

# Review of Co-operative Development Scotland

Report

for

Scottish Enterprise

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# 1. About This Study

This Section discusses the background to this Review, its objectives, and the work carried out as part of it.

## 1.1 Background

A co-operative is an independent trading enterprise, which is formed to meet common economic and/or social needs, jointly owned by all its members, with a democratically-controlled structure. See Box 1.1 for a fuller definition.

### **Box 1.1: Co-operatives**

A Co-operative is a commercial enterprise which is owned by either its members or its employees. Co-operatives are based on the values of self-help, self responsibility, democracy, equality, equity and solidarity, and on an ethic of honesty, openness, social responsibility and caring for others.

While there are central principles governing Co-operatives there is no legal definition in statute. They take a number of different forms and operate in different sectors:

- Consumer Co-operatives – owned by their customers on a membership basis, and primarily found in the retail and financial services sectors
- Worker co-operatives/employee-owned businesses – with majority ownership and control held by employees, these enterprises are industry cross cutting
- Community Co-operatives - owned, controlled and run for the benefit of those living in an area or having a common area of interest. Numerous and growing examples found within housing and real estate, renewable energy, and public services
- Secondary Co-operatives (e.g. marketing or purchasing co-ops), found extensively in sectors where supply chain solutions are required.

Following a period of consultation, Co-operative Development Scotland (CDS) was established in 2005/06 to support the co-operative sector. It was established based on a commitment by the then Scottish Executive and in recognition of the need for a distinct development agency for the sector.

The purpose of CDS was to assist the formation and growth of sustainable co-operative businesses throughout Scotland. To achieve this, the Scottish Executive made available up to £3m over three years to fund CDS.

Reflecting the importance of integrating specialist and mainstream business support for co-operatives, CDS was set up as a wholly-owned subsidiary of Scottish Enterprise with its own Advisory Board and executive.

Having come to the end of its first three-year cycle of funding, EKOS Ltd has been commissioned by Scottish Enterprise to undertake an independent review of CDS.

## 1.2 Objectives of the Review

The purpose of the study is to examine the operational effectiveness, ongoing strategic fit, and required future direction of CDS.

The stated objectives of the Review are to:

- assess, in quantitative terms, the impact of CDS to date, against approved targets;
- review the existing marketplace for CDS, highlighting any changes since the project was set up; and
- identify a number of options for consideration by Scottish Enterprise in relation to the future scale and scope of CDS.

The Review focuses on the period of initial formation and operation of CDS up to 31<sup>st</sup> March 2008. The review will be followed at some future point by a full economic impact evaluation of CDS.

## 1.3 Review Method

The Review was carried out during July and September 2008 and included a number of main elements:

- a comprehensive review of available documentation and data:
  - relevant policies/strategies that have framed the context for CDS
  - papers charting the early design and formation of CDS
  - monitoring data on enquiries, activities, and outputs
  - client information contained in individual project files
  - information on annual CDS expenditure to date
- semi-structured interviews with
  - the CDS Chief Executive and two members of the CDS staff team
  - six members of the CDS Advisory Board
  - 19 other stakeholders with an input to or influence on CDS

- structured interviews with 17 co-operatives that have received assistance from CDS as part of their formation or development; and
- preparation of a draft and then final report presented to Scottish Enterprise and the CDS Advisory Board.

## 1.4 Structure of the Report

The remainder of the report is structured as follows:

- **Section 2** examines the origins of CDS, its intended objectives, and its formation;
- **Section 3** assesses the activity, progress, and reported performance of CDS to date;
- **Section 4** examines the views of assisted co-operatives, including their satisfaction with CDS activity and impact;
- **Section 5** reviews the governance, management, and operations of CDS together with any issues arising;
- **Section 6** examines the key changes and influences in the operating environment of CDS;
- **Section 7** draws together the main findings of the Review and outlines the implications for future CDS operations.

## 2. CDS Origins and Formation

### 2.1 Introduction

This Section discusses the origins of CDS, the plans and expectations for it, and the process of establishing it.

### 2.2 The Origins of CDS

Following the 2003 election, the incoming Scottish Executive's Programme for Government highlighted economic growth as the top priority, and underlined a commitment to ensuring sustainable development<sup>1</sup>.

The Partnership Agreement also included a specific commitment to establish a Co-operative Development Agency:

*"We will improve the promotion and provision of advice on co-operative development and will establish a Co-operative Development Agency following consultation."*

Any Co-operative Development Agency established was to be closely aligned to the Executive's medium to long-term strategy for the Enterprise Networks, *A Smart, Successful Scotland*<sup>2</sup>.

### 2.3 Market Failure Rationale

From an economic development perspective the market failure addressed by the creation of a Co-operative Development Agency was similar to that applied to other mainstream support, namely information inefficiencies and difficulties in accessing relevant business development advice<sup>3</sup>.

These market failures lead to lower levels of business start-up, lower survival rates, and lower levels of growth than would otherwise be achieved. For co-operatives, these failures were assumed to be compounded by additional issues which underpinned the case for a specialist agency:

- co-operatives are perceived as a marginal business activity, with additional barriers to mainstream business structures – this relates to negative perceptions of the co-operative business model and a poor understanding of its significance;

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<sup>1</sup> Scottish Executive, *A Partnership for a Better Scotland: Partnership Agreement*, May 2003

<sup>2</sup> Scottish Executive, *A Smart, Successful Scotland*, January 2001

<sup>3</sup> See Scottish Enterprise, *Gateway Review Process, Gate 2 Review Paper, Co-operative Development Scotland*, May 2006

- co-operatives are often closely associated with community regeneration and social enterprise, diluting the business focus of co-operatives as viable commercial enterprises; and
- the co-operative business model may not be fully understood, with complications about the legal structure and tax liabilities considered to be more complex than other forms of business organisation.

These issues constrained both the demand for support from the co-operative sector, as well as the ability of support providers to service the sector.

The formation of a CDA as a specialist support agency was to help to raise awareness of the co-operative business structure as an option, and to generate more growth within the sector than could be achieved alone through complementary mainstream business support channels.

## 2.4 Consultation and Options Appraisal

The design of the proposed Co-operative Development Agency was informed by a three-month consultation process. This was launched in March 2004 with the consultation document outlining the possible objectives and structures for the Agency<sup>4</sup>.

An analysis of the 53 responses to the consultation was published in October 2004<sup>5</sup>. These offered a representative view from a broad range of stakeholders, and conveyed a number of main messages:

- the proposed establishment of a Scottish Co-operative Development Agency was widely welcomed;
- existing co-operative support was generally viewed as inadequate, with the main gap being a lack of specialist expertise and support;
- many expected the Agency to enhance linkage among existing co-ops and to generally improve support provision;
- the preferred choice<sup>4</sup> was for the new body to take the form of an Executive Agency covering all forms of co-operatives.

Following the completion of the Consultation, the Scottish Executive carried out its own Options Appraisal. Given the small scale of the co-operative sector and the need to prove the viability of the body, the Scottish Executive felt that the fully-functioning executive agency with statutory powers, suggested by some respondents in the consultation, would not be viable.

