in the Bogside and Brandywell neighbourhoods. The estate's 1,500 modern houses accommodate 6,000 people, mainly young families and pensioners. The rate of unemployment is around 70%. Problems associated with low income and poverty are widespread.*

*The estate was built without any shopping facilities, although a site had been retained for such a purpose. In June 1980 the Northern Ireland Housing Executive decided to sell the site to a private business willing to provide retail facilities. Tenants on the estate circulated a letter seeking support for the establishment of a co-operative, firstly to build and then to run a supermarket. Twelve hundred shareholders began to buy £1 shares each week. In this way, the £12,000 needed for the purchase of the site was raised.*

*Over the next few months £120,000 was raised from shareholders and in the form of loans to enable the Co-op to build a 5,000 sq.ft. supermarket, incorporating a*



*post office and corner shop. The shop opened in December 1981. The Society now employs 14 people full-time and 15 people part-time. Turnover in 1983 was around £940,000.*

*The Co-operative has also been involved in organising social activities. It is intended to set aside a proportion of profits for a 'social dividend fund' that will support charitable activity in the locality. It is also hoped that the members will agree that profits should be used to assist the development of other job creating activity.*

*Source: Guardian, 17/2/1982, Galliagh Co-operative Society, 1983 Annual Report*

## **Agricultural and Fishing Co-operatives: Joint Purchasing and Marketing**

10 There are now over 500 agricultural co-operatives in the UK and a number of fishing co-operatives. Such co-operatives are formed by farmers or fishermen to purchase agricultural supplies, to market produce and to process agricultural products.

### *BRIXHAM AND TORBAY FISH LIMITED*

*Brixham and Torbay Fish Limited was set up in 1965 by a group of fishermen suffering from wildly varying prices for their catches. The co-operative now had a membership of 1,100 and a turnover of £20 million.*

*The co-operative guarantees sales of every catch that its member trawlermen in the South West of England bring ashore and the co-operative controls the fish auctions in Brixham, Plymouth and Newlyn. What is not purchased by other independent buyers, the co-operative purchases at the market rate. In effect, the co-operative buys around 60% of the catch that is auctioned and the chief executive of the co-operative reports that it could buy all of the catch. However, operating through competitive auctions ensures that the fishermen receive the best prices possible. The co-operative then undertakes the marketing of the fish that it purchases, often freezing large quantities to avoid selling when prices are low. The co-operative also bulk buys fuel and is able to sell fuel to members at very substantial discounts.*

11 The potential for the development of purchasing and marketing co-operatives also exists in other industries dominated by a large number of small scale producers, especially where firms are not in direct competition with one another. A recent study (Economists Advisory Group 1983) examines a wide variety of joint marketing initiatives and argues the case for expanding collaborative marketing.

## **Community Co-operatives/Community Business**

12 Rural community co-operatives have been established in the Highlands and Islands of Scotland, to a more limited extent in the remote rural areas of Wales, and also in the West of Ireland. A member of a rural community co-operative must be a resident of, or have been born in, the area of benefit of the co-operative. Because these co-operatives are established in very small communities, they tend to be involved in a wide range of activities and are concerned equally with job creation and the provision of services.

Around twenty community co-operatives have been established in the Highlands and Islands of Scotland in the last eight years, sometimes incorporating the activities of previous agricultural or fishing co-operatives. Examples of such co-operatives are the Papay Community Co-operative and the Hoy Community Co-operative.

### *THE PAPAY COMMUNITY CO-OPERATIVE, Orkney*

*Papay Community Co-operative was established in 1979 on the island of Papa Westray which has a total population of 90. Many of these people are retired;*

*most of the others are farmers. In 1978 the owner of the island's only shop announced that he wished to close down. It was unlikely that any individual could be found to take over. The HIDB, however, had been examining possible locations for a youth hostel in the Orkney North Isles and had envisaged that a hostel could be combined with a shop. With assistance from an HIDB field officer, the community drew up plans for a community co-operative incorporating a shop, youth hostel and also a guest house. The co-operative was registered and £6,500 was raised through the sale of shares to local people. The Orkney Island Council contributed a further £3,000 and the HIDB matched the £9,500 raised locally with a further £9,500 and agreed to pay the costs of a manager. Work began on converting a derelict row of cottages into the new shop, youth hostel and guest house. The conversion work kept the island's resident builder employed for almost two years and the co-operative now employs two full-time staff — the manager and his wife — and in the last summer season created ten part-time jobs. The co-operative has, therefore, not only ensured that a vital local service is provided, but has significantly widened the income earning opportunities for the island population.*

#### *HOY COMMUNITY CO-OPERATIVE, Orkney*

*The co-operative on Hoy, with a population of 500, was established in 1982. It now runs a small hardware store, although it does not retail food since there was already a food store on the island. Hoy Crafts, a marketing co-operative, operates as a subsidiary of the co-op. A van service is run within the island and off the island using the new ro-ro ferry facilities. The co-op is also building up a mail order business in North West Scotland and Norway.*

13 Co-operatives have, in general, been established in the Western Isles or small island communities in Orkney. There is only one co-operative on mainland Britain and only one in Shetland. In these island communities the deficiency of local services is very obvious and affects the whole community. Moreover, the common identity of small remote communities is such as to make collective action feasible. The development of the co-operatives has been greatly helped by the Highlands and Islands Development Board (HIDB). The HIDB has developed model rules for co-operatives to register under the Industrial and Provident Society Acts and appointed field officers to assist local communities to develop co-operative initiatives; it has also made a comprehensive package of financial aid available which includes management and establishment grants to match locally raised finance. The fact that the community has been willing to invest its own capital in co-operatives, and that co-operatives have been able to call upon a diverse range of skills from amongst the local population — teachers, clergy, farmers, fishermen, mechanics, etc. — has also been important in ensuring the success of these co-operatives to date.

14 The opportunities for development in very remote rural communities are quite limited. The multi-functional nature of the co-operatives helps to offset the limitations of small markets, and high transport costs, by spreading overhead costs over a range of initiatives that would not necessarily be viable if run separately. It is difficult to assess the success of the community co-operative scheme operating in the Highlands and Islands. A long time is required before enterprises operating in such adverse conditions can reasonably be expected to achieve total self sufficiency. To date, there have been no failures although one co-operative reached the point of starting in business but never actually did so.

15 Community co-operatives as established in the Highlands and Islands do not exist in urban areas. The national Co-operative-Development Agency has, however, developed model rules for neighbourhood co-operatives. These allow full-time, part-time and voluntary workers to become members of the co-operative. The provision for voluntary workers was seen as a means of bringing in professional skills to advise the co-operative. Beechwood College has also developed model rules for community co-operatives. These rules encourage the development of a group of federated worker co-operatives within a particular locality. Such organisations, therefore, closely resemble Bootstraps Limited (see Chapter 9). Some 55 organisations have adopted the national CDA's neighbourhood

co-operative rules, largely organisations providing small scale services within a particular area, many of a community trading nature. Only two organisations have adopted the model rules developed by Beechwood College — Community Routes and the Harlesden People's Community (see below). The top tier of these organisations are not, in themselves, likely to be commercial enterprises, but the affiliated worker co-operatives are likely to be commercial.

Community businesses in Strathclyde have generally adopted the constitution of a company limited by guarantee. The criteria for membership is often defined on a residential basis, and the organisations are democratically controlled by members. In general, however, membership is very small (few have over 20 members) and the distribution of profits to members is not allowed. The majority are involved in community trading activities rather than being strictly commercial enterprises in their own right. Others are developing a two-tiered structure along the lines of the Beechwood community co-operatives model (see Strathclyde case study for fuller analysis of community businesses and further case studies).

#### *POLDRAIT SERVICE AND INDUSTRY LIMITED (PSI)*

*PSI was registered as a company limited by guarantee in early 1981. An Urban Programme application for £28,000 to pay a manager, administrative assistant and office costs was approved in November 1981. The first business to be established was a contract cleaning business which secured its first contract from the Glasgow District Council. The cleaning business is registered as a separate limited company that operates in effect as a subsidiary of PSI. The business employs one person full-time and two part-time. PSI also incorporates Poldrait Community Developments, a managing agency for the community programme. They have been involved with an environmental improvement scheme for the Barrows market in the East End.*

*A third project being actively developed is the manufacture of thermoplastic road markings under licence. The idea was proposed by the manager of PSI and assessed by consultants funded by BSC (Industries) Limited. Further projects being examined include the possibility of establishing a cafe and also providing catering services in local establishments such as police station and a large managed workspace scheme. The intention is that any businesses developed would operate as subsidiaries of PSI. The company now has 22 members, restricted to people who live or work in the East End, although people who do not fall within this category may become members if proposed by two existing members. These members elect 12 directors. Local authorities and the SDA are also represented on the Board. In addition to the Urban Aid grant secured by the company, grants have been secured from the District Council and from industry. The SDA helped initially by providing office space.*

#### *DENNY AND DUNNIPLACE EMPLOYMENT CREATION GROUP, Falkirk, Scotland.*

*Denny and Dunniplace are small towns west of Falkirk. In November 1980 the Community Council set up a public meeting at which the possibility of creating a community business was discussed. The Employment Creation Group (ECG) was established early in 1981 to develop employment creation activity. The ECG has 70 members who elect a Board of twelve. The ECG is being registered as a company limited by guarantee with charitable status. The ECG acquired a shop in the centre of Denny from the local Co-operative Society, and the group raised the funds from local authorities and local people to fit out the shop. Home produced goods are sold, run largely on a voluntary basis, and as such the venture covers its outgoings. The group aims to help local people make whatever income they can out of their skills, rather than limiting its activities to helping people who can establish businesses and create full-time employment for themselves. The ECG has also acquired a large granary at nominal rental which it is now converting to community workshops that will provide facilities to enable local people to learn and develop skills. A number of units for small businesses are also being created.*

*The ECG have now acquired funding for a manager and secretary from the Urban Aid Programme.  
Source: Ledis Sheet A6*

## **Community Trading**

16 There is a wide range of organisations that do not operate within a strictly commercial environment, but nevertheless involve trading activity. Some of these are self sufficient in revenue terms, but receive periodic injections of capital. Others receive revenue subsidies either from government or by fund raising. Yet others are self sufficient but the extent of their trading activities are such that they are more appropriately described as operating within the informal economy. The borderline between these and formal enterprises is not easy to draw. These organisations employ a considerable number of people and they also offer even larger numbers of people the opportunity of supplementing the income they receive from other sources. In many cases these organisations are involved in providing valuable services to local communities. Their role in providing individuals with experience of running trading organisations is valuable in building the capacity in communities to develop more formal types of business initiatives. These informal trading organisations can provide a 'springboard' to enable people to gain the confidence, at little risk to themselves, to subsequently establish their own businesses.

Perhaps the largest group of organisations that could be described as engaged in community trading are those which provide recreational, sporting or cultural facilities. Many museums would also fall within this category. Many of these organisations are registered as charities which makes fund raising from external sources easier and gives special advantages, for example the right to apply for rate relief. Many are membership based organisations established because of the common interest of a group of people in seeing a certain type of facility provided. Interesting examples of this sort of initiative are the Harlesden People's Community Co-operative and Pallion Residents Enterprise.

### ***PALLION RESIDENTS ENTERPRISES LIMITED***

*In 1981 Hepworths, the tailors, closed a large factory in the Pallion district of Sunderland. Almost immediately the building began to be vandalised. Local residents began to express concern about the state of the building and an idea emerged at a public meeting to discuss the issue for the building to be converted for multi-purpose use, including recreational and social facilities, plus workshops for small businesses. The meeting appointed a small committee to take the idea forward.*

*The residents group secured a licence to occupy the building and a small grant from Tyne and Wear County Council to make the site secure. Sunderland Borough Council then agreed to purchase the building from the English Industrial Estates Corporation for £45,000. A MSC team began to clean up the site and a £10,000 loan for materials was secured from the Borough Council. The full conversion programme has been financed from a variety of programmes. An Urban Programme grant of £354,000 was secured for the conversion of the building to sports hall and workshops. A private developer contributed £150,000 in return for use of eight of the workshops. £60,000 of grant aid was secured from the Sports Council and a further £60,000 loan was secured from a brewery for the social facilities. Thirty adults are currently employed under the Community Programme Scheme, and 40 young people under YTS, to undertake much of the conversion work. Rental income from the workshops and service charges should cover the management costs of the business, while charges for use of sports facilities and the profits of running a bar should make the recreational and social activities of PRE self supporting.*

*Funding has also been secured for the establishment of a disabled persons co-operative that will provide business services on a pay-as-you-use basis to*

*workshop tenants and businesses in the surrounding area. Capital funding has been secured from a variety of sources, including the EEC and Sunderland Borough Council, while training costs have been secured from the MSC. PRE Limited is a company limited by shares. Only local residents may buy shares and, however many they have, voting is on the basis of one person, one vote. The shareholders elect four directors. Pallion Residents Association elects three directors and a further two directors represent the Borough of the County Council. An interesting aspect of PRE is the extent to which the project has drawn strength from the energy and know-how of one key individual, a former councillor for the Pallion ward. His political contacts and knowledge of the Council system has been crucial to the rapid development of the project. The residents group has also made effective use of professionals, involving architects and accountants at key stages in the development of the scheme.*

#### **STONEBRIDGE BUS DEPOT PROJECT**

*The Harlesden People's Community Council was set up by young black people in Brent to tackle the shortage of jobs and recreational facilities in a constructive fashion. In 1982, a bus depot close to the Stonebridge estate was closed. The HPCC saw the potential that this building had for conversion to a variety of workshops and community uses. Brent Council backed the proposals and set up a joint steering group with the HPCC to examine facilities that should be provided. On the basis of this report, funding was secured from Urban Aid, the GLC and the L.B. of Brent. Subsequently the Commission for Racial Equality has funded an accountant's post and the EEC has paid for a training officer. Much of the conversion work is being undertaken by an MSC funded project under the guidance of a building project co-ordinator seconded from Brent Council.*

*The conversion now in progress will be completed in 1985/86, when it will include an Information Technology Centre, a creche, changing rooms for outdoor sports fields, workshops for small businesses, offices for management staff and an administrative unit, two sports halls, squash courts, a disco and recording studios, a wine bar and canteen. Throughout the project the young black people involved in initiating the scheme have been actively involved in planning and development along with professional advisers. This partnership seems to have been fruitful.*

17 Housing co-operatives and self-build housing groups are another form of activity that involves people in a collective effort. Work with housing co-operatives has sometimes led to the development of worker co-operatives, an example of how the development of skills and management ability in a field unrelated to employment creation can lead to the formation of new businesses.

#### **BANKS OF THE WEAR HOUSING CO-OPERATIVE**

*Two unemployed members of the St. Vincent Street Housing Co-operative in Sunderland have established a specialist wet blasting and industrial cleaning co-operative called BoWork Ltd. This, and a number of other small co-operative projects, have been given assistance by the Banks of the Wear Secondary Housing Co-operative.*

18 Credit Unions, which are mutual savings institutions controlled by member savers, have developed rapidly in recent years in Britain. Most are small, without full-time staff. It seems unlikely that credit unions could develop to anything like the extent found in North America where they provide banking services in many local communities, since the UK financial market is highly integrated and exceptionally competitive. However, in some areas it might be possible to encourage the development of credit unions to tap local savings and lend to individuals to establish businesses. There might be particular scope for this among ethnic minority communities where there are problems in raising commercial finance. The Asian community appears to draw considerable strength from having its own financial institutions.

## **Common Origins**

19 The establishment of new initiatives of the kind discussed in this chapter stems more from the experience of common need than from identification of an economic opportunity. The 19th century consumer co-operative movement stemmed from the poor quality of services being provided by private businesses. The more recent community co-operatives have been established due to the poor provision of services in remote communities and the poor employment prospects of those areas. Many worker co-operatives have been established due to the experience of unemployment, particularly when a workforce is threatened with redundancy. By contrast, some worker co-operatives are established as a response to perceived opportunity, when a small group of people have identified a market and decided to establish their own business. A number of co-operatives that provide business services, for example computer programming, have come into existence through this process. Similarly, the success of agricultural and fishing co-operatives clearly stems from a situation where the benefits of collective action are very obvious to potential members.

20 Success in developing collective responses to problems is strongly related to the sense of common identity that exists. It is no surprise that community co-operatives are largely rural phenomenon, particularly in remote, small and tight knit communities where there is a common cultural tradition. The example given in this study of an urban co-operative with mass community involvement, the Galliagh Co-operative, developed from a Catholic estate in Derry which similarly has a strong sense of community identity. In the USA many of the community economic initiatives in urban areas have developed from the black and hispanic communities or other racial communities who experience discrimination and, as a consequence, have a strong sense of common identity. The experience of the Harlesden People's Community Co-operative demonstrates a potential for co-operative development amongst ethnic minority communities in the UK.