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<sup>4</sup> Scottish Executive, *Co-operative Development Agency, Consultation Paper*, March 2004

<sup>5</sup> Scottish Executive, *Scottish Co-operative Development Agency: Analysis of responses to consultation exercise by Analytical Services Division and Business Growth and Innovation Division of Enterprise, Transport and Lifelong Learning Department*, October 2004



Reflecting its desire to ensure the body was appropriately aligned/integrated with mainstream business support, the Executive determined that it be set up within Scottish Enterprise. This was despite concerns raised by Scottish Enterprise itself in its consultation response over the viability of the proposal and the merits of defining the Co-operative Development Agency as part of the 'Growing Business' agenda, rather than in terms of social inclusion/enterprise<sup>6</sup>.

## 2.5 Intended Purpose and Operations

The designation and tasks for the establishment of the CDA were clearly conveyed to Scottish Enterprise in June 2005 by the Scottish Executive<sup>7</sup>.

The terms of reference provided required the proposed agency to:

- operate on a Scotland-wide basis;
- focus on becoming a first-stop-shop for individuals/groups seeking to set up a new co-operatives or for co-operatives seeking to grow;
- undertake a number of key activities –
  - promotion of the co-operative model
  - direct provision of advice and information for co-operatives
  - dissemination of best practice in co-operative business support
  - training in co-operative business skills (directly or through others)
  - the collection of research and data on the co-operative sector
  - partnership working with other support in the UK and beyond;
- exclude support for sectorally-based co-operatives with existing support (e.g. housing co-ops) and social enterprises more generally;
- become fully aligned to the wider business support system, through agreed referral mechanisms with existing Enterprise Network support mechanisms (Business Gateway and LECs);
- be created as a subsidiary of Scottish Enterprise, with its own Advisory Board and 'fairly small' support team; and
- operate with a budget of up to £3m from the Scottish Executive, provided via Scottish Enterprise.

This formed the basis of the initiative that Scottish Enterprise was tasked with putting in place.

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<sup>6</sup> Co-operative Development Agency Response CDA/SB/13/19/44 made by Scottish Enterprise

<sup>7</sup> Correspondence from Ian Howie (Scottish Executive) to Brian Jamieson (Scottish Enterprise) setting out the terms of reference for a new Co-operative Development Agency, June 2005

## 2.6 The Formation of CDS

### **Initial expectations and timeframe**

It was initially envisaged by the Scottish Executive in its June 2005 Guidance to Scottish Enterprise that the Co-operative Development Agency would be formed as quickly as possible. It was hoped that a Chief Executive would be in post by September 2005 and the body operational by December. The timescale for establishing the Co-operative Development Agency was not met. It took much longer than expected to form CDS and ensure due diligence.

### **Approval by the Scottish Enterprise Board**

In July 2005, the Scottish Enterprise Board approved expenditure of up to £3m over three years to support the creation of the body, to be called Co-operative Development Scotland (CDS)<sup>8</sup>.

A condition of this approval was that a Development Plan be drawn up for CDS, which should be validated through the Gateway Major Projects Approval Process.

### **Board and staff recruitment**

The first main task was to appoint a Chair and Advisory Board, and to recruit a Chief Executive. Unusually for processes of this kind, the Chief Executive was recruited in advance of the chair/board and before an agreed strategy for the organisation was put in place.

The CDS Chief Executive was appointed in January 2006 following an open and competitive recruitment process. A Chief Executive was recruited with the necessary experience and entrepreneurial characteristics to lead CDS during its formative period.

The Advisory Board was recruited by way of a Public Appointments process, with the position of Chair first to be appointed. This process resulted in a strong field of candidates, from which a small core of board members were then carefully selected. The size of the Board was later increased once CDS became fully established.

In the absence of early approval to recruit a full staff team, an advisor from Employee Ownership Scotland Ltd (EOSL) was appointed on a short-term consultancy basis from March 2006. Later becoming a full-time staff member, this helped to bring together the work of EOSL and the new CDS.

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<sup>8</sup> Minutes of the Scottish Enterprise Board, 1<sup>st</sup> July 2008

## **The development plan**

An initial and critical task was to establish a Development Plan for the new agency. This was to form the basis of an operating contract and agreement with Scottish Enterprise.

A Business Plan was developed in the early months of 2006 by the Chief Executive. The document was informed by commissioned baseline research into the co-operative sector in Scotland, consultation with key stakeholders, and input from the fledgling CDS board.

Stakeholders have generally characterised this Business Plan as robust and in keeping with key economic development priorities and the needs of the co-operative sector. Some have noted the breadth and ambition of the objectives identified, while others have highlighted a lack of detail on how these were to be achieved.

## **Full project approval**

On the basis of the research conducted and the Development Plan produced, the Gateway Major Projects Approval Process within Scottish Enterprise was retrospectively applied. It was not until May 2006 that a Gate 2 Approval Paper was prepared and subsequently approved.

This approval process ensured the required level of scrutiny on the part of Scottish Enterprise.

## **Company formation**

CDS was finally formed as a subsidiary of Scottish Enterprise in August 2006, during a period of notable change and uncertainty for the agency. According to insiders close to the situation, the prevailing circumstances meant that attention was focused on internal issues elsewhere, and CDS was only one of many competing priorities at the time.

During this period it took time to secure necessary approvals and establish CDS as a subsidiary company, with its own office base and staff team, within the established processes and systems of Scottish Enterprise.

While some of the delays noted were necessary to ensure due diligence and ensure CDS accountability within a large agency, the timescales for setting up CDS might have been considerably shortened with better planning, more urgent attention, and clearer guidance on the part of Scottish Enterprise.

As a consequence, interviewees variously attribute this process to a loss of between six and eight months, where CDS could have been established and beginning to deliver results. It was not until early 2007 that CDS became fully operational.

## 3. Progress and Performance

### 3.1 Introduction

This Section examines the progress and performance of CDS to date, focusing principally on activity and outputs arising during 2007/08, the first full year of operation of CDS. Although not wholly exhaustive, we examine the work of CDS relating to: research and intelligence; promotional activity; co-operative business start-up support; developing established co-operatives; and integrating with mainstream business support.

### 3.2 Research and Intelligence

The initial terms of reference for a new Co-operative Development Agency set out a role for CDS as a 'source of research and data of the scale and impact of co-operative enterprise activity'<sup>9</sup>. In response, CDS has taken steps to generate better intelligence on the scope, scale, characteristics and potential of the co-operative sector and the issues that impact on its development.

#### Initial baseline research

An important first step for CDS was to commission **baseline research** into the sector. Carried out by Heriot Watt University in early 2006, this presented evidence of a co-operative sector that was larger in scale and economic significance than originally thought (see Box 3.1).

#### Box 3.1: Baseline Study of the Co-operative Sector in Scotland

The Social Enterprise Institute at Heriot Watt University was commissioned to provide statistical evidence of the scale of co-operative and mutual business activity within Scotland. Compiled from a range of sources this study identified:

- 427 co-operatives and 12 mutual companies are active
- One in five adults is a member of a co-operative, and one in four a mutual
- £4 billion (approximately 4.25% of Scottish GDP) is the estimated combined turnover of all co-operatives and mutuals
- 22,000 people are employed by co-operatives and mutuals

Source: Heriot Watt Study, 2006

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<sup>9</sup> Correspondence from Ian Howie (Scottish Executive) to Brian Jamieson (Scottish Enterprise) setting out the terms of reference for a new Co-operative Development Agency, June 2005

According to the CDS staff team and stakeholders, this baseline study has provided useful data with which to inform and influence others. However, it is only a starting point, and it will be important for CDS to gather further detailed and ongoing intelligence on the sector.

## Intelligence on the co-operative sector

Subsequent pieces of commissioned research have examined the potential for development of the co-operative sector and the issues that impact on this. Examples of this research include:

- in partnership with Council of Ethnic Minority Voluntary Sector Organisations (CEMVO) and Communities Scotland, research was conducted into the potential to stimulate new **co-operative business within ethnic minority communities** in Scotland;
- an early stage research and mapping study examined the potential to stimulate **transnational co-operative trading opportunities** between Scotland, Northern Ireland, and the Republic of Ireland, through INTEREG IV EU funding programme;
- in conjunction with Co-operatives UK, and to inform the HM Treasury review of UK co-operative legislation, a legal research study was conducted into mechanisms for **the funding of Industrial and Provident Societies (IPS)**; and
- an international benchmarking study has also recently been commissioned that will provide a **comparative analysis of the co-operative business sector** in Scotland and successful European nations.

Each piece of research in itself is reported by CDS staff to have added to the available evidence base and to have informed further action. However, there has been a suggestion from some stakeholders (including members of the Advisory Board) that learning from this research could have been more fully disseminated in order to inform wider policy and practice.

Consideration has also been given to a knowledge transfer partnership, potentially involving the University of Strathclyde. This would involve research into the benefits of employee ownership.

## Measuring Impact

CDS has also embarked on a **Social Accounting and Audit (SAA)**<sup>10</sup> pilot project to analyse the added social, economic and environmental benefits (the 'triple bottom line') of the co-operative business model (see Box 3.2).

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<sup>10</sup> See [www.proveandimprove.org/new/tools/socialaccounting.php](http://www.proveandimprove.org/new/tools/socialaccounting.php)

Delivered in partnership with Community Business Scotland, this initiative has supported six participating enterprises to measure and externally verify their added value. Feedback from this pilot is positive, with early benefits arising for the participating co-operatives.

### **Box 3.2: CDS Social Auditing Pilot Initiative**

Social Audit and Accounting is a framework to help clarify an organisation's values and objectives, report on performance against their objectives, and demonstrate social, environmental and economic outcomes/impacts, emphasising stakeholder engagement.

CDS in partnership with Community Business Scotland is supporting five co-operative businesses (Loch Fyne Oysters, Highland Whole Foods, Scotwest Credit Union, West Whitlawburn Housing Co-operative, Highland Home Care) and one further social enterprise considering adopting a co-operative structure.

As part of this process each company is receiving ongoing training and support to implement framework for business management, ongoing monitoring, and annual evaluation.

Although early in the process a number of reported benefits are arising for participating co-operatives: clearer organisational focus and objectives; improved consultation with, and channels of accountability with stakeholders; the development of staff skills; and networking and collaboration between participants. During the remainder of 2008, participants will produce a set of 'social accounts' that will be subject to external audit/validation.

The testing of this approach is both useful and timely. The Scottish Government has committed to introducing a nationally agreed social impact measurement framework<sup>11</sup>. This will be based on Social Return on Investment (SROI)<sup>12</sup> measurement, but incorporate the qualitative impact measurement of Social Auditing. This will provide an opportunity for CDS to prove and improve on the added value of co-operatives using an agreed national framework.

## **3.3 Promotional Activities**

CDS was conceived to take on a leading role in the promotion of the co-operative business model. In this it has taken a range of actions to raise awareness and profile of the co-operative sector from a neutral or negative

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<sup>11</sup> Scottish Government, *Enterprising Third Sector, Action Plan 2008-2011*, June 2008

<sup>12</sup> See [www.proveandimprove.org/new/tools/sroi.php](http://www.proveandimprove.org/new/tools/sroi.php)

base. It has targeted prospective new entrants to the sector as well as other stakeholders and influencers within it.

### E-Bulletin

CDS introduced a news e-bulletin that would provide regular updates on policy, legislation, news, and events of relevance to the co-operative sector.

We understand that so far only three e-updates have been sent to subscribers and that these have been distributed on an irregular basis. These have been supplemented by irregular news items on the CDS website as well as more regular e-mail traffic and information to clients and associates of the CDS staff team.

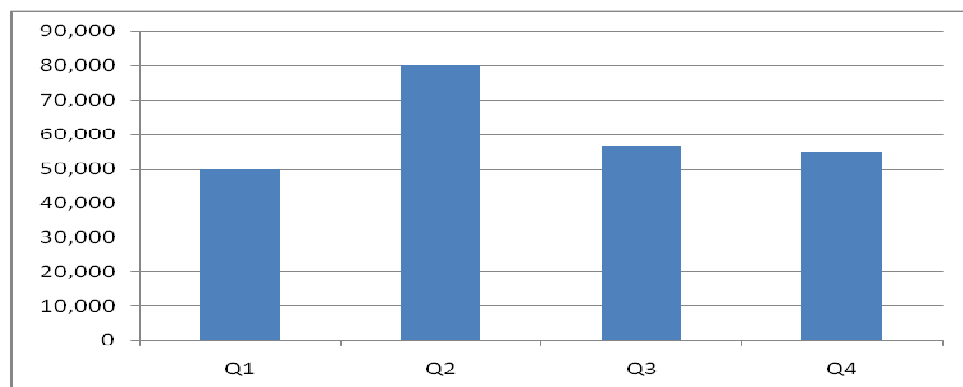
With additional marketing expertise and capacity now within the CDS staff team it will be important to increase the flow of communications.

### Website

CDS established its own identity, separately branded from Scottish Enterprise, and a website that acts as a portal for information on, and services to, the co-operative sector.

During 2007/08 the CDS website achieved 241,728 visits (266,728 since the website was set up in early 2007). This equates to an average of 20,144 visits per month, with web traffic peaking in the second quarter. While this tells us that people are aware of and accessing the website, further information on the source and pattern of use is necessary to allow a more fine-grained analysis.

Figure 3.1: CDS Website Hits during 2007/08



Source: Co-operative Development Scotland

The CDS website itself provides some useful, if dated content. This was added to in late 2007 when CDS introduced a set of 10 user-friendly factsheets as an introduction to co-operative models and activity within ten industry sectors. Beyond this there is little downloadable or interactive content to attract visitors.

While there is general satisfaction among stakeholders that the website helps to convey a strong brand identity, concerns have been expressed regarding: the dated news and content on the website; the lack of information on new co-operative models; and a lack of clarity on the product offering of CDS. The challenge is to ensure effective content management.

With the current webhosting contract due to terminate at the end of 2008/09, a refreshed and refocused website would be timely. There may be the potential to establish it as a Scottish Enterprise micro-site, while protecting the CDS brand and sharpening focus and content.