21 Worker co-operatives are a phenomenon of urban society. In general, social relationships within urban areas are rarely correlated with neighbourhoods. People develop a common identity either with people who have similar interests, or with their working colleagues, who are unlikely to live in the same neighbourhood. Collective effort is, therefore, more appropriately expressed in the form of a workers co-operative, than in a co-operative structure that is geographically based and seeks mass participation. The issues that are likely to unite people within a geographical area in towns are likely to be those that affect all local residents, such as housing or environmental issues. Employment issues are less likely to unite residentially based groups.

22 As with any enterprise, success is closely associated with existence of leadership within a community or a group of individuals with a common interest. Many of the community economic initiatives in the USA have depended on the drive and commitment of one or two key individuals (Newnham, 1979). Frequently, community leadership needs to be identified and fostered, co-operative endeavour has rarely emerged entirely spontaneously. It has normally been associated with some form of external stimulus, be it from a government agency, socially committed individuals, or contact with other organisations. This external stimulus has commonly been called 'animation'.

## **Common Problems**

23 Co-operative organisations have often suffered from poor management. The problem arises because those involved in establishing the organisations rarely have any experience in running a business. Furthermore, the management issue is complicated by the fact that co-operatives encompass social as well as commercial objectives which gives scope for conflict about the emphasis that is to be put on the various objectives of the organisation.

24 The problem may be tackled in two ways. Management training can be organised for co-operators or management committees. Secondly, co-operatives may employ paid management if they are of a sufficient size. In those co-operatives with paid management,

the diversity of objectives often leads to conflict between managers and the management committees which are made up of representatives of the membership. The former tend to emphasise the need to achieve the commercial targets and the latter emphasise the social concerns of the co-operative. Moreover, the multiplicity of objectives common to such organisations makes management a more complex task than the management of a conventional small business. The problem is not insuperable, but calls for a clear prioritisation of objectives and also agreement on the respective responsibilities and functions of members, management committees and managers. A further problem for organisations such as the community co-operatives which see themselves as adopting a development role, is that they need not only to manage existing initiatives effectively, but need also to devote time to the investigation of new activities and to their establishment if they appear viable.

25 The development process for all co-operative organisations tends to be long, especially in those cases in which mass participation has to be mobilised. People need to be convinced that an initiative has potential before they will commit themselves — and in many cases, their money — to the venture. This creates a twofold problem. Firstly, opportunities may be lost. The great advantage of the private business is that decisions can be made quickly by the owner without reference to anyone else. Collective decision-making is more time consuming — the larger the organisation the more time consuming the decision-making process. A second problem, arising from the long development process, is that the time lag between promotion of a co-operative and any evidence of results may in itself undermine the commitment of members or potential members. In many cases members become disillusioned simply because progress is slow.

26 The long period required for development reinforces the tendency for co-operative enterprises to focus on providing for need, rather than responding to opportunity. Implicitly, where the private sector is not providing a particular service, it is probable that it is because it cannot be provided at a profit. There is a natural tendency for co-operative activity to be forced into low profit or high risk areas of business.

27 It is particularly difficult for co-operatives to raise finance. The tendency for co-operatives to be forced into low profit or high risk areas means that they are not attractive propositions for commercial investors. Moreover, if co-operatives operate on the margins of the economy, their ability to accumulate capital from profits for future investment is constrained. The members of co-operatives are unlikely to have substantial sums of money with which to capitalise a new business. Co-operatives are frequently developed in areas experiencing social hardship or by unemployed people. The potential for raising funds from the local community or the members of a worker co-operative is thus limited. To an extent, this can be compensated for by 'sweat equity' — members being willing to accept low wages until the business is properly established. It would be a mistake, however, to suggest this is a problem solely of co-operatives. It is a factor that hampers any attempt by unemployed people to establish their own businesses.

28 Co-operatives may encounter discrimination when seeking to raise commercial finance. Few bank managers have had any experience in dealing with co-operatives. As a consequence, co-operatives may encounter a degree of scepticism about their business plans not based on an objective assessment of those plans, but on views that co-operatives are not 'real' businesses.

29 Most worker co-operatives in the UK are registered under the Industrial Common Ownership Model rules which limit member shareholdings to £1 and membership to employees. The equity base of the business is, therefore, entirely nominal. It has been argued that since banks evaluate a business by its ratio of loans to equity, this limits the capacity for co-operatives registered under these rules to raise loan finance. Moreover, since the rules of most co-operatives prevent 'external' organisations or individuals from becoming members of the co-operative, they cannot raise finance by selling shares to non-members. However, these problems are more significant in explaining the problems of large co-operative organisations, and indeed may be important in explaining why the majority of co-operatives' activity in the UK is very small scale and likely to remain so.

They are unlikely to be very important to the small co-operatives that are the focus of this study.

30 Difficulties in raising finance may encourage co-operatives to start in business without an adequate capital base. This will reinforce the other influences noted that will tend to push co-operative activity to the margins of the formal economy and increase both the risk of failure or the tendency to survive through self-exploitation.

## **Strengths of Co-operatives**

31 Co-operatives seek to displace the pure profit motive with a wider consideration of the social benefits and costs of economic activity. There is a tension between social objectives and the need to survive in a competitive market economy. However, co-operatives, by appealing to their members and supporters, can secure certain cost advantages that enable them to survive in competition with private businesses.

32 Finance may be obtained at below 'commercial' cost. The community co-operatives in the Highlands and Islands have secured substantial sums from the sale of shares to the local community. It is unlikely that any substantial dividends will ever be paid on those shares. Similarly, many worker members in worker co-operatives invest their money in the business without seeking a financial return on that investment. The profit motive of the shareholder is, therefore, displaced.

33 Workers may also be prepared to accept a lower wage or reduced differentials if they can clearly perceive the social reasons for so doing. Many co-operatives deliberately narrow the differential between the highest paid worker and the lowest paid; some operate a policy of equal pay.

34 Consumer identification with a co-operative may give it a market advantage. The Galliagh Co-operative depends on its membership for patronage and secures it because the business is owned by the consumers. Local identification may reduce cost. Many projects co-operatively owned by people may experience fewer problems of vandalism and be at less risk from pilfering and robbery than privately owned businesses in the same area. Both the Galliagh and the Glencairn co-operatives have suggested that their capacity to operate in areas which private businesses had avoided or where they had closed down could be partly attributable to the fact that there is less danger of a locally owned business suffering from vandalism.

35 It has also been suggested that worker co-operatives can be more efficient than private enterprise because of worker identification with the goals of the enterprise (see Young and Rigge, 1983): management-worker conflicts are minimised and workers are prepared to work flexibly if they have a stake in the enterprise; in times of crisis worker members may be prepared to accept sacrifices that they would not accept if they were solely employees. These claims may have some validity. However, all co-operatives are small and small firms, as a whole, are not known for their susceptibility to strikes. They also survive in competition with bigger firms because of their flexibility, and it is characteristic of many small firms that they depend on the drive and commitment of their owner managers. It would be mistaken to claim, therefore, that worker co-operatives are necessarily any more efficient than other small firms.

## **Summary**

There is a wide variety of co-operative enterprises in the UK. They have demonstrated the capacity to grow in numbers in the current economic climate. Moreover, they generate clear benefits for their members, in the way of jobs and services. And they bring resources under local control and under the democratic control of their members. However, co-operative



organisations, especially those based on mass membership, do encounter some significant problems. These problems are not necessarily insuperable but if individual co-operatives are to grow in size then they will need to be addressed.

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## CHAPTER 8. The welfare tradition

1 This chapter starts by considering the voluntary service and community trading activities of welfare organisations, and only subsequently examines the development of voluntary trading companies. The reason for doing so is because there remain comparatively few enterprises that have developed from the traditional voluntary organisations, while the range of community trading has been steadily growing.

2 Britain has a long tradition of voluntary welfare activities. Many charitable organisations that exist today were founded by 19th century philanthropists. The characteristics of such organisations are that:

- normally they are charities, established for a specific public purpose. This is specified in their constitutions, and approved by Charity Commissioners. Such organisations, however, take a variety of legal forms. Some are trusts, some companies (generally companies limited by guarantee) and some are Industrial and Provident Societies.
- normally they have a membership which will not always have a ‘community’ involvement. Control does not lie with the beneficiaries of the organisation’s activities, but with a small number of people who act as trustees of the public purpose.
- when trading, any income generated by trading activity must be applied to the furtherance of the objectives of the organisation. Profits cannot be distributed to members.

3 Many charitable organisations generate substantial income by charging for goods and services they provide as part of their charitable functions. Museums, private schools and hospitals all make charges of one form or another. Organisations engaged in research and education often generate substantial income from publishing. However, these charges cannot strictly be called trading activity. Moreover, charities are limited to the extent to which they can charge for services because, by definition, they are not supposed to act commercially. The voluntary sector is, nevertheless, a major employer.

### *COLDHARBOUR MILL TRUST, Uffculme, Devon*

*Uffculme is a small village of around 2,000 inhabitants, 15 miles north-west of Exeter. In 1981 a local wool mill was closed with the loss of 42 local jobs. The mill contained a large collection of historic machinery and until fairly recently had relied on water and steam power.*

*A local trust had already been engaged in a £400,000 housing scheme for the elderly, and agreed to look at the possibility of saving the mill. The proposal developed was for a working museum. Loans of £3,000, £20,000 and £50,000 were secured from the parish, district and county councils respectively. The Development Commission put in a further £73,000. The Science Museum made a grant of £5,000 for the preservation of historic machinery, and the National Heritage Memorial fund provided a six year interest free loan to enable the mill to be purchased. Some additional machinery was acquired from funds raised from individuals.*

*Conversion work began in January 1982, using an MSC funded labour team, and the Museum opened in July 1982. The mill is not only a museum but has also been brought back to production and finished goods are sold in the mill shop as well as through other retail outlets. It is intended that some of the outhouses should be converted to house self-employed craftspeople and small businesses. So far six permanent jobs have been created and the Trust hopes to create many more in the next few years.*

4 Charities are increasingly involved in the purchase and resale of goods in order to raise funds. Typical activities include the running of charity shops, and the sale of Christmas cards. However, with two exceptions, charities can only engage in trading to a limited extent without endangering their status. One exception is where trading is essential in order to carry out the charitable purposes of the organisation. The other is in those instances where the beneficiaries of the charity's activities are engaged in the trading process and the objectives of the charity are being fulfilled simultaneously. Workshops for the blind, for example, can produce and sell goods without endangering their charitable status, since it is part of the process of rehabilitating the blind and of providing training for other work.

5 In recent years, government funds have been available for voluntary organisations to provide temporary jobs and training. The incentive for voluntary organisations to make use of these funds has been considerable since it has often enabled them to fund the expansion of their welfare activities. The major sources of funds have been the Manpower Services Commission and the Dept. of the Environment. MSC funding rules out trading on any substantial scale, although Training Workshops and Information Technology Centres, both funded by MSC under the Youth Training Scheme, are unusual in that they are expected to earn income from trading. It would be unrealistic, however, to suggest that any organisation concerned primarily with training could be viable even if MSC criteria allowed more substantial revenue generation. What might be feasible is for such projects to be used to identify products and markets, and to train workers so that a commercial venture could be established at the end of the training period. There are examples of MSC funded projects being used in this way. Thus, Lewisham Energy Action spawned a commercial operation undertaking the insulation and draught-stripping of council property and private houses. Products identified by training workshops have, on occasions, been developed commercially. For example, fibre glass bus shelters developed by trainees in a training workshop in Fife have been marketed successfully. An Engineering Training Workshop in Birmingham helped an inventor develop his idea for a dart sharpening machine. Trainees gained valuable experience working on the production of a prototype and a commercial product was developed which a local manufacturer subsequently took into commercial production.

6 Frustration with inadequacies of MSC funding for permanent job creation and evidence of the potential for encouraging trainees and participants in MSC funded schemes, has led voluntary organisations to become involved in employment development activities. The primary focus of such activity has been to assist unemployed people to establish their own business or to engage in less formal activities. Voluntary organisations have been involved with a variety of projects that provide advice, or resources to promote self-employment or co-operative businesses. An example of the way in which a traditional voluntary organisation has become involved in this form of activity is the Braunstone Employment Project, established by Leicester CVS (see Leicester case study).

7 A number of charitable organisations have sought to establish commercial enterprises by setting up trading companies without charitable status. The Birchwood Project (Warrington) Limited is one example.

#### *THE BIRCHWOOD PROJECT (WARRINGTON) LIMITED*

*In the mid 1970s, voluntary organisations, church organisations, local authorities and the Warrington and Runcorn New Town Development Corporation met to discuss how to provide leisure, recreational and community facilities for local residents in Birchwood. A feasibility study was commissioned to explore whether a development could be undertaken by a partnership of local organisations — voluntary and statutory. As a consequence, the Birchwood Project (Warrington) Limited was established.*

*The company is developing a complex of facilities in north-east Warrington that includes a 1,900 seat auditorium, squash courts, a health and fitness suite, associated bars and coffee shop. In addition, various units that are let to*

*commercial businesses have been created. An archive centre, ecumenical chapel, youth club and seniors centre have also been established within the development. Some £3.4 million have been raised from different sources — statutory and non-statutory. In the long run the scheme should generate a surplus that can be ploughed back into the development of further facilities or to support community activities.*

*The Company is managed by a 21 person Council of Management, representing the membership. An executive board, consisting largely of local businessmen and professionals, carry out policy. A separate non-charitable trading subsidiary of the Birchwood Project manages the commercial retail units, the conference and restaurant facilities at the Centre. The seniors centre, the youth base and advice centre have also been established as independent charities to ensure financial responsibilities and to develop self management capacity.*

Sometimes the objective of generating income is combined with others. Oxfam Trading, for example, sells the products of many co-operatives in the Third World. This contributes to Oxfam's development objectives, as well as generating funds. New voluntary trading companies have been established to create employment, frequently for some disadvantaged group. Goodwill Incorporated, a trading company established by the Glasgow Council for Voluntary Service, is one such initiative as is Outset. Proposals now exist for other Goodwill ventures to be established in different parts of the country.

#### **GOODWILL INCORPORATED**

*In the mid 1970s, Glasgow Council for Voluntary Service secured a secondee from IBM to examine the prospects for a recycling business based on the Goodwill Concept developed in the USA. The feasibility study suggested that there was a market for restored and repaired furniture and household goods.*

*GCVS secured premises and an Urban Programme grant and with donations of materials from local companies used a MSC funded building team to undertake restoration work. In 1978 Goodwill began trading as a MSC funded STEP scheme. In the second year, GCVS were able to persuade MSC to give the business Enterprise Workshop status that allowed profits to be retained to capitalise the business, despite continued MSC funding for salaries and wages. In January 1981 the business went independent, using £7,000 of accumulated capital. By September 1983 the business was employing 13 people and had an annual turnover of £85,000. A second shop has been added.*

*Goodwill is a company limited by guarantee with charitable status. Charitable status has enabled it to secure rate relief, helped its marketing, enhanced its ability to secure donations of goods and repair, and enabled the company to raise funds from industry and charities. The directors are all prominent local 'worthies' and increasing attempts have been made to draw in people with widespread business experience.*

#### **OUTSET**

*Outset is a company limited by guarantee, with charitable status, established in 1970 to assist the handicapped. In 1981 a research study concluded that sheltered employment activity was concentrated in labour intensive manufacturing activities and often reliant on sub-contract work from major firms. In view of the deteriorating position of manufacturing industry and the trend to automation, many sheltered employment schemes seemed likely to experience increasing difficulties in winning business in the future. Outset decided to explore whether it could establish a sheltered workshop scheme in a new, expanding industry and began investigating the provision of advanced office services in Lewisham.*

*The MSC funded 75% of capital costs and agreed to pay up to £2,830 p.a. for each registered disabled person to cover revenue losses. Lewisham Borough*

*Council also agreed to provide £47,000 over the first five years of the project to make good any revenue shortfall. Further grant aid for capital was secured from the Department of Industry. Citibank has made available an interest free loan; other firms and charities have provided grants and donated equipment.*

8 Trades unions and the business community have both played a major role in developing community enterprises in the USA (Newnham, 1979). In the UK, representatives of unions and the business community have been involved in projects sponsoring MSC programmes. The business community has also been involved in the Local Enterprise Agency movement. Trades unions have been involved in establishing support structures for co-operatives. An illustration of the role the business community can take is provided by the establishment of Delta Initiatives Limited.

### *DELTA INITIATIVES LIMITED*

*There are relatively few opportunities for young people to gain work experience and to learn a skill in Bridport. The problem was recognised by the Dorset Small Industries Committee of COSIRA. The director of a local manufacturing business established a working party of COSIRA staff, local business people and staff from the Youth Service to examine whether some form of novel training initiative could be established. The group's concern was to provide high quality training for young people, not only in trade skills, but also in business management, and create jobs at the same time.*

*The steering group decided to establish a conventional limited company that would undertake the repair of office and school furniture, subcontract metal and woodworking activities, painting and decorating for local firms and institutions. Work has been secured by approaching local firms for business and explaining the concept behind Delta Initiatives of providing training and real jobs. It is recognised, however, that the business will only succeed if it can provide a competitive service.*

*The company has two categories of shareholders. The 'A' shareholders are the directors of the company and are the local business people involved in establishing Delta Initiative. The 'B' shares are available for purchase by the employees. Currently, the six young people employed by the company are purchasing shares from their earnings at the rate of £2 a week. Over time, the responsibility of the employee shareholders will increase and they will take over the 'A' shares.*

*The Chairman of the company emphasises the need for support from the local business community. Local business people have the expertise to support such an initiative, can identify markets, and are in a position to direct work to the initiative.*

## **Problems in Enterprise Development**

9 The key constraint on the development of voluntary trading companies is that of motivation. It should be remembered that most small firms, including worker co-operatives, are run by owner managers. A voluntary trading company is run by its management committee which is by definition voluntary — they neither work in the enterprise nor are they direct beneficiaries of its activities. There is an implicit danger that either the paid manager or the employees increasingly regard the enterprise as their own and bypass their management committee, or alternatively that employees and managers regard their employer as they would any other and do not commit themselves to the business in the same way as owner managers.

10 The traditional activities of welfare organisations rarely involve the trustees or directors in any risk: there are limits to the extent to which voluntary directors are prepared

to accept risks and responsibility without return. Despite limited liability, there are a growing number of cases in which the personal assets of directors are being called upon to meet demands of the DHSS for unpaid National Insurance and PAYE contributions.

11 A further implication of voluntary management is that such organisations may have difficulty in raising finance. There is little incentive for the management committee members to invest in the company since they would be making a high risk loan without the prospect of any benefits such as might accrue to the members of a co-operative, while the structure of a voluntary trading company makes it difficult to raise commercial finance. They have little prospect of raising loans from members, no prospect of raising external equity, and as a consequence, their chances of raising commercial finance are exceptionally limited.

## **Strengths of Voluntary Trading Companies**

12 Despite the weaknesses identified above, some voluntary trading companies have been established and are operating successfully. Voluntary trading companies seem likely to be able to secure a number of advantages over private firms. Some have been able to secure charitable status. This enables them to raise funds more easily from industry and charitable organisations. It also allows the organisation to secure rate relief. Goodwill Incorporated in Scotland has received substantial funds from industry and charity appeals, or secured help 'in kind'. Although it is unlikely that a similar organisation would be granted charitable status under English law, 'socially owned' organisations may be able to secure financial aid from charities, industry or the public sector that other private firms would not be able to secure.

13 Consumer identification with the social objectives of the organisation may give a voluntary trading company a cost advantage. Goodwill Incorporated relies entirely on donated household appliances and furniture. Similarly, in the mid 1970s Oxfam ran an experimental recycling scheme in Huddersfield which depended on households pre-sorting some of their domestic refuse. Consumer identification may also give voluntary trading companies a marketing advantage. The major charities that run trading subsidiaries capitalise on this by selling to their supporters through catalogues. The principle is applicable to all voluntary trading initiatives.

14 The future pattern of development of voluntary trading enterprises may see them, together with unions and businesses, developing packages of support to ordinary private firms and co-operatives, and playing an increasing role in management. Voluntary trading initiatives may, for example, enter into partnership with individuals wishing to establish their own firms. The voluntary trading initiatives may provide management support and finance, the individual partner the skill and drive to establish the business. This may be formalised by a joint sharing of equity which allows the voluntary trading company to claim a proportion of profits. Govan Enterprises Limited (see Strathclyde case study) has entered into such a joint equity arrangement with a printer. The approach being taken by Delta Initiative, with a two tier share structure that will enable the business to transform itself from a voluntary trading initiative to an employee managed business, is another approach to the problem of motivation. Bootstraps Enterprises Limited has evolved a system of contracts with a co-operative which it sponsored that entitle it to a share of profits.

### *BOOTSTRAP ENTERPRISES LIMITED, Hackney, London*

*Bootstrap Enterprises aims to improve the job prospects of the unskilled and unemployed by providing them with individual and business management training, and to assist the creation of new worker co-operatives in Hackney. They have experimented with a variety of approaches to co-operative development. They have brought together a group without any skills and brought in external trainers. On other occasions they have found a skilled individual interested in establishing a business and made resources and assistance available on the understanding that the individual will train others to work with him or her in a*

*co-operative enterprise. A third approach has been for Bootstrap's staff to identify a market and recruit co-operators to run the business. A number of co-operative workshops have been sponsored, including a knitwear unit, a typing workshop, a bike repair shop, a TV repair shop and cafe.*

*Bootstrap provides an intensive advice and development service linked to skills training. It has premises which it allows groups to use and can make small loans. The principles to be adhered to by groups that Bootstrap supports are now stated in written contracts. These lay down principles concerning the structure to be adopted by the group; the working practices, including the requirement for proper financial records and the existence of a means for group members to air disputes; plus provision for a proportion of profits to be returned to Bootstrap.*

*Bootstrap is funded by the GLC, Hackney Borough Council (through the Urban Programme) and by national and local charities and businesses.*

The Association of North West Workers Industries provides a further demonstration of a hybrid structure that allows working members of co-operatives the major role in running their enterprise but also allows profits to be returned to the holding company which provides management support.

*ASSOCIATION OF NORTH WEST WORKER INDUSTRIES (ANWWI),  
Skelmersdale*

*The Association of North West Worker Industries was established by representatives of the trade union, local authority, Department of Industry, Labour Party and Co-operative Union, following the closure of Courtaulds factory in Skelmersdale.*

*The Association sponsored the creation of a number of co-operatives, and a training workshop (MSC funded). The structure adopted for these initiatives allows for a substantial degree of worker control, but there is also an element of control by a holding company. The holding company, Hawkesbury Investments Limited, is a charitable trust that provides management expertise appointed by the workforce and by Hawkesbury. Profits are to be distributed on an agreed formula between individual co-operatives (to allow re-investment) and Hawkesbury (to enable investment in entirely new initiatives).*

The Co-operative Advisory Group (1983) has described the evolution of Socialised Business Ventures in other countries. These involve a holding company investing in subsidiary worker managed enterprises and retaining the right to appoint a number of directors to that enterprise to work alongside worker directors. Profits generated are divided on an agreed formula. While notionally the sophisticated support structures described here could be viable in their own right, since they secure a return on investments and a share of profits, it is unlikely that small scale initiatives could be self financing, at least for many years.

## **Conclusions**

15 The activities of the welfare sector seem likely to be confined to community trading activity or to providing support for enterprise development, rather than direct enterprise formation itself. Where voluntary trading enterprises do exist, it seems likely that they will have been established with the backing of powerful 'sponsors'. An alternative form of activity is for voluntary initiatives to develop their supportive role for enterprise development by taking a stake in the firms being assisted, or arriving at contractual arrangements so that they can secure some of the profits generated by the firm that has been assisted.

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## CHAPTER 9. The public benefits of Third Sector Enterprises and community trading initiatives

1 It is important to consider the benefits that may be generated by third sector enterprises and if they are significantly different from those generated by private sector firms. It is equally important to evaluate community trading initiatives according to their merits. Community trading initiatives, however, provide non-commercial services, and are, therefore, more properly compared with other forms of public sector service provision than with other forms of enterprise. In such cases it is more appropriate to consider if community trading organisations are a particularly effective way in which to provide for the public good.

### Third Sector Enterprise

2 Third sector enterprises:

- i) create jobs;
- ii) provide goods and services needed by the 'community';
- iii) bring resources under local control.

### Job Creation

Third Sector enterprises can and do create jobs. Worker co-operatives now employ over 10,000 people, virtually all created in the last ten years. It would, however, be mistaken to believe that third sector enterprises offer any 'magic' cure for unemployment. They are subject to the same commercial constraints as other small businesses. As a consequence, their ability to create jobs is no greater than that of the private firm.

3 The ability of third sector enterprises to create employment for disadvantaged groups is similarly constrained. Enterprises, even if they have social goals as well as commercial goals, will not be able to give preference in their employment policies, to any significant extent, to the long-term unemployed or other groups of disadvantaged persons, because of the higher training and supervision costs that would probably be incurred by so doing.

4 Admittedly some scope exists for helping disadvantaged groups. Third sector enterprises can operate fair employment practices to offset disadvantages due to discrimination, and they may be willing to make fuller use of funds provided to business by government for training purposes, or they may integrate their activities with other forms of training provision. In general, however, it would be mistaken to believe that enterprise promotion policies of any form can be used as a tool for tackling labour market disadvantage.

5 The co-operative form of organisation may be particularly suited to the requirements of unemployed people wishing to establish their own business. Workers co-operatives enable members to gain control over their own working lives, which may be of special importance to those who have experienced redundancy after long years of service and feel ill used by their former employers. The co-operative structure also provides a mechanism by which a group of workers can pool savings and establish a project which would have been impracticable for any member to consider establishing as an individual (see, for example, the Inchinnan Engineering Company). Co-operatives enable the risks and responsibilities of starting a business to be shared and may prove particularly appropriate for those without a strong tradition of individual entrepreneurship. Women's groups and ethnic minority groups have sometimes preferred to establish co-operatives rather than private firms, and in so doing they can counter the discrimination that they experience in the labour market.

6 In certain circumstances, the only form of enterprise willing to take an initiative will be some form of third sector enterprise. Thus, it is evident that, despite the impressive array of assistance available to private businesses from the Highlands and Islands Development Board, very little private sector activity has been stimulated in the remote island communities of north-west Scotland. The community co-operatives were the only 'developers' prepared to take the initiative. In some urban areas in the USA there are areas which the private sector will not develop, almost regardless of the incentives offered.

7 At heart, however, third sector enterprises must be seen as commercial organisations constrained by market forces from pursuing social objectives to any great extent. This does not mean that third sector enterprises do not merit support from the public sector: if the criteria include consideration of where jobs are to be created and for whom, third sector enterprises are likely to prove particularly suitable for public support. But it would be mistaken to believe that third sector enterprises can in some mysterious way create jobs more 'effectively' or at lower public cost than private sector businesses.

### **The Provision of Goods and Services**

8 Many third sector enterprises provide services the private sector has failed to provide. Their willingness to operate in low profit markets is one explanation of this. Equally important is the fact that they are locally owned organisations and are in touch with local needs. They are well positioned — especially in the generally less well served rural economy — to spot opportunities for businesses involving the provision of local goods and services.

9 Without local initiative the Galliagh estate would, in all probability, have no supermarket. Nor would many of the islands in the Outer Hebrides have the range or quality of services for the distribution of agricultural and household requisites that they now enjoy, had it not been for the community co-operatives.

### **Local Control of Local Resources**

10 Third sector enterprises are owned by groups of people living in a particular locality, or by locally based institutions. They can help to develop local pride and local identity. Successful initiatives demonstrate the way in which the skills and resources of local people can be harnessed to provide a local solution to problems. They, therefore, foster a spirit of self reliance and independence.

11 In economic terms there may be advantages for local people from an extension of local control over industry. It provides a mechanism by which the profits of economic activity can be retained within a particular locality. Locally controlled organisations are more likely to use local suppliers than 'foreign' suppliers and to have local management, research and development. Furthermore, given that third sector enterprises are collectively controlled, it is unlikely that they will move to a different area, and the future of the business is not dependent on the health or interest of an individual or his family.

12 Third sector enterprises feel constraints in tackling social problems by their need to survive as commercial organisations in a competitive market. However, they are a particularly appropriate form of enterprise to promote in areas of high unemployment because they are accountable to more people than a conventional firm and encompass wider objectives than the pursuit of individual profit. The initiatives that they take are, therefore, likely to be particularly beneficial to the public since their objectives will be to maximise the benefits to their members — workers, consumers, the 'community'.

13 Worker co-operatives benefit from the advantages of democratic control by the worker members. They achieve a fairer distribution of the rewards to be gained from work, and enhance the quality of working life. Other forms of co-operative activity provide a means of extending democratic control over productive activity to consumers, or the residents of a particular area. Other forms of third sector activity, while not controlled by worker members or resident members, are nevertheless likely to be concerned with the quality of the jobs they create and to ensure that they employ people on fair terms and conditions. Promoting third sector enterprises is, therefore, a way to enhance the quality of life of working people.

## Community Trading

### 14 Community trading initiatives

- i) provide public services;
- ii) create jobs.

Community trading initiatives provide a range of public services of undoubted social value. Many community trading initiatives receive no financial support from the public sector, so their activities are clearly additional to publicly provided services. Other activities of a voluntary service nature are wholly subsidised, so it might be argued that their activities merely substitute for direct state provision. In practice, the overhead costs and employment costs of voluntary organisations are often lower than equivalent state organisations and, as a consequence, more public services can be provided within the same budget.

15 The quality of services provided by community trading organisations may be significantly better than could be provided by equivalent public sector organisations. Voluntary organisations have often been pioneers in the field of social provision, innovative and imaginative in the schemes they have developed. In part this stems from the fact that they are frequently more closely in touch with local communities than many public sector organisations. It is also the case, however, that community organisations are often ill-managed and ineffective and it would clearly be unrealistic for a number of public services to be provided by community trading initiatives.

16 Control of local services by community organisations can also contribute towards the achievement of community development objectives. Experience of running community trading activity can build the self confidence of community members and contribute to developing the capacity of the community to respond to problems it perceives.

17 Large numbers of people are employed in community trading initiatives. The ability of such initiatives to create jobs in the future will depend on the level of resources available from the public sector. To an extent, the further exploitation of non public sector sources of funds — principally trading income — could allow community trading initiatives to expand employment. However, the scope for developing these sources of funds is limited, so the potential for new employment creation without an injection of state funds will be limited.

18 A policy of public jobs creation through support for community trading activities has much to recommend it. The House of Lords Select Committee on Unemployment (1982) argued the case for an employment led reflation involving the creation of additional public sector service jobs or support for community and voluntary sector activity. The jobs created would be largely unskilled and could be taken up by the unemployed. Services would be improved and people brought back into employment. The cost to the Exchequer would be little, if account is taken of the cost of an unemployed person. Clearly, an employment led reflation and an investment led reflation are to a degree inter-related. Many public services could only be expanded if some additional public investment were provided. Similarly, forms of public investment differ in the extent to which they would create jobs for the unemployed. The essential point made by the House of Lords Select Committee, however, was that employment-rich forms of reflation were preferable to capital intensive forms of reflation if the primary purpose of that reflation was to create jobs.

19 The voluntary sector could play an important part in employment led reflation. Because community trading initiatives can secure cost advantages, more jobs could be created per pound of public expenditure than in direct public services provision. Moreover, the voluntary sector would be a willing recipient of grant aid to enable it to expand employment and provide additional services of both a voluntary service and community trading nature. The House of Lords Committee suggested that 100,000 jobs could be created by the voluntary sector if its proposal for employment grants, designed to pay employment costs of an unemployed person for three years, was introduced.

## CHAPTER 10. Resources for the development of Third Sector Enterprises and community trading initiatives

1 This chapter examines the ways in which third sector enterprises and community trading initiatives can be fostered and promoted. Third sector enterprises will benefit from the adoption of recommendations made for all microfirms. There are, in addition, distinct needs which reflect the origin in collective rather than individual effort. If, furthermore, third sector enterprises are to be promoted as part of public policy and additional resources made available for this purpose, then those resources should be used to tackle the weaknesses of such organisations.

### **Premises**

The requirements of third sector enterprises for premises are no different from those of other microfirms. The recommendations made in Chapter 3 are likely to be as much benefit to third sector enterprises as they are to other microfirms. There may, however, be particular advantages for third sector enterprises in seeking to group together. By so doing they may be able to share costs. More important is that co-operatives share a common philosophy which distinguishes them from private businesses. There are benefits to be gained for co-operatives from close association with similar types of business ventures in terms of moral support.