### Media coverage

CDS has been successful in securing positive media coverage, both for the fledgling CDS and for the co-operative business model.

The media coverage in 2007/08 included primetime news coverage and positive editorial comment in the print media (see Table 3.1 for a breakdown). This includes coverage in quality publications, whose readership includes key influencers, which has been valued at £235k, with messages estimated to have reached a combined audience of 1.37m.

**Table 3.1: CDS Media Coverage in 2007/08**

Media Source	Date	Description	Estimated Audience	Estimated Value
BBC Reporting Scotland	Mar 07	TV news item	500,000	£50k
Good Morning Scotland	Mar 07	TV news item	250,000	£25K
The Sunday Herald	Apr 07	Business column	50,000	£20k
The Scotsman	May 07	Business column	55,000	£20k
Evening Express & Herald	May 07	News item	25,000	£9k
Business Insider	June 07	Interview/editorial	55,000	£10k
Co-operative News	June 07	News article	30,000	£10k
Herald	Aug 07	Interview	150,000	£20k
Co-operative News	Oct 07	Interview	75,000	£10k
New sector magazine	Oct 07	Interview	45,000	£10k
ICAS	Feb 08	Feature	15,000	£20k
Holyrood Magazine	Feb 08	Article	20,000	£15k
Scotsman	Mar 08	Article/profile	100,000	£15k
Total			1,370,000	£235k

Source: Co-operative Development Scotland



This positive coverage is due much to a sustained campaign of media, PR, and external communication work. This was undertaken by CDS with assistance from Media and Communications Group the **Very People** (see Box 3.3), itself a new start co-operative formed with assistance from CDS.

### **Box 3.3: The Very People**

The Very People is a Media, PR, Marketing and External Communications group consultancy based in Glasgow. It was the first co-operative set up with help from CDS.

It brings together senior practitioners with marketing, communications and editorial knowledge within an employee-owned structure. This has reportedly allowed members to pool skills and resources, gain synergy from the team, and share risk and reward on an equitable basis.

The co-operative was launched in July 2006, and has quickly built up a portfolio of corporate and public sector clients. During 2007/08, the Very People successfully tendered and won a small contract to provide Media, PR, and External Communications support to CDS.

## **Events**

CDS has supported a small number of targeted events, with partners, designed to build its profile and connections. Examples include:

- **Co-operate to Succeed National Teachers Conference** (November 2007) – co-sponsorship of the Co-operative Education Trust Scotland (CETS) conference involving around 300 delegates from the education sector;
- **Three days at Holyrood** (March 2008) – a three day information event in the Scottish Parliament members' lobby, aimed at making MSP's aware of the issues, challenges and successes of Scotland's co-operative sector; and
- **SCVO/CIVICUS 'Co-operative Village'** (June 2008) – sponsorship of a large "Zoned" area organised by Co-operation and Mutuality Scotland to showcase the plethora of co-operative enterprises.

These types of events have been useful in building the profile of CDS and its relationships with those within the co-operative movement. Effective communication has been achieved with politicians resulting in strong cross-party awareness and support. Events such as the CETS conference also appear well placed to help introduce the objectives and work of CDS to a new audience.

The first CDS **Stakeholders Event** in May 2008 provided another high profile opportunity to formalise and extend dialogue with stakeholders. While the contributors to this Review have generally welcomed the event as a useful starting point, some consultees have identified the need to secure greater involvement from the business/economic development community, and to systematically provide follow-up opportunities for dialogue.

### **Co-operative enterprise in education**

CDS has recognised the need to introduce the concept of co-operative working at an early age, and to encourage new entrants to the sector. This has been achieved through Co-operative Education Trust Scotland (CETS). See Box 3.4 for further details.

#### **Box 3.4: The Co-operative Education Trust Scotland (CETS)**

CETS is a charitable trust dedicated to the promotion of co-operation and co-operative enterprise. It carries this out through a programme of education within schools across Scotland.

CETS operates a unique service for schools, called Co-operate to Succeed, to bring the attributes of a co-operative approach within Enterprise Education.

With CDS support of £70k over three years, CETS is taking forward a range of initiatives to raise awareness of co-operative enterprise Scotland-wide. This includes the development on new resources, materials, events, and support for schools.

With support from CDS and others, CETS has now provided resource materials and/or direct support to schools in 30 of the 32 Scottish Local Authorities. It has made 391 contacts in schools and reports strong interest from teachers in the ethical approach to enterprise and citizenship being put forward, and in incorporating CETS resources/input to Enterprise Education. There are early signs of success with young people, and their teachers, embracing co-operative enterprise and forming new initiatives and ventures within a school setting.

Representatives from both CDS and CETS have highlighted the important synergy that has been achieved through their collaborative efforts. For CETS, the relationship has provided additional resources and reach into the education system. For CDS, it has provided the opportunity to take the co-operative business model to young people across Scotland.

With substantial interest and activity now reported in schools it will be important for CDS and CETS to build on this work, and to channel interest into the formation of new co-operative enterprise (and to ensure that there is support in place for this).

### 3.4 Start-up Support

CDS was tasked with supporting the formation of new co-operatives, and with turning around the observed lack of new entrants to the co-operative sector over preceding years. It offers specialist advice and broad-based support to pre-start and early stage co-operatives, which can involve work from initial feasibility to the launch of a successful enterprise.

The start-up service of CDS has been subject to a small but steady level of interest from groups interested in forming a co-operative. In the year to April 2008, CDS received 90 start-up enquiries (almost eight per month), with January to April 2008 reportedly the busiest period.

Enquiries have originated from across Scotland. The figures provided in Table 3.2, however, indicate a disproportionately high number from the Highlands and Islands area – this appears to reflect the strong tradition of social and co-operative enterprise in the Highlands.

**Table 3.2: Start Up Enquiries by Location up to 31<sup>st</sup> March 2008**

Location	Number of Enquiries	% of Enquiries	% of Scotland's Population
Highlands and Islands	25	28%	8.7%
Lowland Scotland	65	72%	92.3%
Total	90	100%	100%

Source: Co-operative Development Scotland

There is no evidence that enquiries have been stimulated or referred through mainstream business services. Anecdotally the bulk of enquiries have emerged directly via the CDS website and word-of-mouth from those connected to the co-operative movement. There were no direct referrals in 2007/08 from Business Gateway, Scottish Enterprise, or HIE business advisors (the first direct referral from Business Gateway was received by CDS in August 2008) – this underscores the lack of engagement with established business support services discussed later in this Section.

CDS staff provide specialist advice in co-operative business structures and management. Staff provide a 'light touch' input intended to assist groups to develop the commercial proposition for co-operation and develop a structure to organise and manage the new enterprise.

To date CDS has assisted in the formation of 27 co-operative and co-owned businesses (23 during 2007/08). This represents a conversion rate of 30% on the 90 enquiries received. A further 10% of 90 enquiries remain 'live', with groups potentially requiring further support through the start-up process. One of these new-start co-operatives is described in Box 3.5.

### **Box 3.5: Scottish Woodfuels Group (SWG)**

SWG grew out of Ayrshire Woodfuels Forum, set up after a study looking at forestry in Ayrshire & Arran. Woodfuels were identified as a Government priority but it became apparent that co-operation between various suppliers was needed to ensure sustainable and reliable supply. CDS were invited to address the Forum and it quickly became clear that a co-operative structure was the best way forward.

CDS, with input from SOAS, were closely involved in developing and testing a new model for the co-operative and in drawing up membership agreements and contract templates.

SWG is now in discussion with Business Gateway, Scottish Enterprise Forest Industries cluster team and the Forestry Commission to develop a business plan to warrant the funding of a development officer, charged with attracting new members and customers, by the end of 2008. CDS remains involved as a specialist advisor.

The 27 start-ups assisted by CDS break down as follows:

- Industry – 10 start-ups (37%) operate in priority industries, including energy, food and drink, business services, tourism and creative industries (although not life sciences);
- Location – 5 start-ups (19%) have been located in the Highlands and Islands area, with a total of 7 start-ups (26%) from rural areas; and
- Type – 9 start-ups (33%) have been 'secondary' co-ops, where existing businesses combine to share resources, while 5 start-ups (19%) were initiated by unemployed people.

According to the information provided by CDS, no start-ups have come by way of employee/management buy-out. Assistance is currently being provided by CDS to two companies on this issue. Although the work of CDS has been reactive to date, there are plans to send a mail shot to 7,000 directors in the Glasgow area informing them of Employee Buy Out as an exit/succession strategy.

All of the co-operatives assisted have been introduced to one year's free membership of Co-ops UK, which includes free legal advice and networking. This also brings the possibility of free banking and discounted insurance.

Collectively these start-ups are reported to:

- involve 730 members/owners – an average of 27 owners/members per co-operative; and
- projected first year turnover of £2,170,000 – an average of £80,370 per start-up.

Further information and investigation is required into the growth potential and fit of these start-ups with the Scottish Enterprise segmentation model.

The level of new co-operative formation assisted by CDS equates to an increase of approximately 6% in the number of known co-operatives active in Scotland. This is based on evidence from the CDS baseline research of 427 identified co-operatives trading in Scotland.

There is general agreement among stakeholders that this is an acceptable level of achievement from a 'standing start' and given the early delays and challenges faced by CDS. There is an expectation, however, as it moves into a more stable period of delivery, that CDS will significantly increase the volume of new company formation in the co-operative sector.

### 3.5 Co-operative Business Development

CDS has taken on a broad and flexible remit to assist established co-operative businesses. Its advertised support products include: full diagnostic business reviews and financial health checks; advice and training in managing a co-operative; carrying out market research into new business opportunities; help to access funding for growth; and facilitating inter-trading in the sector.

#### **Business development reviews**

CDS has carried out Sirius Business Development Reviews (BDRs), but only in a small number of cases. According to the performance information provided by CDS, three co-operative businesses have completed BDRs:

- Impart Management Services Ltd (Renfrewshire) – BDR and associated support to help develop Impart's consultancy services to the social enterprise sector;
- GreenCity Wholefoods (Glasgow) – BDR and business planning and technical assistance for the demolition and construction of new distribution and office premises; and
- Highland Wholefoods (Inverness) – BDR and ongoing advice to help the business achieve its growth and co-operative ambitions.

Of these clients, Highland Wholefoods is reportedly showing improved business performance (movements against the 14 characteristics on the action plan). In the latter two cases it is worth noting that referral was made to, and further assistance provided by, the Scottish Manufacturing Advisory Service (SMAS) – an example of co-ordination between complementary support services.

Those that contributed to this Review noted some concerns, regarding: the lack of clarity of the CDS product offering to established small to medium sized co-operatives; the limited demand for business development support (given that most co-ops are of scale that do not require CDS assistance or already receiving support from related sources, e.g. SAOS, Supporters Direct, etc.); and the lack of clear alignment or client flow between CDS and account managers in the Enterprise Networks.

### **Training interventions**

The original terms of reference set down by the Scottish Executive indicated that CDS should provide training in co-operative business skills (either directly or through intermediaries). This acknowledges that co-operatives as member-based organisations may require specialised training complementary to mainstream business training.

CDS has not established itself as a training provider, nor assigned high priority to addressing the issue of training in the co-operative sector.

Up to April 2008, the extent of CDS involvement had been to send one delegate to an ethical trading event (Dec 2007) and three delegates to a Co-operative Futures event (Jan 2008). It also initiated a programme of training and support to enable six organisations to implement Social Accounting.

Since then it has taken a more active role in sponsoring a workshop for worker co-operatives organised by Co-operative and Mutuality Scotland (June 2008) and is sponsoring six places at an event of the UK Society for Co-operative Studies (Sept 2008).

The CDS team recognises that other providers are better placed to provide training in co-operative business skills. For example, both the Co-operative College and Co-operative Group both have extensive programmes available. Skills development in setting up and running a business is provided widely, with seminars provided through Business Gateway and other sources.

However, CDS has made no attempt to systematically assess the training needs of the co-operative sector, or to understand the adequacy of current provision. Neither has it formalised links with the Co-operative College and other providers (specialist and mainstream) with a role to play in developing co-operative business skills.

## Company projects

CDS has financially assisted projects intended to promote growth and innovation in the co-operative sector.

According to the performance information provided by CDS, it has invested in 26 business development projects and 12 new collaborative ventures in the period to April 2008. The total reported CDS spend on these projects has been £258,172, with leverage of £395,602 from other sources.

CDS funding has been used flexibly to initiate an array of one-off projects. Examples include:

- a project with SAOS and the Scottish Machinery Ring Association to test the feasibility of a new co-operative business to own and run a web-enabled network to grow ring membership across Scotland;
- a project with Community Self-Build Scotland to examine, develop and test new equity sharing co-operative models for affordable housing in Scotland;
- a project providing business planning for co-operatives providing broadband services in Renfrewshire and Fife, with a view to creating a template business plan to extend the model across Scotland;
- a project with SAOS and a potential New Generation co-operative, researching joint venture arrangements between farmer suppliers and bio diesel plants in Rosyth; and
- a project with input from Supporters Direct, Scottish Borders Council, and Scottish Enterprise Borders to test the feasibility of a secondary co-operative structure for sports clubs in the Borders.

CDS has also given consideration to ways in which financial institutions can ensure that available/future financial products meet the needs of co-operatives. For example, through a proposal to establish a co-investment fund for co-operatives and employee owned enterprises.

Overall, a diversity of activity has been supported. Some of the projects appear well placed to make a strong and immediate economic impact while others are likely to have a more marginal economic impact (although remain important to the development of the co-operative sector as a whole).

On the one hand this indicates a useful ability on the part of the CDS team to respond flexibly to new co-operative business opportunities. On the other, there must be a stronger strategic underpinning and robust economic appraisal of all projects supported.

The ability of CDS to fund these discrete business projects appears to have been helpful for the fledgling CDS in developing and testing new co-operative models. It has also proven helpful in promoting collaborative working – the project partners we consulted roundly welcomed the opportunity to work with CDS and its contribution to projects.