### **Production Development Assistance**

2 Many third sector enterprises aspire to engage in socially useful production. Many products would be of undoubted benefit to needy groups in society such as the disabled, or would improve the quality of life, for example, methods of pollution control. The potential profits to be generated from production may not, however, be large enough to convince private business that it is worthwhile incurring the substantial research and development costs that may be necessary to develop an idea to a point where it is ready for production. Ideally, in such circumstances where there is a clear distinction between the public and private benefits of R and D, the public sector ought to be prepared to fund the R and D costs. This is the rationale behind the establishment of the Centre for the Development of Alternative Products at Lanchester Polytechnic, and the Technology Networks funded by the Greater London Enterprise Board. An alternative to the direct provision of facilities for R and D into socially useful products is to provide direct financial aid to business for R and D purposes. This has, on occasion, been done. The Bitteswell Employment Alliance, for example, has received grant aid from the West Midlands County Council for product development work.

### **Finance**

3 The problems of third sector enterprises in raising finance results from discrimination in the commercial market for finance and, in part, from the tendency of third sector enterprises to produce for need rather than profit. Chapter 8 suggested that third sector enterprises were particularly likely to respond to incentives to stimulate activity in certain areas or to create jobs for certain types of people, or to provide certain types of services that would not otherwise occur or be provided through the market system. In some areas (for example, the Highlands and Islands) it may be appropriate to devise a structure of financial incentives to stimulate activity that concentrates solely and exclusively on third sector enterprise, merely because the private sector will not respond to additional incentives. In most areas, however, the public purpose can be achieved by providing incentives generally accessible to all types of small business. Given the generally greater willingness of

third sector enterprise to pursue a public objective, they are likely to receive more than their pro rata share of public aid. The public sector, however, is not discriminating in favour of third sector enterprises by so doing, it is merely discriminating in favour of those enterprises that pursue the public purpose.

4 In many areas it will thus be appropriate to treat applications from third sector enterprises for public assistance on broadly similar criteria to those adopted for assessing proposals from private businesses. Where it is felt appropriate to give special assistance to third sector enterprises, either reflecting the desire to promote social ownership or the particular appropriateness of third sector enterprises to tackling a particular social problem, it is helpful to devise a system of funding which overcomes the inherent weaknesses of third sector enterprises. A structure of support should be incremental — the full package of assistance only being available when third sector enterprises are tackling the most severe social problems — and might be centred on the following specific needs:

- i) Finance for feasibility studies: This is rarely available at present and is essential if the number of prospective third sector enterprises is to be raised. Money must be offered in the form of grants rather than loans, since the study may demonstrate that a particular enterprise is not feasible.
- ii) Loan facilities: Low interest loans might be justified either on the grounds of the desirability of promoting social ownership, or in those circumstances where an activity that would be of clear public benefit is so marginal that high interest charges might cripple the business at the outset. Public sector guarantees for commercial loans are an alternative to direct public provision.
- iii) 'Equity' grants: A programme of support for third sector enterprises could seek to compensate third sector enterprises for the absence of an equity base by direct public sector provision. This may, in some cases, be achieved by encouraging the 'stakeholders' — be they consumers, workers, the community or 'sponsor' organisations — to maximise their contribution to the 'equity' base of the business by a matching arrangement. The HIDB make establishment grants available to community co-operatives on the basis of £1 of grant for every £1 raised locally by the sale of shares.
- iv) Management grants: Direct public assistance might be available to enable third sector enterprises to defray the costs of employing a full-time manager. Management grants are a feature of HIDB community co-operative programmes. Similarly, Food from Britain (which incorporates the activities of the Central Council for Agricultural and Horticultural Co-operation) also provides grants to defray the costs of employing management in the establishment phase of new agricultural co-operatives.
- v) Special grants: The type of activities undertaken by third sector enterprises are frequently those that have not been undertaken by the private sector because they do not provide a sufficiently good return. As a consequence it may often be that an enterprise that would provide a valuable service or be of critical importance to the local economy can only be established if it receives a substantial capital injection at the outset. In the Highlands and Islands of Scotland, for example, the cost of laying on basic infrastructure may mean that a business would be unable to establish operations in a remote community badly in need of jobs. The concept of Urban Development Grants (for England) and LEG-UP grants (in Scotland) is similar.
- vi) Labour subsidies: The Community Business Venture Unit 1981 Report recommended that employment subsidies be paid to third sector enterprises, as part of the Community Enterprise Programme which has now been replaced by the Community Programme. We suggest that a policy of employment subsidies could be linked to enterprise development, but that there is no powerful argument to confining such subsidies to third sector enterprises. Third sector enterprises are

not unique in their ability to create new jobs, and subsidies to private enterprise (and including third sector enterprises) are likely to be as effective at creating new jobs as subsidies limited solely to a particular type of business — community business.

## **Advice and Training**

5 Third sector enterprises have a number of distinctive requirements with regard to training and advice:

**Animation:** Co-operatives have rarely been established entirely spontaneously. Key members have had contact with other similar enterprises or come into contact with someone with specialist expertise. Frequently, third sector enterprises have only been established following active promotion from a government or independent agency committed to fostering their development. This is evident in the Highlands and Islands but it has also been noted that the development of workers co-operatives has been positively associated with Local Co-operative Development Agencies. Moreover, most successful co-operative systems are those associated with powerful central support organisations that can provide individual co-operatives with expert management assistance as required.

6 The advice needs of co-operatives are often distinct from those of small businesses. The legislation governing co-operatives is different from that governing ordinary small firms. More significant is the fact that the philosophy motivating co-operatives is distinct from that of small firms. Democratic control has implications for the way in which decisions are taken and for working practices. Co-operatives tend to be established by people with little previous experience of managing business. Specialist advice, assistance and training is often required to assist third sector enterprises achieve their potential as social as well as commercial organisations.

7 Organisations in the welfare tradition are more likely to have access to management advice and will be more readily able to secure assistance from 'conventional' sources of business advice. Even their need for 'animation' is distinct since they emerge from a different section of a local community to the 'grass roots' or co-operative organisations.

## **Support for Co-operative Development**

8 The principal focus for meeting the support needs of co-operatives should be the establishment of Local Co-operative Development Agencies. Around forty of these agencies exist with paid staff, mostly local authority funded, in which a large number of voluntary Co-operative Development Groups have been set up. The origins of local CDAs vary, with existing co-operatives, the consumer co-operative movement, voluntary organisations, trades unions and local authorities all involved.

### *ISLINGTON CO-OPERATIVE DEVELOPMENT AGENCY*

*Islington CDA was established in 1981 with funding from Islington Borough Council and the Home Office funded Community Projects Foundation. It was established by the Islington Co-operative Development Group which was made up of representatives of the fourteen worker co-operatives in existence prior to the establishment of the Agency, the London Co-operative Society, Islington Voluntary Action Council, the Borough Council and the Co-op Party.*

*ICDA's principal role is to provide an advisory and development service. It helps co-operatives with initial feasibility studies, registration, financial management and in securing premises and finance. As well as helping new co-operatives, ICDA provides advice when necessary to the established worker co-operatives in the Borough.*

*The Agency has three full-time staff and an administrator. It can make small grants for initial feasibility studies, and has secured a £15,000 ethnic minorities business grant and £3,000 to buy office equipment which it leases to co-operatives on a non-profit making basis.*

9 Local CDAs concentrate largely on the development of workers co-operatives, since virtually all are based in urban areas and, as previously noted, worker co-operatives are the most significant source of growth in the co-operative movement. There is no reason, however, why they should not assist the development of other forms of co-operative enterprise in the locality, especially neighbourhood co-operatives or the Beechwood style (see p86) community co-operatives. In most areas local CDAs are the most appropriate agencies to assist the development of 'community businesses' of the sort that are being established in central Scotland.

10 CDAs should provide an integrated development service to co-operatives in the locality. Their functions extend beyond advice and training to co-operatives to take in premises. Hackney Co-operative Development, for example, has improved a street of small shops to house a number of worker co-operatives. Linking finance to the provision of training and advice may be achieved through a variety of mechanisms. A local CDA may have its own loan funds. Nottinghamshire CDA, for example, has a revolving loan fund of £200,000. In the West Midlands, the County Council has arranged for the Industrial Common Ownership Finance (ICOF) to administer a local loan fund. The Greater London Enterprise Board is establishing a special Co-operative Enterprise Board to lend to London co-operatives. The Scottish Co-operative Development Committee (SCDC) acts as brokers between co-operatives and financial institutions. As the number of co-operatives in a locality increases, local Co-operative Development Agencies may be able to establish common services, such as Financial Services or Common Marketing facilities, along the lines developed by SCDC.

11 In Scotland, where the concept of community business has been developed, two specialist support units have been established — one in the Strathclyde region and one in the Central region. The intensive promotion given to community business in Scotland through Community Business Central is only one possible approach and similar support in England may be achieved through local CDAs. In the north of Scotland the HIDB is encouraging the twenty community co-operatives to establish their own support structure.

#### *COMMUNITY BUSINESS CENTRAL*

*The proposal for establishing a community business support unit in the Central region was made by Community Business Scotland, a federation of all community business groups north of the border. The idea was put forward for Urban Aid funding and the proposal was approved by the Central Regional Council and the Scottish Office.*

*The Unit has one development officer and an administrator. The function of the Unit is to promote the concept of community business, to assist its development, and to organise training. The Unit has a small fund from which it can give grants for feasibility and market research studies.*

*The Unit is managed by a committee made up of representatives of community businesses in the area, the Central Regional Council, the SDA, Community Business Scotland and the Trade Union movement.*

12 Local autonomous intermediary organisations have a number of advantages. It is easier for an independent agency to create the contact and rapport with potential co-operators or others involved in small scale enterprise than it is for local authority staff. An independent agency allows a variety of organisations to work together in collaborative fashion, including representatives of the co-operative movement itself. The autonomy of agencies may reduce conflicts of objectives and allow more rapid decision-making than direct provision of development support by local authorities. It may also allow staff the

freedom to take a pro-active approach, seeking out new opportunities and ideas and stimulating activity, rather than waiting for people with ideas and initiative to come forward of their own accord. In the long run it is hoped that these agencies will become truly autonomous, controlled and financed by the co-operatives they assist.

13 This said, the HIDB has promoted the entire community co-operative scheme using its own staff. They have appointed field officers to discuss the formation of co-operatives in local communities and to assist people to develop plans; and they can offer access to their own specialist business advisers. However, the HIDB is particularly well resourced and was able to provide a complete package for co-operative development. Local authorities are rarely in this position. Nor were there any existing co-operative organisations in the area that HIDB could involve in the promotional aspects of its work. Now that a number of co-operatives have developed, it is encouraging the establishment of an intermediary group.

14 In areas where it is not practical to establish a local Agency with its own full-time staff, a forum of interested parties to act as a focus for development of local co-operative activity may be established. This can be supported with minimal staff resources through voluntary organisations, local enterprise agencies or local authorities. Without some form of local promotional body, however, co-operative development is likely to be slow.

## **Enterprises from the Welfare Tradition and Community Trading**

15 Existing procedures for supporting welfare organisations mostly depend on a process of budget submission and approval undertaken on a year to year basis. Provision normally exists for the representation of funding agencies on the management committees of 'welfare' type organisations. This can be used to ensure good management and to plan the development of the organisation. Thus, local authorities and other public agencies are taking responsibility for providing liaison and back-up facilities to those organisations they fund. This form of development support takes the form of local authority community development; or community education staff being involved in developing the management capacities of local organisations and suggesting ways in which small scale trading activities can be developed; and in provision for more formal training in management skills of those involved in community trading activities, so that the income generated through trading can be maximised.

16 An effective way to promote community trading activity is to develop resource packages. The National Council for Voluntary Organisations and the Community Projects Foundation provide advice to welfare organisations seeking to develop MSC schemes. More recently, the Neighbourhood Energy Action Programme has demonstrated the potential for networking with regard to a local homes insulation project and has established a large number of similar projects in different areas of the UK. There seems clear potential for other activities that could be undertaken by welfare or community trading organisations to be presented as a 'package', with a simple concept and guidelines on how to set up the business, which could lead to the establishment of a network of local projects. Central resource units can provide consultancy services to assist the establishment of new initiatives and assist in negotiating finance from major charities and firms or central government organisations. This approach might be adopted, for instance, for promoting a further extension of Goodwill projects in other parts of the country.

## **Resources for Third Sector Enterprise Development**

17 Third sector enterprises pursue social as well as commercial objectives. They can do so more successfully if they can secure 'social financing', either grant aid from a variety of sources or loans at below commercial rates of interest. There are a number of ways in which 'social finance' can be raised and encouragement be given to the development of non-commercial projects.

18 Where co-operatives have a mass membership, as in the Highland and Island Community Co-operatives and the Galliagh Co-operative Society, substantial sums can be



raised from local communities to finance the establishment of new enterprises. Encouragement should be given to initiatives to raise finance from the local community as this provides evidence of community support for a venture and commitment to its success. Encouragement can be given to third sector enterprises to raise their own finance by matching grants of the type offered by the HIDB.

19 There is scope for drawing on the resources of well wishing individuals, charities and the resources of industry to assist the development of third sector enterprises. An interesting example of a financial institution that operates with a social purpose is the Mercury Provident Society.

#### *MERCURY PROVIDENT SOCIETY*

*Mercury Provident is a licensed deposit taking institution under the 1979 Banking Act. It seeks to give depositors some say in determining to what type of project — or even individual venture — their money is lent. This it does by circulating to its depositors lists of Investment Opportunities which describe the projects Mercury has vetted and agreed to fund. Mercury Provident is committed to direct the deposits made to the use the depositor requests, if that is possible. By creating this conscious link between the person who is saving money and the use to which the financial institution puts that money, Mercury Provident finds that people are willing to accept less than commercial rates of interest. The rate of interest paid on deposits is subject to a maximum but otherwise depositors decide the level of interest they want. If depositors accept a low rate of interest on their deposits, Mercury can on-lend to the project the depositor has indicated his desire to support at a less than commercial rate of interest.*

*The inspiration for Mercury Provident comes from Rudolph Steiner and Mercury Provident has lent money mostly to projects that incorporate his social philosophies. Mercury Provident has, however, had occasion to lend to worker co-operatives and other projects concerned with employment. Mercury, as a lending institution, needs to be certain that the projects it lends to can meet their repayment and interest charges. But it also examines the underlying motivations of the individuals involved in any project, the community or social support that project has, and whether the organisational structure reflects social motivations. Mercury Provident points the way ahead for many private 'social' lending institutions based on different communities of interest.*

In other countries, community savings banks and credit unions have played a valuable role in channelling the savings of a local community into local businesses. Many charitable trusts, for example the Gulbenkian Foundation, have supported individual initiatives. So, too, has industry. An interesting example of how one major company offers assistance is Levi-Strauss. Such support is often piecemeal and ill co-ordinated. A local initiative must approach each firm and each charity individually. In the USA this problem has been overcome by the establishment of the Local Initiative Support Corporation. There is scope for such an initiative in the UK, either at a national level or at local level.

#### *LEVI-STRAUSS COMMUNITY INVOLVEMENT*

*Levi-Strauss is the world's largest clothing manufacturer and has seven sites in the UK. Like many other major companies, Levi-Strauss has an associated foundation that owns a large number of Levi-Strauss shares. The company has a commitment to provide the Foundation with a least 1.5% of yearly profits to support its activities.*

*These funds are disbursed through two channels. At each of their factories, Levi encourages workers and management to form community involvement teams. These teams support any local community projects they think worthwhile. The Foundation is prepared to match every pound raised by the CIT with four of its own funds. The grants made are used to support charitable activities, thus*

*enabling organisations to continue or develop community services or initiate new projects. The type of projects supported through the CITs include education and arts projects, environment and work improvement schemes, and support for voluntary organisations involved in the provision of caring services.*

*Levi-Strauss also operates a Special Emphasis Grants Programme that assists projects tackling problems in a new or innovative way. These grants are used in the UK to support community-based training and employment initiatives, especially those likely to create permanent jobs in worthwhile activities which are capable of becoming self-financing, and to provide technical back-up for projects. The company seeks to ensure that its grants are used to lever other public and private money into a scheme. Grants can range from £3,000 to £15,000. Smaller grants can be made for feasibility studies.*

*Schemes supported include a training workshop in electronics and computing, now an ITEC; a community nursery in Dundee; a local Enterprise Trust that will assist young black people to establish their own business; and a survey into the establishment of a community owned employment agency in Motherwell to be run by Forgewood Enterprises Ltd. (see Strathclyde case study).*

20 Support by local authorities for third sector enterprises may come in part from programmes to support voluntary organisations and in part from those aimed at conventional business development. Authorities have the powers to provide grant aid or loans to enterprises, and in certain cases it may be appropriate for third sector enterprises to receive funding from local authorities for particular projects that fall outside conventional criteria. It is important that local authorities operate flexibly and that they seek to 'lever' finance from private, community and social sources, as appropriate, to assist the development of third sector enterprises. The Urban Programme has been a major source of funds for many community trading initiatives. They have been used to fund both intermediary organisations and third sector enterprises. A particular problem in the use of Urban Programme funds to support individual initiatives is the delay between submission of project applications and final approval. In many areas this process takes more than a year. Another problem is the 'all or nothing' nature of Urban Programme funding. If a project is approved, it can receive full revenue funding for four years — and then, suddenly, at the end of the fourth year revenue support is completely lost. The lack of a phase-out period in which revenue could be built up militates against using Urban Programme funds for directly supporting enterprises. It is also the case that Urban Programme applications do not demand the sort of information that would be needed to determine whether a particular enterprise could realistically become financially self-sufficient after the cessation of government funding. The most appropriate solution to these problems would be for local authorities to negotiate block funds which could be put at the disposal of intermediary agencies, and could be distributed in grant or loan form. Ideally it ought to be possible for some funds to be 'carried over' from one financial year to the next.