In a number of cases, the investment has been useful in identifying areas for co-operative business growth or new models worthy of replicating more widely. For example, in the homecare sector (see Box 3.6).

### **Box 3.6: Highland Homecare and Stewartry Homecare**

Highland Homecare and Stewartry Homecare (both Baxi supported employee buyouts) have led the field in quality care in Scotland. Yet there remains strong, as yet untapped, potential to develop co-operatives in this sector.

To this end, CDS has commissioned Care & Share Associates (CASA) to investigate the potential market in Scotland. CASA is a secondary co-operative offshoot of award-winning Sunderland Homecare. Some initial findings of the study are: further demand for increasingly complex homecare services; a huge increase in Direct Payments, from £2.3 million in 2001 to around £24.3 million in 2007; and 50% to 60% out-sourcing by local authorities forecast.

Based on the findings of the feasibility study, CDS has been investigating the replication and/or franchising of the co-operative homecare model. It has also been active in building the interest of Local Authorities in this area, a number of which have shown interest.

The activity undertaken to date has also pointed to the opportunity to build the co-operative presence in key/priority industries – CDS work in the renewable energy sector is the most notable example.



### **Box 3.7: Promoting Co-operation in the Renewables Sector**

The renewable energy sector has been identified by CDS as an area of strong potential for the co-operative sector e.g. wind farms, biomass and biofuels.

Working with Energy for All ([www.energy4all.co.uk](http://www.energy4all.co.uk)) and others, CDS has advised on co-ownership and the co-operative business model as part of a number of projects:

- Biomass renewable energy project – working with SAOS and South Lanarkshire Council to develop a supply chain infrastructure for wood-based biomass in South Lanarkshire.
- Renewable energy co-operative – working with Outer Hebrides Community Energy Company Network to examine the feasibility of establishing a secondary co-operative to serve six companies
- Community renewable energy company – working with City of Edinburgh Council to examine the feasibility of setting up a community renewable energy company
- Home energy distribution services – researching the potential to establish a co-operative enterprise to provide energy distribution services in Fife and Perthshire

The financial investment and support offered by CDS has therefore initiated some promising activity. It is, however, early days for many of the projects and real impact will be dependent on further and sustained CDS input.

## **3.6 Influencing Mainstream Business Support**

CDS was conceived to be a small, mobile, and well networked organisation that would be fully aligned with Business Gateway and other forms of business support. This was to ensure that their advisors and product offering reflected the needs of new and growing co-operatives. The idea was for CDS to add the specialist expertise unavailable elsewhere, and for this to complement the substantial mainstream support services already available.

Despite this there is limited evidence that CDS has interacted quickly or fully with other forms of business support. During the course of its initial three-year funding cycle to April 2008, formal contact has been limited:

- Business Gateway – a few information sessions have been held with Gateway Business Enquiry Handlers, although there is no evidence of formal dialogue with Gateway contractors;

- Scottish Enterprise – there were a small number of ad hoc information sessions held with small groups of Account Managers in four LEC areas during 2007/08;
- Highlands and Islands Enterprise – there was some initial formal contact with HIE Business advisors in mid-2007, and some limited interaction on local co-operative business projects; and
- other business advisors (e.g. banks, accountants, lawyers, etc.) – there has been no systematic attempt by CDS to engage with other frontline forms of business support.

A number of perceived obstacles have been reported by the CDS team and other stakeholders in relation to this:

- it proved difficult for CDS to get 'airtime' within Scottish Enterprise, and its business advisors, during a prolonged period of restructuring and uncertainty;
- it was a difficult time to engage with the Gateway, with contracts subject to a retendering process during 2007 and responsibility for their management now being transferred to local authorities; and
- it was difficult to achieve structural alignment, with no priorities relating to co-operatives built into Gateway contracts, and no financial incentives to refer relevant business customers to CDS.

On the other hand it has been argued by some contributors to this Review that more progress could have been made by CDS, more quickly. These counter arguments are that:

- although changes in the co-ordination and management of mainstream business support has occurred, these services have continued to be delivered throughout and support contractors and advisors were available to work with CDS;
- unlike CDS, other comparable specialist services (e.g. the Scottish Manufacturing Advisory Service) within Scottish Enterprise have been able to form productive new relationships with Gateway advisors and account managers during the same period; and
- there was a similarly low level of engagement by CDS with other key business advisors (banks, accountants, lawyers, etc.) and specialist intermediaries (e.g. PSYBT) suggesting that it was not simply an issue of uncertainty and change on the part of Scottish Enterprise that delayed progress.

The net result, some two and half years after the first CDS staff member came into post, is that there is as yet no structure/framework in place to guide interactions between CDS and other business support services. There is no evidence to suggest that generic business advisors are significantly

more aware of the co-operative model as a start-up option, or that they have actively stimulated interest in the co-operative business model.

Some progress has been made during the summer of 2008. At the time of writing, formal dialogue had now taken place with representatives from seven of the eight Business Gateway Contractors and with Senior Executives in four of the five Scottish Enterprise regional offices. While the feedback from these sessions is reportedly positive, further work is required to clarify the CDS product offering, build relationships and referrals between advisors, and ensure that respective messages are consistent to customers.

### 3.7 Overall Performance

This section provides an overall summary of the financial inputs, activity, and outputs of CDS to date.

#### Financial Inputs

CDS was established with an available operating budget of up to £1m per annum, or £3m over three years to be made available by the Scottish Executive and provided via Scottish Enterprise.

The figures provided in Table 3.3, show expenditure directly attributable to CDS as a subsidiary of Scottish Enterprise. Total expenditure was £873,677 over three years (less than one-third of the available budget allocation). Just over half of funds have been allocated to operating costs, with increasing expenditure on marketing and project delivery.

Table 3.3: CDS Expenditure 2005 to 2008

	2005/06	2006/07	2007/08	Total	%
Operating Expenses	£1,542	£158,606	£308,239	£468,387	54%
Project Delivery	-	£111,680	£231,234	£342,914	39%
Marketing & Communications	-	£27,071	£35,305	£62,376	7%
<b>Total</b>	<b>£1,542</b>	<b>£297,357</b>	<b>£574,778</b>	<b>£873,677</b>	<b>100%</b>

Source: Co-operative Development Scotland

At no time has the activity of CDS been limited by the financial resources available to it. Rather, it has been constrained in its ability to use these resources due to early delays in establishing the organisation and subsequent staff turnover (see section 5).

In the current year, the CDS budget has been agreed at £581,500, with a broadly even balance of operating costs and project costs (see Table 3.4).

Table 3.4: CDS Budget Allocation for 2008/09

	Allocation	%
Operating Expenses	£256,500	44%
Project Delivery	£256,170	44%
Marketing	£68,830	12%
Total	£581,500	100%

Source: Co-operative Development Scotland

## Reported Outputs

Based on the performance information reported in this section, it is clear that CDS is making some form of contribution across a broad range of indicators. This in itself makes the task of assessing and reporting on its overall contribution challenging, and calls for the development of a simple set of performance indicators and associated targets for the next phase of CDS activity.

The stakeholders that we have consulted during the Review have indicated general satisfaction with outputs to date, given the slow process of CDS formation, difficulties engaging fully with mainstream business support services, and staffing shortfalls at key periods.

A range of representative comments from stakeholders include:

“I would have preferred us to have been at this point six months ago...”

“It has been a good full first year, but there is a sense that more could have been delivered.”

“It has progressed as well as could have been expected given circumstances”

“It has been a bit start-stop ... CDS has never really got going”

“More could have been achieved, and faster”

## 4. Customer Assistance and Satisfaction

### 4.1 Introduction

This Section examines the assistance that CDS has provided to business customers, and the satisfaction and benefit derived by them. The discussion is based on 17 completed telephone interviews with CDS customers (from a list of 25 assisted co-operatives supplied by CDS). The sample included 13 groups starting or converting to co-operative status, and four established co-operatives.

### 4.2 Initial Motivation and Interests

#### Pre-intervention status

Interviewees were first asked if their business was already established when first assisted by CDS and, if so, in what form it existed.

The feedback in Table 4.1 shows that almost half of respondents were in the process of forming a new business venture. Just over half were already trading in some form prior to assistance from CDS, although of these only four were trading as a co-operative – others adopted a more conventional business structure or operated as a voluntary organisation.

Table 4.1: Status of Business Prior to Intervention

Status	Respondents
Yes – partnership	1
Yes – limited company	1
Yes – existing co-op	4
Yes - other	3
No business structure	8
Total	17

Source: EKOS Telephone Survey of Assisted Co-operatives

#### Rationale

Those starting up or changing to co-operative status were asked why they were interested in using a co-operative structure.

Most, as might be expected, were motivated by what are generally considered the traditional ideals of the movement: democratic or non-hierarchical control; allowing varying economic contributions to be recognised and rewarded; the opportunity to collaborate or network with others; and the principal of fairness and benefit for others.

For some with a pre-existing understanding or background in the co-operative sector, this was regarded as the logical step to establishing a new venture. For those with a more conventional business background the co-operative structure is reported to have offered the scale, credibility, and confidence associated from working with others.

## Awareness

Respondents were next asked how they first became aware of CDS and its services.

The feedback presented in Table 4.2 suggests that CDS has attracted those already close to the co-operative sector. The largest number of customers found their way to CDS through 'word of mouth' – discussion and knowledge of CDS had been trailed by bodies such as Co-operatives UK for some time before the organisation's launch. There is also evidence of signposting (if not formal referrals) by other intermediaries in the co-operative movement and by economic development bodies, Local Authorities and other agencies. A small number also found CDS through their own endeavours (e.g. via the CDS website).

Table 4.2: First Awareness of CDS

Method	Respondents
Word of mouth	7
Referral by other Agency	6
Own web/literature search	4
Referral by another co-operative	1
Approached by CDS	1

Source: EKOS Telephone Survey of Assisted Co-operatives

## Motivation

Interviewees were then asked about their motivation for approaching CDS and their requirements of CDS.

The responses shown in Table 4.3 show that the single most important reason for contacting CDS was to start-up a new co-operative business or convert an existing enterprise into one. Comparatively few respondents were looking for other forms of business development support such as grants, financial advice or business training, and when they did this was often secondary to starting up or converting their business. The 'other' motivation mostly refers to matters specifically concerned with applying co-operative status or structure to the particular circumstances of their enterprise.

Table 4.3: Motivation for Seeking Assistance

Motivation	Respondents
Wanted to start a business	11
Wanted to change to co-op status	3
Grant support	2
Financial advice	2
Lack of business skills/experience	2
Other	6

Source: EKOS Telephone Survey of Assisted Co-operatives

Almost all our respondents recognised or were aware that CDS specialises in co-operative business. In such circumstances, respondents conveyed their logic in seeking assistance from a specialist agency rather than generic service such as Business Gateway. Indeed some reported serious doubts as to the ability of agencies such as Business Gateway to advise on specialist matters such as co-operative models and structure.

### **Ease of access**

Interviewees were asked about their experiences of accessing support from CDS and any difficulties arising.

All respondents bar one reported that CDS were easy or very easy to contact. Most reported prompt and helpful response to telephone or email messages. The lone dissenter felt that their initial difficulty in making contact was due to staffing shortages and this disappeared once their formal relationship with a CDS advisor began.

## **4.3 Assistance Provided**

### **Expectations and clarity**

We asked customers about their expectations at the outset, and their clarity regarding the support available from CDS.

Most customers approached CDS with a clear requirement – usually to receive help in forming their co-operative – and as such had a reasonably clear expectation of the support that might be useful in this.

Nearly all respondents confirmed that CDS clearly stated upfront the range of assistance that it could offer.

## The support process

Interviewees were asked to outline their contact with, and input, from CDS over time.

Although the detail varies somewhat from case-to-case, the assistance provided in forming a new co-operative normally includes:

- up to four in-depth, face-to-face meetings to explore the suitability of the co-operative model and then to determine the precise model and structure adopted;
- meetings are supplemented by a mixture of telephone and e-mail advice as required at intervals throughout the start-up process; and
- CDS helps to complete the registration of the new entity.

Active CDS involvement generally ceases at this point, and respondent's reports of follow-up or further assistance are rare.

Contact and support for established co-operatives varies more significantly. The assistance tends to be more bespoke to the characteristics and needs of that co-operative. It is likely to involve some element of financial assistance, and focus on a discrete company project.

## Satisfaction with the support offered

Contributors were asked what assistance they had received and how satisfied they were with this. Table 4.4, over, reports their responses.

Table 4.4: Customer Rating of the Business Support Provided

	Not Received	Very Satisfied	Satisfied	Neutral	Dis-satisfied
Overall satisfaction	-	10	7	0	0
Business growth	10	2	3	2	0
Business management	12	3	1	1	0
Market research	16	1	0	0	0
Financial (grant) support	12	2	2	1	0
Start-up advice/support	8	7	2	0	0
Business ownership transfer	14	2	1	0	0
Legislative/regulatory advice	6	4	6	1	0
Referral to other agency	12	2	1	2	0
Other	13	0	1	3	0

Source: EKOS Telephone Survey of Assisted Co-operatives



The first point to take from the responses is the high level of satisfaction with the advice and support delivered by CDS. No respondent voiced any level of dissatisfaction with any aspect of the agency's activity. Most respondents commented on the detailed and thorough knowledge of co-operative models and structures displayed by their advisor. Several also commented on how smoothly the process of registration or conversion seemed to flow, presumably, at least in part, as a result of this experience.

The second point apparent is that most respondents did not receive support beyond that required to start-up or convert their business. Most activity beyond this is delivered to the four pre-existing co-operatives interviewed rather than to the newly formed co-operatives. It is these areas of generic business support that record the lowest levels of satisfaction, although it must be stressed that no one reported any dissatisfaction with the service they received. At the very worst they were ambivalent towards it.

This lack of post-start activity, particularly the low number of referrals to other support agencies, reinforces the need for improved alignment with established business support agencies.

### **Alignment with related business support**

Interviewees were asked about the use made of other forms of business support and the extent to which they were connected to the work of CDS.