21 The role of central government in financing third sector enterprise development is likely to be limited. Its principal role must be to ensure that local authorities and development agencies have sufficient funds and power to assist third sector enterprises as appropriate. Suggestions have been made in the past by various commentators that MSC funds could be used for enterprise development purposes (Community Business Ventures Unit 1981, NCVO 1984). This is now thought to be unrealistic. However, mechanisms to encourage the use of MSC Community Programme schemes as a 'springboard' for people to establish their own enterprises ought to be developed, while not substantially changing the 'community benefit' guidelines upon which the MSC operates. Additional resources for consultancy to enable MSC funded groups to commission feasibility studies would be of value. So, too, would funds to enable participants in the Community Programme to attend training courses in small business management. Participants working to become self-employed at the end of an MSC funded project might be given preferential treatment in their application to buy out any of the assets of the project. None of these suggestions would change the fundamental nature of the Community Programme but would represent ways in which the institutional barriers to people becoming self employed or establishing third sector enterprises could be minimised.

## **Summary**

22 There is a clear need to establish local intermediary organisations to promote third sector enterprises. Such organisations ought to provide a focus for activity in any locality and provide advice and management support, training, and premises and finance. The resources to finance these intermediaries and individual initiatives can come from a variety of sources, but the principal costs may be borne by government. Local government more appropriately funds activities of a local nature, but needs the resources and powers to do so from central government.

# APPENDIX

## STRATHCLYDE

### The Agencies Involved in Economic Development

1 The principal government body with responsibility for the development of the Scottish economy is the Scottish Development Agency, established by the 1975 Industry Act. The functions of the SDA are to 'provide, maintain, or safeguard productive employment in Scotland and to improve the environment'. Unlike the HIDB, the SDA has no social development functions. The Agency is involved in a variety of economic development initiatives to assist small firms. It constructs small industrial units and has also developed managed workspace projects providing workspace on easy in — easy out terms. The SDA Small Business Division provides counselling and information services and supports Local Enterprise Agencies by providing local advice services. They offer finance for small firms, in general at standard commercial rates of interest. They can provide loans and can also take equity in firms, although keen to secure private sector involvement with any particular scheme.

2 Strathclyde Regional Council employs a number of business development officers to provide a counselling service to small firms. They also provide managed workshops, small premises, make small loans of up to £10,000, and in 1982 launched the Employment Subsidy Scheme, financed with 50% EEC Social Fund assistance. The SRC will pay a business 30% of the employment costs of a new employee for six months.

3 The District Councils in Strathclyde have played a limited role in economic development, Glasgow District Council, the exception, having its own business development staff and offering grant and loan assistance to local firms. Like all other public authorities, it is active in providing premises for small firms.

4 The Manpower Services Commission operates the Enterprise Allowance Scheme in the Region, in addition to its Training and Temporary Employment measures.

### Co-operative Development

5 Eight years ago there was only one co-operative in Scotland, now there are around fifty. Most of these are located in Central Scotland (the majority in Strathclyde) and are new businesses in the service sector. In addition, a number of co-operatives have been established following company closures, for instance the Inchinnan Engineering Company.

6 Intensive support is available from the Scottish Co-operatives Development Committee (SCDC) which undertakes promotional and development work with worker co-operatives throughout Scotland. Core costs are funded by a consultancy agreement with the SDA, with further funding from SRC and GDC. SCDC has been developing the range of services and support that it can offer: these now include advisory and development, financial services, and the 'Sales Division'. The Financial Services Unit provides computer facilities to co-operatives for book-keeping and management accounting, which will make it self financing in the future. The Sales Division is a common marketing scheme for all worker co-operatives in Scotland, and charges a commission on sales. SCDC does not itself have finance that it can dispense to co-operatives, but its recommendations are normally sufficient for a particular co-operative to secure loans from the SDA or local authorities. SCDC also have good relations with local bankers. SCDC is not involved in providing premises for co-ops, since other agencies are doing so adequately. Nor does SCDC involve itself directly in organising training, preferring to make use of existing training resources and bringing in external organisations to tackle specific training needs as required. An interesting aspect of SCDC's work is its encouragement to its own development staff to take on an entrepreneurial role in the early stages of a co-operative business. The Clydeside

Co-operative Development Project has directly initiated a small number of co-operatives, rather than merely responding to requests for assistance.

7 SCDC gives co-operatives in Strathclyde the most comprehensive support available from any local Co-operative Development Agency. There are no obvious ways in which the service could be improved. Further development of services must await the development of more co-operatives. The fact that very few co-operatives in Scotland have ceased trading owes a great deal to SCDC's ability and willingness to monitor progress in individual co-operatives and has been vital in building up the credibility of the organisation.

## **Community Business Development**

8 The term 'community business' is in widespread use in the Strathclyde region, a sense of common identity largely due to the Local Enterprise Advisory Project (LEAP). LEAP was established in 1978 with Urban Aid Funding and sponsorship from the SRC. Its remit was to work with community groups in areas of high unemployment to establish schemes that would create jobs for local people. The concept of community business was evolved by LEAP, and most community businesses in the region have had contact or support with LEAP staff.

9 Twenty-five 'community businesses' now exist in Strathclyde. In 1982 a federation of all these initiatives was formed called Community Business Scotland. CBS defines a community business as:

“a trading organisation which is owned and controlled by the local community and which aims to create ultimately self-supporting and viable jobs for local people in its area of benefit, and to use any profits made from its business activities either to create more employment, or to provide local services, or to support local charitable work. A community business is likely to be a multi-purpose enterprise and may be based on a geographical community or on a community of interest. It will have limited liability and in some cases will acquire charitable status.”

The schemes affiliated to CBS are extremely diverse and do not always conform to the definition adopted by CBS. The main characteristics of organisations may be described as follows:

'A Trading Organisation'. The extent to which existing initiatives are currently engaged in trading varies considerably. Some initiatives are involved in community service activities and seem content to remain involved in this activity. Others are involved in running or developing projects that will trade on a fairly substantial basis. Some are barely involved in trading at all, either because they are at an early stage in their development, or because they have found it difficult to raise finance.

'Ownership by the Local Community'. All but one 'community business' (Goodwill Inc.) in Strathclyde can be identified with a particular locality, with a commitment to employ individuals from the neighbourhood and to recycle profits within the area. However, in most initiatives, membership is small compared to the population of the area they seek to serve. Few initiatives have more than twenty members. The extent to which these initiatives are controlled by local residents also varies. Many initiatives would not have been established without the support and guidance of professional people working in the area the community business is intended to serve. In some cases, there is a strong 'flavour' of local control, in others the control seems to rest with largely professional interests, if only informally rather than formally. Some, like Provenhall Holdings and Govan Workspace, are intended to operate for the benefit of very substantial areas containing a population of tens of thousands. Others, for example Forgewood Enterprises and Ferguslie Park, operate in smaller identifiable neighbourhoods, being based on housing estates.

'Creation of Ultimately Self Supporting Jobs'. Goodwill is the only community business which is not dependent on grant aid from either Urban Programme or MSC. Some initiatives are firmly fixed on developing commercial activity; others are likely to become self sufficient in terms of covering their direct costs. Many of the activities currently engaged in by community businesses do not, however, provide the basis of a viable enterprise. Their activities have a strong social purpose, for example, home insulation for the elderly.

'Application of Profits'. All community businesses in Strathclyde are committed to re-investing profits to further the objectives of the organisation — normally job creation or the provision of service within the area of benefit. However, since no community business is yet generating profits, the clauses in the companies' constitutions merely reflect the ethos of community business, that they should operate for community benefit. This is further emphasised by the ability of many initiatives to secure charitable status.

10 The activities of community businesses fall into four categories:

- i) The provision of welfare and other services, under contract to the local authority. These may be wholly or partly subsidised.
- ii) The sponsorship of temporary employment creation programmes.
- iii) Acting as a localised business development agency.
- iv) The development of viable self-sustaining enterprises.

Different criteria have been used to evaluate the performance of community businesses in undertaking these different tasks.

11 The provision of welfare services: Here, the prime consideration is the cost effectiveness of a community business in providing a particular service and the quality of that service. Community organisations have been involved in these sorts of activities for many years. Frequently they can provide a more sensitive service, better attuned to local needs than local authorities. By encouraging local control over local service provision, community development objectives may be met. It is also possible that in some cases the ability of community organisations to secure non-public funding and to tap community goodwill and voluntary effort may allow a better service to be provided, at a lower cost than an equivalent local authority service.

12 There is considerable debate concerning the type of public service that could be de-centralised and performed by community organisations. For example, many building maintenance tasks on council owned estates could be de-centralised to neighbourhood repair teams run by community organisations. This, however, might conflict with a desire to keep local authority Direct Labour Organisations intact.

13 Temporary employment creation: Community businesses in Strathclyde have been major sponsors of Temporary Employment projects under all of the MSC's schemes. Poldrait Services and Industry Limited is a managing agent for the community programme. In the process, community businesses have provided services to local communities, for example by improving the local environment. They have also used MSC schemes to gain experience of managing employees and relatively large sums of money.

14 MSC schemes may be used on occasion to assist the establishment of enterprises — for example, building teams can be engaged in workspace conversion schemes; staff can be given training in basic skills; and (in a limited way) markets can be explored using the labour and equipment made available by sponsorship of MSC schemes.

15 Local Development Agencies: A significant number of community businesses in Strathclyde are acting more as local development agencies than as manufacturing or service

businesses in their own right. The principal activity of such schemes is to provide workspace and advice for small businesses. Govan Workspace is the most substantial; Provenhall Holdings and Garnock Workspace are smaller initiatives. Arden Community Workshop provides a less formal environment for local people to pursue interests that might lead them to establish businesses.

16 Some initiatives have been able to expand their role. Provenhall Holdings secured grant aid to give small loans to people establishing small retail businesses in the premises it converted in Easterhouse. It also applied for Urban Programme Funding to establish a small local investment fund. Govan Enterprise (a sister company of Govan Workspace) has established a printing firm jointly with an unemployed printer, where Govan Enterprise provides management back-up and the printer his technical skills.

17 Viable enterprise: The capacity of the majority of community businesses in Strathclyde to become wholly self-financing at the end of five years is doubtful. The current commercial activities of community businesses are limited in scope. Goodwill and Flagstone Enterprises operate fairly substantial commercial activities and this may enable them to become wholly self sufficient — as indeed Goodwill has done. However, there are a number of home producer groups and a range of small scale service activities run by community business groups. These activities are capable of self sufficiency in the sense that they can cover direct costs, wages, charges for premises. It seems doubtful, however, that the whole community business could become viable in its own right, since these sorts of activities would have to contribute to management overheads that often amount to over £15,000 p.a. for a full-time development manager, administrative assistance and overheads. A large number of these small scale initiatives would need to be developed if management overheads were to be met.

18 Many community businesses explain their inability to develop commercially as a consequence of difficulties in raising finance, especially working capital (Planning Exchange, 1983). Community businesses in Strathclyde have, almost without exception, been reliant on public funding. This raises the inevitable question of why the public sector should fund commercial activity being developed by community businesses. One clear answer is that community businesses, because of their novel form, are unlikely to attract conventional finance even if they put forward schemes that, on paper, are as viable as those put forward by private businesses. This argument is recognised for worker co-operatives and the public sector is often involved in providing loan funds for worker co-ops. It may be argued that community businesses should be given special treatment for they aim to create jobs for those disadvantaged in the labour market and in areas of need. However, the Strathclyde Employment Subsidy Scheme shows that private firms may be induced to create jobs for disadvantaged people. It might also be argued that community businesses provide services required by local communities. However, if it is viable to provide a particular service, it could be provided by a private firm. If it is not and a subsidy is required, a similar subsidy would induce a private business to provide that service. Finally, it has been argued that community businesses deserve support because they bring enterprises into social ownership. This is valid but it is unclear why community business should be given greater support than worker co-operatives. Where, then, community businesses are seeking to develop commercial activities — those in which viability is the primary object — there is little justification in giving special support to them since their social objectives can only be achieved at a cost to their prospects of viability. There is little validity in limiting subsidies solely to one form of enterprise.

19 It is, furthermore, only valid to subsidise activity when it is additional to the local economy. This is a feature of the HIDB community co-operative scheme. However, in the case of Strathclyde, it might well exclude many of the small scale service activities currently being developed by community businesses. Where they are in competition with existing local business people, arbitrary subsidy should be avoided.

20 Community businesses in Strathclyde have, in general, been established by groups of local people concerned with unemployment in a particular locality. A common starting point has been the possibility of supplying services to the local community. Many of these activities are likely to be commercially marginal; however, those that have the strongest

identification with a particular community are those where 'local need' objectives are strongest. It is not perhaps surprising that Goodwill, the only community business without a clear link with any small geographic community, has been the first to achieve viability.

21 The choice of activity also reflects the abilities and experiences of those involved in establishing the initiative. Relatively few people have the experience to identify markets, establish and manage a business. Organisations with strong resident participation may, therefore, deliberately choose to establish relatively unambitious projects so that they can gain the experience needed to embark on more substantial projects. An alternative is to employ a professional manager, although it has proved difficult to attract entrepreneurial managers to work for community businesses.

22 An alternative approach to identifying enterprises suitable for a community business is to encourage individuals to come forward with proposals. However, in such circumstances it may be more appropriate for the individual to develop his business ideas on his own, with the necessary support from the community business. Only in exceptional circumstances is the commitment of an employee of a community business to the successful establishment of a business likely to be the same as that of the self employed person or co-operator.

23 Unlike communities in the Highlands and Islands, communities in the urban areas of Strathclyde have not raised finance from the local community. The benefits of making a financial commitment are often too nebulous to attract individuals to invest their own money, given the scale of unemployment in urban communities. Nor does the sense of common identity and purpose found in rural communities exist in urban communities.

24 There would appear to be clear conflicts between the social objectives of community businesses and their commercial objectives. The desire to produce for local need, and to create jobs for local people, conflict with the desire to establish viable enterprises. There even seems to be a conflict between the desire to maximise community involvement and, thus, to maximise the beneficial community development impact of any initiative, and the desire to establish a viable enterprise. The existence of these conflicts means that it is important that the public sector is clear about which objectives it places the highest priority upon when it funds community business activity. If viability is stressed, many of the initiatives currently in existence could not be funded. However, if higher priority is placed upon the achievement of community development objectives, it may be worthwhile funding those same initiatives.

25 Community businesses have demonstrated their capacity to run social welfare activities, temporary job creation activities and local development agencies. The evidence that community businesses themselves can become entirely self-supporting is less convincing and there does not appear to be a convincing rationale for the public sector to discriminate in favour of community businesses that are developing commercial activity. This does not mean that community business is incapable of developing commercial activity. It may well be that in the future community businesses can become wholly self sufficient. But there must be a degree of caution about suggestions that community businesses — as currently conceived of in Strathclyde — are capable of becoming wholly self financing.

## **Local Authority Support for Community Business in Strathclyde**

26 The Strathclyde Regional Council has recently established a special support unit for community businesses in Strathclyde. The Unit is being set up as an independent company limited by guarantee. It is intended that a variety of organisations will contribute to the core costs of the Unit. The SRC will fund the majority of activity from its main programme. It is hoped that the District Councils and the SDA will also contribute to the running costs, and applications have been made to the European Social Fund and European Regional Development Fund for finance to match the UK public sector input. The Unit will have directors representing the funding bodies, community businesses, the MSC, unions and the business community. The Unit will take over and develop the work previously under-taken by LEAP, and some of the staff (including the Director) have moved to it.



27 The precise role and function of the Unit and mode of operation are still in the process of being determined (May 1984). It is understood, however, that the Unit will have a number of development staff who will assist community businesses in the early stages of their establishment and will be made up of people with both business and community development experience. There will be a training and education section which will continue the work LEAP performed in running training courses for management committee members, and will undertake the more general promotional functions that LEAP undertook. It is also intended that the Unit should have its own development fund and an allocation of SRC's Urban Programme funds. To assess proposals for finance from the Unit, a financial assessment team will also be appointed.

## **Conclusions**

Third sector enterprise has developed in Strathclyde to a degree uncommon in other areas. In SCDC, the region has one of the most sophisticated of co-operative development agencies. The success rate of co-operatives in the region demonstrates that co-operatives can compete effectively with other businesses, but also demonstrates the value of an agency independent of the local authority, or other public agency, dedicated solely to the development of worker co-operatives. The low failure rate amongst co-operatives in Scotland is vindication of the intensive support the SCDC provides.

28 Community business is a novel response to the problems of unemployment. Evidently its functions extend much wider than merely enterprise development and include the 'communitisation' of public services, and introducing a degree of sensitivity to the particular employment problems of small areas that would otherwise be absent from the programmes conceived and run by the MSC and local authorities, to create temporary employment or to promote business development. Much remains to be learnt about the dynamics of community businesses and, in particular, about their capacity to initiate enterprises themselves.

## **REFERENCE**

Planning Exchange. 'Community Businesses in Strathclyde', 1983.

## ORKNEY ISLANDS

1 The Orkney Islands, along with much of Highland Scotland, Northern England and Mid-Wales, have experienced problems of declining opportunities for employment in agriculture, forestry and fishing for many years. More recently, along with Shetland, they have benefited from the development of North Sea Oil, which in the past decade has reversed a century or more of de-population. Between 1971 and 1981, the population actually increased from 17,050 to 18,425. However, oil production has reached a peak and is likely to decline in future years, unless new fields are discovered and developed. The industry will not create any more jobs and will ultimately disappear. There is an urgent need, therefore, to find new ways of creating jobs. Moreover, the rise in population for the Island group as a whole masks the fact that the population of all of the smaller islands continues to decline. The population growth has been entirely centred on Mainland Orkney, the two islands connected to the Mainland by causeway (South Ronaldsay and Burray), and the parish of Flotta and Walls on which the oil terminal is based. The problem of servicing and sustaining island life still remains pressing.

2 The Orkneys also experience problems unlike any faced by communities on mainland Britain. Everything that goes in or out of the islands must come by sea or air. While Mainland Orkney is well served by a modern roll-on roll-off ferry, and by regular air services, the cost of maintaining these vital services is high. Even with substantial government subsidy, ferry freight charges and the subsequent cost of transport from the far North of Scotland place a severe handicap on the ability of businesses in the Orkneys to compete in national and even regional markets. As a consequence there are limited options for the economic development of the islands as a whole.

3 For the smaller islands the problem is even more acute. New roll-on roll-off ferry facilities have been installed to service the South Islands (Hoy, Walls, Flotta) and are proposed for Rousay and Shapinsay, while the North Isles (Stronsay, Eday, Sanday, Westray, Papa Westray and North Ronaldsay) will remain dependent on traditional derrick hoist ferries. Once again the cost of these services places extreme limitations on the form that any business activity on the outer islands can take. Inevitably the price and quality of ferry services, and the inter-islands air service, dominate many discussions in a way that, even in the remotest corners of mainland Britain, discussions about public transport do not. Since the island communities are dependent on the sea and air services, there is endless scope for discussion about the appropriate level of subsidy, the frequency of services and the setting of freight and passenger charges.

4 The common identity and independence of Orcadians is also an important factor in determining the potential for local economic development. Prior to the 15th century, the Earls of Orkney owed their allegiance to the King of Norway and not to Scotland. The traditions of the islands are Norse rather than Gaelic, which distinguish them from the Western Isles. This common sense of identity is reflected in the Islands' institutions. Orcadians objected strongly to the suggestion made by the Royal Commission on the Reform of Local Government that the Orkneys form part of the High Regional Council covering the entire North West of Scotland, the Western Isles, Orkney and Shetland. The islanders won their point and in 1974 the Orkney Island Council — one of the three single tier island authorities — was established. Besides the strong sense of identity amongst Orcadians as a whole, there are the small tightly knit communities of the individual islands.

### **The Orkney Economy**

The distribution of employment by industry in Orkney demonstrates the nature of the Islands' economic problems. Agriculture and fishing are particularly important. After many years of increasing farm output the future of the Common Agricultural Policy is causing local concern, and it would be unreasonable to expect any increase in agricultural employment. Employment in fishing is also likely to be fairly static, although the local white

fish fleet is increasing its size. The islands' major sources of employment cannot, therefore, be expected to generate many new jobs.

#### Employment by Industry:

Industry	Total	Male	Female
Agriculture and Fishing	1900	1590	310
Electricity and Water	190	190	-
Manufacturing	530	290	260
Construction	820	780	430
Distribution and Catering	1400	670	730
Transport and Communications	840	770	70
Other Services	1910	640	1270
	7400		

Source: 1981 Census

5 The second feature of the Orkney economy is the size of the service sector: services account for 67% of employment. Employment in this sector can only expand with an increase in exports of primary produce, manufactures, or the expansion of those services that bring outside income to the islands. Employment in construction, distribution and catering is organised in the very small firms that have been the focus of this study. These firms are dependent on local markets. Public utilities, principally the North Scotland Hydro Electric Board, the transport undertakings and the Orkney Island Council are unlikely to be major new employment generators in future.

6 The islands as a whole, however, need new jobs. Unemployment at December 1983 was 11.8%. While lower than the average for Scotland (14.9%), Orkney has been losing its relative advantage over Scotland as a whole. Not only are jobs needed for those currently unemployed, but if a return to the historic pattern of high unemployment and emigration is to be avoided, jobs will be needed to replace the eventual loss of jobs in the oil production industry and any decline in agricultural employment or in the public sector. Moreover, jobs are needed not only on Mainland Orkney but on the Outer Isles as well, if the stability and the age and sex balance of these communities are to be preserved.

### The Development Options

7 While Orkney needs either to reduce imports or increase export earnings, the development options are extremely limited. The Orkney Island Council and the Highlands and Islands Development Board recognise these facts and provide extensive assistance to any individual or company wishing to develop a project. The main elements of this strategy are as follows:

- i) To increase agricultural output and farm incomes. Agricultural produce is the islands' largest export and the income of the farming community is important for the whole of the service sector. Appropriately, a great deal of attention is focused on maintaining farm incomes and employment through encouraging farm development schemes.
- ii) To increase fishing catches. The Orkneys already have a fairly substantial fishing fleet. The fleet catches white fish but this is all landed in Aberdeen/Peterhead so there could be scope for local processing. There is also potential for developing fish farming techniques and attempts are being made to expand shellfish production.

- iii) To expand the food processing industries. The majority of Orkney's manufacturing employment is in food processing or distilling. A number of fish processing plants already exist, including a co-operatively owned factory on the island of Westray. The OIC and HIDB have recently participated in building a new abattoir in Kirkwall which they lease to a company in which they have a small shareholding but which is 51% owned by a major UK company. Other food and drink processing industries on the island include the manufacture of cheese, fudge, oatcakes — and whisky. There is potential for other food products to be developed from local produce, especially in high quality specialist products with a high value added.
- iv) To develop the tourist industry. Currently around 60,000 people visit the Islands each year, and there is considerable potential for expanding the industry by improving facilities and by creating a more widespread consumer awareness of the Orkneys. Orkney's natural advantages include its 'island feel', its scenery and wildlife, freshwater and offshore fishing, its archeological remains, and its marine life and sunken ships which make the area especially good for sub-aqua diving. It offers special hospitality to visitors. The potential exists, therefore, to attract people with special interests or people to whom a general interest holiday on an island would appeal.
- v) Craft based industries. There are already many craft based firms on the islands. Some are major employers. Two jewellery firms developed by local people employ around 40 people. There are also three firms producing knitwear on a fairly large scale. There are many self-employed craftsmen. Craft-based industries can take advantage of the tourist market and are not as severely handicapped by a remote location as other firms. Their materials, although they may need to be imported, are light in weight and of limited quantities, while their products have a high value added. Many firms use the parcel post service of the Post Office, since it operates a standard pricing policy within the UK. Craftsmen are also likely to place a high emphasis on the quality of life and their environment, and are prepared to accept a comparatively low income in return for living on the islands.
- vi) Other potential. The OIC are also hopeful that new oil related development can be attracted. There is some discussion that new technology will enable firms to be established in remote locations, and a specialist computer programming firm on Sanday — one of the remoter North Isles — was established a number of years ago, although it has subsequently ceased trading.

## **Development Assistance**

8 A comprehensive array of support is available from various agencies to help individuals or firms realise their development objectives:

- i) The Highlands and Islands Development Board. The HIDB offers probably the fullest range of business support services available from any government agency in the UK.
- ii) The Orkney Island Council. The OIC has funds from a royalty on oil brought ashore at the Flotta terminal which they use primarily to promote economic development. The OIC operates a variety of schemes in close conjunction with the HIDB, administered through an Industrial Development Officer and an economist. Support offered to assist development can take the form of loans, small grants or interest relief grants.
- iii) The Department of Agricultural and Fisheries for Scotland (DAFS) provides grants for capital investment on farms through the Agricultural and Horticultural Development Scheme and the Agricultural and Horticultural Grant Scheme. Assistance is also available to crofters.

- iv) The Manpower Services Commission. MSC operate their normal range of schemes in the islands, including a limited number of Enterprise Allowance Scheme places.

In view of the wide range of financial and business development support on the islands, it is unlikely that an individual or company wishing to develop a viable business project will be limited by a lack of finance, advice or premises. The critical question is whether sufficient proposals for viable projects are coming forward to exploit all the potential opportunities for development.

9 The evidence suggests that the Orcadians are responding to the opportunities for development and the financial incentives available. In 1983, the HIDB approved 147 applications for loan and grant finance in the Orkneys. This represented the highest level of approvals per capita anywhere in the HIDB region and suggests either a willingness on the part of Orcadians to pursue new developments, or priority attention by HIDB. Ninety of these approved cases were for farm developments.

## **Industrial Promotion**

10 The conventional way of attracting new industry is through press advertising and industrial exhibitions. In the case of Orkney, such a policy seems unlikely to pay dividends. There are now many fewer footloose firms prepared to move from their existing location than in the past. At the same time it must be accepted that Orkney is in competition with other areas that can offer similar incentives without the costs incurred due to Orkney's location. In effect, the only firms likely to be attracted to Orkney are those run by people who have some connection with the islands, for example, Orcadians in exile; those who have taken holidays on the islands; and those who have business connections there. In addition, there may be other firms involved in activities complementary to the existing industries on the islands which would be able to exploit the potential opportunities profitably. This implies a need for selective industrial promotion.

11 An effective means of promotion may, in these circumstances, be to promote the tourist trade. Businesspeople are most likely to visit Orkney on holiday; by visiting the islands they may be persuaded of the merits of relocating their business there, or starting a business on the islands. Such a strategy has the merit of costing very little, since promotion of tourism is already being pursued by the OIC.

12 Certain low cost measures could be taken to ensure that businesspeople on holiday are stimulated to think about Orkney as an industrial location. Permanent displays ought to be placed at the airport, the ferry terminal, on the ferry itself and in the museums, explaining the advantages of the islands as a location and the financial assistance available. The exiled Orcadian might be encouraged to return to the Orkneys to establish a business if the level of awareness amongst the existing population about the availability of assistance could be increased. The local population could be encouraged by OIC to put the Council in touch with exiled Orcadians in business. Alternatively, the OIC could persuade the local paper to run features on the jobs of exiled Orcadians, or the local population could be invited to put exiles in touch with the paper which could publish a short career history. In this way the Council could build up a data base about the skills and experience of a group of people who might well move back to Orkney if there were opportunities available for them. A further alternative would be to undertake 'community surveys' to identify the skills and contacts of exiles from the Orkneys, possibly organised through Community Councils.

13 As a complement to the policies discussed above, it may be possible to identify a market and to seek out an individual or firm prepared to exploit it. This would involve the OIC or the HIDB seeking marketing opportunities and developers, rather than waiting for proposals to be brought to them. The HIDB already does this for major projects, and the OIC took the initiative in the establishment of the Kirkwall abattoir. The approach would seem applicable to smaller projects. Once a particular market has been identified, local businesses may be approached to explore whether their product range could be extended to accommodate it. If this fails, an outside firm may be identified or an unemployed person from the islands may be encouraged to develop the idea.

14 A final important aspect of the development of the islands is to ensure that the young people, who are likely to be the islands' farmers, fishermen, and businessmen and women of tomorrow, are given encouragement to think about establishing their own business on the islands. A number of initiatives can be taken to encourage this, including placing greater emphasis on teaching the basics of business in schools. It might be possible to set up a Young Enterprise Scheme involving young people in running a small business for one academic year. Moreover, pupils leaving schools for further education may be encouraged to develop specific skills that would enable them to work in the islands' industries or at some stage establish their own business.

## **The Island Problem**

15 Most new activity in Orkney takes place on Mainland Orkney. The small island communities have very limited employment opportunities and there is a steady drift of young people from the islands. The balance of sexes is being affected as men are likely to continue farming and there are no employment or training opportunities for women. The community co-operative is one approach to these problems.

16 There are currently three community co-operatives in the Orkneys — on Papa Westray, Hoy and Eday. These are not the only co-operative endeavours on the islands. There are agricultural co-operatives, the fish processing co-operative on Westray and a quasi community co-operative at St. Margarets Hope. There is also a strong trading of co-operative effort in marketing and machinery co-operatives, and many fishing boats are run on co-operative lines. The idea of co-operation is not new to the islands.

17 Papay Community Co-operative was established in 1979. The island of Papa Westray has a total population of ninety. Many of these people are retired; most of the others are farmers. In 1978, the owner of the island's only shop announced that he wished to close down. It was unlikely that any individual could be found to take over running the shop since that would involve building or converting premises and the returns could not possibly justify the expense. The HIDB, however, had been examining possible locations for a youth hostel in the Orkney North Isles and had envisaged that a hostel could be combined with a shop. They heard of the problem on Papay and suggested that a shop and youth hostel could be established there, and that they could be run by a community co-operative with assistance from an HIDB field officer. The community drew up plans for a community co-operative incorporating a shop, youth hostel and also a guest house. The co-operative was registered and £6,500 raised from the sale of shares to local people. The Orkney Island Council contributed a further £3,000 to the establishment costs and the HIDB matched the £9,500 raised locally with a further £9,500 and agreed to pay the costs of a manager (for details of the HIDB community co-operatives see notes). Further loan and grant aid was approved and work began on converting a derelict row of cottages to the new shop, youth hostel and guest house. The conversion work kept the island's resident builder employed for almost two years. The co-operative now employs two full-time staff — the manager and his wife — and in the last summer season created ten part-time jobs. The co-operative has, therefore, not only ensured that a vital local service is provided, but has significantly widened the income earning opportunities for the island population.

18 Hoy lies at the other end of the Orkneys to Papa Westray. It is the second largest of the Orkney Islands and, unlike most of the other islands, Hoy is mountainous and has little good agricultural land. This is reflected in the small population — a mere 500. The co-operative was established in 1982 at the former Navy base at Lyness on Scapa Flow. The co-operative has a number of projects. It runs a small hardware store (there was already a food shop on the island) and the possibility of a building supplies business is being explored. A van service is run within the island and off the island using the new ro-ro ferry facilities. The co-op is also building up a mail order business in North West Scotland and Norway, and has Hoy Crafts as a subsidiary. In the future there are plans to develop tourism. The range of operations demonstrates that, potentially, community co-operatives can become mini development companies. Problems may occur in the future since some of the businesses run by the co-op might potentially compete with other businesses on Mainland Orkney.

19 The HIDB has analysed the problems of community co-ops. Some of these are inherent to the areas in which community co-ops are being stimulated — for example, the lack of access to markets. Others are due to the novelty of the co-ops, such as the apparent difficulty in raising conventional finance. Two important points, however, are the need for ‘animation’ and the need for ongoing management support and training. The HIDB, in promoting the community co-operative scheme, employed a number of field officers. These field officers were crucial in the initiation of local discussions, and provided assistance in developing plans, liaising with specialist staff in the HIDB, and providing the HIDB with some insights at an early stage of the prospects for the co-op. Due to staffing constraints, the HIDB no longer employs field officers in this capacity. While, in part, the devolution of staff from the Board’s offices in Inverness to local offices, including Kirkwall, deals with the problem, these staff have many other duties other than the promotion of co-operatives. They are, furthermore, primarily business support and assessment staff, and not experienced in the particular problems of the community co-ops.

20 The second major problem is that the co-ops require continued support. On the management side, the HIDB’s staff can provide this, although again they appear to be short staffed in Kirkwall. One solution to this problem would be to establish a central support unit in Kirkwall. This might also overcome the difficulty of recruiting good quality managers to the community co-ops. A more sensitive community development task needs to be performed as well. Conflicts arise between the co-op managers and the co-op management committees. There is a need for training of management committees so that they understand the details of the business, and also perform the dual role of planning the future of the enterprise while retaining its relevance to the local community who are the shareholders.

## **Conclusions**

21 The Orkney Islands need to stimulate people to realise the development potential that clearly exists. The Orcadians are used to being self employed or working in small firms, but there is little purpose in encouraging new businesses that are in the locally dependent service sector. Means have to be found of stimulating those activities that will earn revenue from outside the island or substitute for imports. Consequently, it is a question of how to organise projects that may involve more money and skill than many of the unemployed on the islands have. This is in marked contrast to the urban areas studies in this report where we believe there to be opportunities in the locally dependent service sector.

## **Recommendations**

22 The Orkney Islands Council may wish to consider the following:

- i) That permanent displays outlining industrial opportunities on Orkney are erected at the airport, ferry terminal and main museums, and aboard the principal ferry boats; that leaflets are made available in other tourist locations.
- ii) That the island council builds up a systematic bank of information about business Orcadians ‘in exile’. A number of low cost methods of doing this have been identified, such as community surveys by Community Councils or the students of Kirkwall Grammar School. The planning department might be able to assist with these. Alternatively, this could be achieved through a joint collaboration with the local paper and its readership to run a series on what Orcadians in exile are currently doing.
- iii) That basic business training is incorporated into the school curriculum, Youth Training Schemes and Community Programme Schemes, and other training courses (e.g. agricultural courses). The HIDB might help to sponsor a Young Enterprise Programme in Kirkwall.

- iv) That market research be undertaken into specific local business opportunities. Opportunities may be identified from material commissioned by the HIDB; discussions with existing businesses; community surveys; a Business Ideas competition; and from a review of successful business developments in similar isolated locations. Market research should be cheap and functional.
- v) That these 'opportunities' be made known to as wide an audience as possible, including local people involved in complementary activity, Mainland based firms, and the community co-operatives.
- vi) That a field officer be appointed (possibly with HIDB assistance) to give specific support to the existing community co-operatives, especially on training management committees, and that the field officer stimulate the development of new co-operatives. Close liaison with the HIDB would be needed if new co-operatives were to be eligible under the HIDB's community co-operative scheme.
- vii) That the feasibility of establishing a development company on Mainland Orkney, with widespread community support, be examined. The function of this company would be to initiate and establish enterprises itself, or in partnership with others. It would be multi-functional and could run certain aspects of the existing OIC programmes, such as the Kirkwall Training Workshop and Community Programme schemes. In consequence, it would probably adopt a two-tier structure. It could provide a central servicing unit for all co-operatives on Orkney and possibly for other small businesses on the islands. Servicing could include financial control and book-keeping, and joint marketing programmes.



## LEICESTER

1 Leicester's population is roughly 28,000 (1981) and unemployment in the city is currently running at about 15.4%, some 2% higher than the nation as a whole and nearly 5% higher than Leicestershire county (10.6%). There are pockets of Leicester where unemployment is much higher — for example, in North Braunstone where it is 34.2% and Highfields where it is 27.4%. Roughly one-third of the population of Leicestershire lives in Leicester. The rest of the larger cities and towns in the county together account for just one-fifth of the county total. In Leicestershire as a whole there are more skilled manual workers as a proportion of the economically active (36%) than there are in Great Britain (29%) and proportionately fewer unskilled. Nonetheless, the skilled manual workers make up just 12.5% of the unemployed in the county and the professional and managerial workers a further 7.5% leaving 80% of the remaining total of unemployed to be accounted for by the semi-skilled and unskilled. Leicester also has a larger than average ethnic minority population, particularly with Asian and Caribbean origins. There is a large outworking population (estimated at about 2% of the employed), with a majority working in the traditional hosiery and knitwear industries. Wage rates in Leicestershire run at about 90% of the national average and the number of work days lost through industrial action in Leicestershire is also different from many other areas in that it has only nine firms employing more than 1,500 workers and no firms with more than 3,000. Firms employing less than 400 account for the jobs of over 80% of the workforce.

2 There are two important points about the economic structure of Leicester for this project. First, unemployment is chiefly a problem of the semi- and unskilled. The traditional textile industries, for example, have shed large numbers of semi- and unskilled operatives. At present, between three and four per cent of the skilled manual workers are unemployed as opposed to roughly one-quarter (or more) of the semi- and unskilled. The second point is that Leicester, unlike many areas, has a long history of medium sized and small firms. While this is not to say necessarily that there has been an equally long entrepreneurial tradition in the area, it is clear that entrepreneurship is not unfamiliar.

3 In the Leicester case study we have tried to describe the support that exists for the small firms sector; to establish any problems and gaps in provision and ways in which new activities and projects may be designed to overcome them. Much of what is happening in Leicester that is innovative or experimental is still in the very early stages of development, when it is often easy to underestimate the obstacles to ultimate implementation. And, as is true of the bulk of small firm development practices in other areas, there has as yet been little evaluation of the returns on investments that have so far been made. It is not easy to evaluate what is going on currently against what future practices are likely to be. Thus, much of what follows is brief and descriptive. The agencies selected for interview were chosen because they have a high local profile, not necessarily because they have anything unique to offer in the form of models that other areas might follow.

4 'Community businesses' per se are currently thin on the ground in Leicestershire, although there are at least three such schemes in varying stages of development. There is no agency which has been conceived or developed with a particular view to supporting the creation of community business, although the Employment Unit of the County Council, who have recently appointed a community development worker whose remit includes the promotion of community employment initiatives, the Leicester Co-operative Development Agency, the Leicester Council of Voluntary Service and the Action Resource Centre all see themselves as having a role to play.

5 The presentation of the case study is structured as follows: the agencies and their activities, policies and particular problems they face in supporting small firms (and, where appropriate, community businesses) are described; the 'community businesses' themselves are then discussed and finally the 'system' of support for small firms in Leicester is evaluated and suggestions are made for the direction of future support for local community businesses.

## **Development Agencies in Leicestershire**

6 Support for new small firm creation in Leicestershire is seen as a co-ordinated effort between the City and County councils and the Business Advice Centre (BAC) — a 'one stop shop' which houses the Small Firms Centre, the Enterprise Trust, the Action Resource Centre and the local co-operative Development Agency. The creation of the BAC has enabled the City and County Councils to delegate a number of their own small firm advice and information functions, thereby reducing pressure on local authority resources for these services and allowing for direct input from more appropriate small business experts. The BAC maintains a close contact with the small firms experts at Leicester Polytechnic. Furthermore, the Leicester Council of Voluntary Service (LCVS) acts as a kind of informal liaison between community and voluntary organisations helping the unemployed and the local authorities and the BAC. The County Council continues to do a considerable amount of small firms promotional work.

7 Although there is a loose division of responsibilities between the various agencies comprising the BAC and the two local authorities, there remain some obvious gaps — particularly in the provision of support for innovatory or risk-taking projects involving the unemployed which do not fall neatly within the purview of conventional small firms support agencies. Both the two main local authorities, the LCVS and ARC, manage YTS and Community Programme schemes which earn revenue, but these projects are not seen as potential seedbeds for permanent job creation. Similarly, the main emphasis in Leicestershire has been on helping conventional small firms rather than non-standard employment ventures. It is the policy of both the local authorities to respond to grass roots initiatives rather than to promote them. The LCCDA do, of course, expend some effort on promoting the idea of co-operative formation, but stress that their limited resources demand that effort be concentrated on those new and existing co-operatives which are the most promising from an economic point of view. LCVS are involved in a large and ambitious project in North Braunstone which might eventually produce community businesses; and plans are in hand for a neighbourhood industrial resource centre to encourage and assist local residents to create their own businesses and for a community business forum to help those interested in setting up local community businesses. The central emphasis has, however, been on helping conventional small enterprises.

## **Leicestershire County Council**

8 The County Council does not have a small firms strategy as such, although they provide financial and premises assistance for new starts and existing small firms within their overall complement of support for business investment and growth. The bulk of this activity is carried out by the Economic Development Unit which is part of the Department of Planning and Transportation. The County Council prefers to "take opportunities as they arise" and the Economic Development team has a budget of £220,000 (1983/84) for promotion and services and can draw on the County Council's infrastructure budget of £900,000 for capital projects.

### **1. Rent & Rates Grant Scheme (for new enterprises)**

A grant is available for up to two years on the basis of 50% of rent and rates in the first year (subject to a maximum of £2,000) and up to 2% (up to a maximum of £1,000) in the second year. Similar grants will be made to new businesses purchasing their premises. The grants are paid three months in arrears. To be eligible for the scheme, the firm must be new and independent and fall under specified industrial classifications. The emphasis is on manufacturing; public utility, retailing and personal service firms are excluded. In practice some new warehousing businesses have been allowed to qualify, but largely because the demand from this sector has been low. Each firm must have two references indicating support from a bank. Applicants are referred to the Business Advice Centre which is responsible for assessing the suitability of applicants for County support. The BAC also determines during the interview whether or not the

applicant needs further business training and refers them to the appropriate source if this is considered the case — about 60% of applicants receive the grant. The firm must satisfy the BAC that within six months of the grant aid agreement it will employ at least one extra person full-time (or part-time equivalent) and, to be eligible for the second year, must within 18 months employ another full-time person. The businesses are regularly vetted to ensure that they continue to be eligible for the scheme and that the payments to which the grant is related are made. The scheme has been in operation for about two years (November 1983) and well over 100 new firms have so far benefited. The average grant is running between £2,000 — £2,500 over the two years and the scheme has been expanded to take account of the higher than expected demand. Advertisements are placed in the local press, the library, information centres and banks. The County Council is satisfied that the scheme is meeting a need and is well targeted on firms that are able to offer real, if limited, employment opportunities. In effect, the grant is an employment subsidy, averaging around a maximum of £38.46 a week in the first year and a maximum of around £19.23 a week in the second year. The chief disadvantage of the scheme is that its focus is on manufacturing industry and that it has not been broadened to include a larger number of services.

## **2. Interest Relief Scheme (for capital investment)**

Under the Interest Relief Scheme, ICFC makes finance available to firms located in N.W. Leicestershire for investment in new fixed capital under normal commercial terms, and the District and County Councils provide grants to reduce the costs of interest payments for up to three years. ICFC assesses the applicant against its normal investment criteria; in addition it makes certain that the business complies with specified employment plans (it must create new jobs) and policy, and ensures that it will continue to operate in the NW area of Leicestershire. Grants are available for each £20,000 of loan for each new job created up to a limit of £150,000. The Councils will monitor the agreements and may require a business receiving assistance to take up and follow business advice from a specified source. Firms which re-locate from other parts of Leicestershire are not considered eligible except in exceptional circumstances.

## **3. Premises**

The County Council has built a number of advance starter units in several areas in the county, recognising that the smaller the new enterprise, the more important it is that premises are available locally. For example, in Coalville (NW Leicestershire) they have built Workshop 17 which is a converted premises offering 17 units to let on short leases at sizes between 200 sq.ft. and 1,000 sq.ft. Facilities are centralised, and a manager is on site with the capacity to offer basic, low level business advice. The County also keeps close contact with the District Councils and engages in a number of partnership premises schemes with the Districts. Demand for their premises has been high, but as the private sector has become more interested in providing workshop facilities, the County has diminished its role.

## **4. Advice and Training**

The County Council's chief contribution to advice and training is in the form of grants to the Business Advice Centre and the County Co-operative Development Agency. They also run Business Advice Days some six times a year, in which representatives from the County Council, the BAC, the Small Firms Service and COSIRA promote the idea of self-employment, inform people as to the assistance that is available and answer individual enquiries. In addition, the County retains two ethnic (Asian and Caribbean) minority business advisers, partly in response to the declining prospects for the local textile and hosiery industry in which ethnic minorities are widely employed. The County Council has negotiated with COSIRA to have a field officer located in Leicestershire at their expense, and are

currently attempting to have a COSIRA representative among the agencies at the Business Advice Centre. The County also helps run an annual Business Awards Scheme for new starts or expanding businesses, either located in or willing to locate in Leicestershire (their budget for 1983 was £42,000 for this competition). In 1983, three out of the ten winners were new starts, and prizes included free business training and advice, rent and rate assistance and a share in £150,000 worth of prize money. All short-listed entrants are interviewed (about one-third of the total) and given advice and assistance during the interview.

9 The Employment Unit administers and provides top-up funds for MSC projects and has recently been able to appoint a Community Development Officer to fill a gap identified by the County in their provision at the community level. Political support for County Council involvement in community businesses is not, however, strong. £25,000 has been budgeted for community business basic assistance grants which can be allocated in amounts of up to £5,000. There is also discussion of having the County Council act as guarantors for the £1,000 required under the Enterprise Allowance Scheme for community business workers, although there are only 314 places available in Leicestershire. There is only limited co-ordination between the employment development activities of the EDU and the Employment Unit — the EDU sees itself as creating employment through facilitating industrial development, and the Employment Unit has been largely concerned with helping to devise and support work experience and training schemes sensitive to the demand for labour in the County.

10 The County Council, in helping to mitigate the effects of the mining closures in the northwest of the county, have (through the Urban Programme) funded a 'regeneration' project (Springboard) in the Coalville area. They have also given grants to the Bitteswell Employment Alliance and enabled BEA to restore a factory unit in Lutterworth and equip it with engineering machinery.

## **Leicester City Council**

The City Council has ceased to give grant funds directly to new small businesses, mainly because they found the process of vetting business plans and meeting with the aspiring entrepreneurs too time consuming. They now support new businesses through the BAC and fund the LCCDA. The City Council has also budgeted £34,000 to help people get on the Enterprise Allowance Scheme, and have developed two nursery workshop schemes.

11 The City Council Employment Unit manages both Community Programme and YTS schemes and supplements a number of projects with Inner Area Programme funding. In addition, they have allocated a budget of £50,000 which is given out as grants for capital or revenue expenditure to individual community projects in amounts of up to £5,000. Although the Council is particularly interested in the potential of these projects to create real and permanent jobs, the constraints, particularly in the form of MSC rules governing revenue earnings and disposal of capital assets, are proving formidable, as is the MSC's distrust of workers' co-operatives. In any case the projects themselves operate in unrealistic commercial environments — they are too over-staffed to be commercially viable, they do not have to get their own contracts, and do not advertise.

12 This said, one CP project, ASRA, has found an unsupplied local market. Employing older Asians who were previously unemployed, they manufacture and sell 'cultural implements' for the local Asian market. The City Council does allow earnings made in respect of their 25% funding input under IAP to be retained by the project as long as it is re-invested in the business. A YTS project called Playscape was intentionally designed with the potential of becoming an independent business once its IAP funding comes to an end (in three years). The project manufactures play equipment — most of which is now imported from abroad. Should this project prove economically feasible, it is the Council's intention to use its purchasing power to buy equipment for use in publicly owned facilities and in so doing to provide the new enterprise with its initial contracts.

13 The City Council is considering the development of a local marketing operation for new small enterprises to be run on the lines of the marketing centre in Bath, but on a non-profit basis. They also feel there is a gap in provision for groups needing help with feasibility studies, but feel that careful consideration needs to be given to whom this type of service should be offered.

### **Leicester Council for Voluntary Service**

14 LCVS sees itself as playing a number of intermediary functions, chiefly through promoting grass roots employment initiatives (self-help schemes, co-operatives, self-employment, etc.) and by providing opportunities for the unemployed to do useful work and learn new skills outside paid employment. Their most ambitious project is the Braunstone Employment Project, located in a very high unemployment council estate in North Braunstone. The project has a number of strands, all of which depend to an extent on being able to animate a 'sense of community' in the area (i.e. pride, self-confidence, sense of capacity). One Urban Programme project has been established under the aegis of Braunstone — a resource centre with sewing, gardening, shoe repair and hairdressing equipment for use by the residents which is sponsored by a local residents' group with one paid full-time staff member. Two other proposals are in the planning stage: one is being developed with the City Council for workspace and informal training facilities to help people start up their own businesses; and another is for equipment and workspace for DIY vehicle repairs. There are also plans for developing 'community business forums' which would act as information and advice units for setting up local community businesses. The Braunstone team is currently conducting a household survey in an attempt to identify the local skill base and the range of community needs which might be met through the development of local community businesses. They are also interviewing local employers to determine attitudes to Braunstone residents and the existing and likely future labour requirements in the area.

### **The Business Advice Centre**

15 Leicester's Business Advice Centre was established in 1981 to co-ordinate local support for new and existing small firms; it houses all the concerned agencies in one building under a common administration. Ninety per cent of the central administration costs are met in equal shares by the City and County Councils and the building is let free through the City's Estates Department. Since August 1983 a full-time administrative post has been funded and it is part of this post's responsibility to make up for the ten per cent shortfall in costs by letting out its conference room, marketing the BAC, and co-ordinating the training courses and seminars run jointly by the participating agencies and the two Councils.

16 The agencies located at the BAC are the Leicester Small Firms Centre, the Leicester Business Venture, the Action Resource Centre and the Leicester and County Co-operative Development Agency. The Small Firms Counselling Service visits the centre once or twice a week and handles around three appointments a day when the counsellor is there. Plans are in hand to have a COSIRA field officer located in the centre and there are plans to develop a specialised Business Development Unit for helping would-be entrepreneurs devise business proposals. Most casual calls from conventional small businesses are handled through the Small Firms Centre (SFC) and close to 60% of these enquiries come from new starts. The Leicester Business Venture (LBV) sees clients on an appointment basis and to a limited extent the LBV is used as a back-up service by the Small Firms Centre. An additional back-up service is provided by the DTI, SFCS and by the Small Firms Centre's second office located some blocks away from the BAC. This second office maintains direct links with the Leicester Polytechnic's small firm service and its director is a paid employee of the Polytechnic. The Poly also provides the centre with up to three staff with different areas of small firm expertise at any one time to staff the centre, and an unemployed accountant is working in the centre on a temporary appointment. The centre charges for their services, but will defer payment until a business is on a surer footing. Through the Polytechnic, they

can also place senior managers and executives (taking the Poly's management diploma and general courses) in a firm that is experiencing difficulties for up to a week at a time. An important part of this office's work is helping their clients to get financing and developing suitable management accounting systems.

17 The BAC Management Committee is made up of representatives from the participating agencies and councils and meets to iron out administrative details and to discuss issues and activities of common interest. Agencies involved in the Business Advice Centre do not have a common policy towards support of new small firms beyond an agreement to cross-refer clients when appropriate, although there is a common understanding that together they should constitute a comprehensive advice service to new and existing small firms. They also pool resources to provide a regular series of short courses and seminars on subjects of interest to small businesses. The existence of the BAC has enabled the two Councils to refer enquiries that come to them to what they consider a more appropriate centre of expertise. The BAC also put out a quarterly newsletter which the County Council mails to 4,000 local firms and distributes to information centres throughout the city and county. The BAC administrator talks regularly with the Careers Office and Job Centre, promoting the Agency and its services, as well as talking to teachers meetings about self-employment for young people.

### **The Leicester Business Venture**

18 The Leicester Business Venture (LBV) is headed by a business secondee and lays special emphasis on support for existing small firms. They are also involved in developing a large (job creating) tourism project in N.W. Leicestershire (not dissimilar to the Ironbridge Gorge scheme) using private sector funds and expertise.

### **Action Resource Centre**

19 The Action Resource Centre sees its primary objective as encouraging the development of business skills in the community by responding to or instigating grass roots initiatives. In order to receive ARC assistance an initiative must satisfy one of three criteria: provide work or services to help people help themselves; provide training or retraining that is work related; or, provide an opportunity for paid or unpaid work that is of benefit to the community. Eight ARC secondees, who have all gone through individually tailored training programmes to equip them for their particular tasks, are currently working directly with various initiatives in the field.

### **The Leicester and County LDA (LCCDA)**

The Leicester and County CDA has concentrated its initial efforts in the areas of Hinkley, Coalville and Lutterworth. Work is at a very early stage, and has concentrated initially on assisting projects already in progress in those areas, particularly the Bitteswell Employment Alliance at Lutterworth and Springboard in Coalville (both of which have received other forms of County Council assistance). While the city of Leicester has a long and respected history of workers' co-operatives, the idea is new in the rest of the county and the LCCDA recognises the importance of its promotional work in areas outside the city itself. They have six full-time development workers and administer an £80,000 development fund for co-operatives located in the city (the money comes from the City Council). The money is given to new co-operatives in the form of setting-up or feasibility study grants (in amounts of up to £1,000) or as fixed interest loans (6.0%) to be given when a co-operative is unable to attract traditional financing.

20 The initial work with new co-operatives has led the LCCDA to concentrate their efforts on training co-op workers in business and co-op management skills — training takes place almost entirely through the one-to-one relationship that is developed between a CDA worker and co-operative. LCCDA spends a great deal of time once it has been approached

by a potential co-operative group in ensuring that the group has sufficient motivation and commitment, both to the project and the co-operative principle, and that the project has commercial development potential, including sufficient capacity within the group to implement the envisaged project. LCCDA has run a one-day workshop at the BAC in conjunction with Beechwood College, as well as co-sponsoring with the WEA a ten-week course for potential workers' co-operative groups. They also hold occasional seminars for local authority officers and members, local DHSS and MSC officers and their own management committees.

21 The LCCDA includes within its remit assistance to umbrella organisations or community groups who are attempting to set up co-operative enterprises, but states that its services to such groups should be provided on a consultancy basis. It sees their role in respect of this type of group as having two broad aspects: advising on legal structures and assisting with the development of specific co-operative enterprises within the overall organisations. In practice, this type of work has so far been minimal and has been at the specific request of the County Council.

22 LCCDA is also consolidating its efforts to keep alive co-operatives which they have already assisted, or those new groups that have the greatest promise for economic viability (with the least likelihood of depressing wage levels). While a proportion of those co-ops which are currently trading have resulted from initiatives among the unemployed or newly redundant, they are with few exceptions groups whose vocational skill base is sound. They are, however, intending to broaden their promotional efforts to include areas of high unemployment in Leicester city (specifically in Braunstone and Highfields) and with women and ethnic minorities. They are aware of the implications of this policy on the demand for training in business skills and are attempting to devise means of improving this side of their support services.

## **Support for New Enterprise Creation in Leicestershire - A Commentary**

23 While it is clear that a wide range of agencies in Leicestershire have given a good deal of consideration to the needs of local new small firms and have supported the creation of the BAC, there remain a number of gaps. Many of these have been discussed elsewhere in this report and may be seen as common shortcomings in local small firm support strategies. Leicestershire suffers from the lack of a definite policy in respect of local enterprise creation. Without such a policy and a coherent strategy for implementing it, a number of contradictions will almost inevitably result. Individual agencies are left to develop their own tack (vis-a-vis the typically very broad objectives of their own parent organisations), not necessarily a bad thing in itself, but certainly no guarantee that together the small firm support agencies will provide a comprehensive service. As information services they work well. As advice sources they also probably work well — for those whose business ideas are reasonably well developed and who are immediately able to sell themselves as worthy of some detailed consideration. The small business courses and seminars sponsored by the Centre also probably work well, but they are all short and cannot allow for more than superficial treatment of individual cases — again confining their value largely to those who are already prepared to make immediate use of them. In short, the two agencies who exist to support conventional small firms do not cater for that section of the labour market to whom the idea of self-help job creation is new and unfamiliar. This type of 'social case' is the purview of ARC or LCVS, but only if the individual is affiliated in some way with a community or voluntary organisation. Save for the ARC input of secondees, the LCVS is, understandably, short on business skills. LCCDA is solely interested in co-operative development, and while it has expressed an interest in helping 'umbrella' organisations with a community base, their actual track record (again, perhaps reasonably) is more or less untried.

24 Three innovations, either currently under consideration or in an early stage of development, will go some distance toward meeting parts of these gaps should the innovations actually materialise. The City Council is considering the appointment of up to five 'development officers' to act as liaison officers between groups receiving City Council

funding and the Council — including small firms. The second is a new Small Firms Development Unit which will provide detailed and individual assistance to those who want to start in business, but who need help with developing business ideas and drawing up business proposals. This type of service should alleviate the problem of inadequate local support for new enterprises and allow the small firms centre and LBV to concentrate on the type of client they feel they are best able to serve. The third is the development of a small firms Marketing Centre, to help with feasibility studies, market research and advertising.

25 The only direct mention of community businesses, as such, in the area is in conjunction with the LCVS's Braunstone Employment Project. The City Council's new development officers could include community businesses as one of their concerns (and will do if Braunstone's community business forums receive IAP funding), but would not initiate projects themselves. They might also be able to assist in the development of structures (or even enterprises) to take over where YTS or CP funding leaves off. The County Council is also developing an interest in community businesses. There are two schemes in the county that receive County Council support and which deserve special description; although they share the common goal of providing alternatives to unemployment in areas of high redundancy, they are very different from each other.

### **Bitteswell Employment Alliance**

Bitteswell Employment Alliance has a nominal membership of some 200 plus and are all former employees of Lucas Aerospace at Bitteswell airfield, made redundant by British Aerospace in mid-1982. Although their initial effort as a collective was given to fighting the closure of their plant, their failure to do so has resulted in a unique experiment in collective action for the production of socially useful products. Aiming to capitalise on their skills, they have organised themselves into a number of project groups — designing, testing and seeking contracts for a range of innovative products. BEA works from sites in Coventry and Lutterworth. Most members live in the West Midlands and their unit has come about not from sharing a common community but from a long collective effort to fight their redundancy. They have taken a planned approach to creating the means of new employment for their members and have attracted the interest and assistance of a number of supporters. West Midlands Economic Development Unit gave them an initial grant to explore alternative products. Members' interests, hobbies and ideas were canvassed, and a product inventory drawn up, and advice from CAITS was taken. Coventry Workshop was called in to assist with getting outside support, additional funding and publicity. Leicestershire County Council gave them a grant to help them restore their factory at Lutterworth, which they did themselves. BEA is registered as a co-operative and the differing working groups will, as they become productive units, become federated co-operatives. One group, currently employing four workers, is producing 'jiffy' vehicles — for which they have a number of advance contracts. Leicester City Council has already purchased two. Another new product, a bicycle locker is currently being prototyped and will be introduced at a trade fair early in 1984. British Rail is giving the product trial runs and interest from potential local authority purchasers is high. Plans are also in hand for a range of other products, including a disabled child carrier, a gas detector, dish television aerial and a number of school equipment items. Within BEA members encourage each other to take courses in a range of subjects, including business management. BEA also has plans to run a community programme scheme developing products for the disabled and a number of other 'community care' type products, and hope to get funding when the current Community Programme freeze is lifted. BEA takes a highly flexible view of the productive use of its members' time, and while recognising the pressures on its members to earn incomes for their families, they also realise the long-term importance of planning, testing and learning. They have had a small input from Leicester and County Co-operative Development Agency, but feel the LCCDA's interest is in churning out jobs, while BEA's objectives are broader and include the interests of the unemployed. Another point is the care paid to product development, testing and marketing.

BEA takes a straightforward and hard-nosed line, but at the same time stresses the importance of structuring production so that the maximum feasible number of workers are involved.



## Springboard

Springboard is located in an area of coal mine closures in N.W. Leicestershire and is designed to function as a community-based umbrella co-operative to provide services for local unemployed people. There is a centre where workshop facilities, training and advice, plus recreational facilities will be made available to people living in the Coalville area. Temporary offices were recently opened and most effort, to date, has been focused on encouraging local people to consider the option of creating new small businesses. Four part-time workers are currently employed in the project. They send out regular newsletters and maintain contacts with local community and labour organisations. Springboard has had considerable problems attracting significant community interest. This is probably due to a combination of factors including the implantation of the idea of self-employment in an area that has been dominated by large, primary industry; and the relative lack of experience of the Springboard workers with attempting to inspire 'entrepreneurial' ideas. They also have had little advice as to how to go about their task. Springboard's approach has been to say to the community — 'this is what we can do, bring in your ideas and we'll help you'. In other words, they are operating largely on the assumption that if they provide the service, the 'community' will come forward and use it. There is, of course, no a priori reason to believe that this should be the case. To a degree their early problems may be a reflection of the fact that they are as yet unable to offer the services which they advertise. Judgement must be withheld until the scheme is in full swing.

# GLOSSARY

- ABCC** Association of British Chambers of Commerce
- ANWWI** Association of North West Workers Industries
- ARC** Action Resource Centre
- AUEW** Amalgamated Union of Engineering Workers
- BAC** Business Advice Centre
- BAT** British American Tobacco
- BEA** Bitteswell Employment Alliance
- BEAUT** Bitteswell Employment Alliance Utility Transport
- BES** Business Expansion Scheme
- BSC** British Steel Corporation
- CBS** Community Business Scotland
- CDA** Co-operative Development Agency
- CDS** Co-operative Development Services
- CDST** Co-operative Development Services Training
- COMTECHSA** Community and Technical Services Agency Liverpool
- COSIRA** Council for Small Industries in Rural Areas
- CP** Community Programme
- DAFS** Department of Agriculture and Fisheries for Scotland
- DHSS** Department of Health and Social Security
- DoI** Department of Industry
- DTI** Department of Trade and Industry
- EAS** Enterprise Allowance Scheme
- ECG** Enterprise Creation Group
- EDU** Economic Development Unit
- EEC** European Economic Community
- EEN** Education for Enterprise Network
- GCVS** Glasgow Council for Voluntary Service
- GDC** Glasgow District Council
- GLC** Greater London Council
- GLEB** Greater London Enterprise Board
- GNP** Gross National Product
- HES** Handsworth Employment Scheme
- HIDB** Highlands and Islands Development Board
- HPCC** Harlesden's People's Community Council
- IAP** Inner Area Programme
- IBA** Industrial Building Alliance
- IBM** International Business Machines
- ICDA** Islington Co-operative Development Agency
- ICFC** Industrial and Commercial Finance Corporation
- ICOF** Industrial Common Ownership Finance
- LBV** Leicester Business Venture
- LCCDA** Leicester and County Co-operative Development Agency
- LCVS** Leicester Council of Voluntary Service
- LDA** Leicestershire Development Agencies
- LEAP** Local Enterprise Advisory Project
- LEntA** London Enterprise Agency
- LGS** Loan Guarantee Scheme
- MIH** Merseyside Improved Houses
- MSC** Manpower Services Commission
- MWD** Mid Wales Development
- NCVO** National Council for Voluntary Organisations
- NEP** New Enterprise Programme
- NHT** Nottingham Housing Trust
- OIC** Orkney Island Council
- PAYE** Pay As You Earn
- PRE** Pallion Residents Enterprises
- PSI** Poldrait Service and Industry
- RD** Research and Development
- SBGP** Stonebridge Bus Garage Project
- SCDC** Scottish Co-operative Development Committee
- SDA** Scottish Development Agency
- SFC** Small Firms Centre
- SFCS** Small Firms Counselling Service
- SFS** Small Firms Service
- SRC** Strathclyde Regional Council
- SSBA** Spitalfields Small Business Association
- TOPS** Training Opportunities Schemes
- UDAP** Unit for the Development of Alternative Production
- WDA** Welsh Development Agency
- YTS** Youth Training Scheme

Publications available from the Calouste Gulbenkian Foundation on subjects related to 'Local enterprise and the employed' include the following:

**HOME - A PLACE FOR WORK? (1984) by Richmond Postgate**

An exploratory report which looks at home-based work as an economic growth area. It gives a wide range of accounts of such work, looks at the factors which inhibit or assist it and suggests how to surmount some of the difficulties.  
ISBN 0 903319 26 8 pp 113

**NOBODY NICKED 'EM (1983) by Joanna Grana**

An account of how local people started a toy library in a multi-cultural area of the East End of London for children to borrow toys to play with at home.  
ISBN 0 903319 34 9 pp 106

**COMMUNITY BUSINESS WORKS (1982)**

The report of a working party chaired by Baroness Seear set up to consider community self-help groups and local productive activity, a complementary study to *Whose Business is Business?*  
ISBN 0 903319 29 2 pp 28 (+ appendices)

**WHOSE BUSINESS IS BUSINESS? (1981)**

The report of the Community Business Ventures Unit set up to investigate existing community business ventures, their needs and the potential for new enterprises.  
ISBN 0 903319 20 9 pp 74 (+ appendices)

**MEANWHILE GARDENS (1978) by Jamie McCullough**

An account of the conversion of 3½ acres of London wasteland into an amenity and recreation area, including advice for anyone embarking on a similar scheme.  
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**VOLUNTARY ORGANISATIONS FACING CHANGE (1976) by John Lansley**

A report of a project to help Councils of Voluntary Service to respond to local government re-organisation. Published with Joseph Rowntree Memorial Trust.  
ISBN 0 903319 07 1 pp 96

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The report of the working party chaired by Lord Boyle.  
ISBN 0 7100 7688 pp 180

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