A total of 12 of the sample had received some form of assistance from other public sector agencies, including: Local Authorities; Scottish Arts Council; LECs; Business Gateway; Intellectual Assets Centre; as well as some other localised forms of support. This support took a variety of forms such as training, financial assistance, business planning, business advice, etc. Opinion on the support from other agencies was generally positive.

There is some limited evidence of synergy between CDS and other forms of support. In a small number of the cases examined CDS has provided support in collaboration with others (e.g. SAOS), for example through jointly funding feasibility studies. As discussed however, there is no evidence that customers are being systematically referred to CDS from mainstream business services or routed back to these by CDS.

The assertion that CDS tends to operate in isolation from other sources of business assistance is supported by the finding that only two respondents had strong (and quite negative) views on how well aligned/integrated CDS was with these. In part this reflects respondents' perception of the quite narrow remit of CDS, and in part a perception that generic enterprise agencies lack an understanding and appreciation of what a modern co-operative can offer.

## Strengths and weaknesses

Respondents were asked what they regarded as the strengths and weaknesses of CDS.

There was a clear consensus on the strengths of the agency and a general reluctance to identify any weaknesses. Table 4.5 summarises the unprompted comments of interviewees.

Table 4.5: The Reported Strengths and Weaknesses of CDS

Strengths	Respondents
Knowledge & understanding of cooperative sector	14
Speed of response	3
Awareness raising	2
Involvement in energy and the environment	1
Weaknesses	Respondents
Staffing levels	3
Lack of small business experience	1
Low profile of CDS	1
Lack of some specific sectoral knowledge	1
Not clear what support is available from CDS	1

Source: EKOS Telephone Survey of Assisted Co-operatives

The Table is very much consistent with points already made by contributors. The specialist knowledge and experience of CDS advisors is clearly a major asset and important to those seeking assistance. The speed of response from such a small team is also appreciated.

In contrast, reported weaknesses are more the product of individual rather than common experience. The main point made relates to the perceived staffing constraints that CDS has been under.

## Overall satisfaction

Interviewees were asked the extent to which CDS had met their initial expectations.

The response was positive:

- nine respondents indicated that their expectations were fully met;
- six indicated that they were partially met; and
- two reported that they had had no expectations of CDS.

Those reporting no initial expectations of CDS were both start-ups exploring a number of potential business structures, with no particular preconceptions of the role or input of CDS.

Half those reporting that their expectations as partially fulfilled were established co-operatives. In their comments they generally expected 'more' from CDS in terms of its understanding or contribution to the companies' development needs. One of the new start co-operatives had hoped for a broader range of support, while two others expected greater access to financial support.

Those whose expectations were more fully met were typically new co-operatives whose expectations were limited to some basic start-up advice.

All respondents indicated that they would recommend CDS support to others, and some already had done so.

## 4.4 The Difference Made

### Quantitative impacts

Although too early to assess the full economic impact of CDS, respondents were asked to comment on the situation for their company before, during, and after support.

Ten respondents were able to provide some details as shown in Table 4.6. Broadly, the figures illustrate the economic potential of the assisted co-operatives – employment, sales, and profitability all show a broadly four-fold increase. These figures should be treated with some caution as the figures for turnover and profit are dependent on a small number of data providers and/or some significant outliers. There is also a problem with attribution, particularly for the secondary co-operatives that responded.

Table 4.6: Employment, Profitability, and Sales

	Prior to CDS	Currently	In 3 years time
FTE Employees	15	22.5	55
Sales / Turnover	£986,000	£1,448,700	£4,062,000
Profit	£75,000	£121,000	£270,000

Source: EKOS Telephone Survey of Assisted Co-operatives

The entire sample was positive as to the likely future prospects for your company over the next three to five years, with all predicting growth: ten forecast strong growth; and seven forecasting slight growth. This optimism is not unexpected from relatively young businesses. The more established businesses were more cautious in outlook, predicting only slight growth over the short to medium term.

## Counterfactual

It is also informative to examine what would have happened in the absence of advice/support from CDS.

The responses presented in Table 4.7 suggest that the work of CDS is having a marked impact on the speed to market of assisted companies, typically accelerating progress by between six months and one year. In four of the 17 cases it has helped to create companies that would not otherwise exist, certainly as a co-operative. For others it has made the start-up or conversion process smoother and more effective.

Table 4.7: The Counterfactual Situation

	Respondents
Co-operative would have started later	10
Don't know	4
Scale of business would be smaller	3
Business would not have started/still exist	2
Business would not have co-operative status	2
No change	1

Source: EKOS Telephone Survey of Assisted Co-operatives

## Qualitative impacts

Interviewees were also asked if they could attribute any other of the qualitative benefits listed in Table 4.8 to the support received from CDS.

The feedback suggests that CDS brings a number of important benefits to the companies it assists. The assistance provided typically results in more informed, confident, focused, and motivated co-operatives.

Table 4.8: Qualitative Benefits

	Respondents
Better knowledge of co-operative movement	13
Increased confidence	12
Better business focus	10
Better motivation	9
Access to other forms of support	9
Improved knowledge of business practices	8
Better business contacts/networking	8
Other	3

Source: EKOS Telephone Survey of Assisted Co-operatives

## 4.5 Future Requirements

### **Suggested improvements**

Interviewees were asked to offer ways in which CDS could improve its service in future.

A dozen respondents had some suggestions, which included:

- better publicising success stories and promoting co-operatives as a modern and viable business structure;
- awareness raising of the needs of co-operatives within Scottish Enterprise and the wider economic development community;
- improvements to the CDS website (although these opinions were not based on any recent visits to it);
- a more proactive approach from CDS; and
- additional staff, and the availability of staff with generic business development expertise.

### **Gaps in support**

Interviewees were also asked if there were other types of support that might have been helpful but which were not available from CDS.

Nine of the 17 respondents indicated that there were gaps in the support available to them. These included:

- opportunities to network with like-minded co-operatives, to take forward collaboration, and to address shared business needs;
- business planning and management advice; and
- advice on, and access to, funding/finance for business development.

### **Future requirements**

Finally, companies were asked if they would need further business development support over the next three years. Table 4.9 reports.

The Table shows that most of the sample anticipates further business development needs over the next few years and that most of them would seek assistance from CDS as well as other agencies.

Table 4.9: Likely Business Support Needs

	Respondents
Yes – from CDS	13
Yes – from other agency	12
No/don't know	2

Source: EKOS Telephone Survey of Assisted Co-operatives

Of the 13 respondents who expect to access further support from CDS in the short to medium term, all bar one expect this to be related to developing their co-operative structure or expanding its membership. This reflects the relatively narrow service they understand CDS to offer.

Assistance asked of other agencies is expected to relate to: business premises; investment in machinery and equipment; networking and market development; training and management development; and financial and investment advice.

## 5. Management and Delivery

### 5.1 Introduction

This Section examines CDS governance, management, and operations. In particular it looks at: structure and status; the advisory board; leadership staffing, partnership working; and operational systems and processes.

### 5.2 Structure and Status

CDS was established as a wholly-owned subsidiary of Scottish Enterprise with an executive board of two directors, and aligned to the agency's corporate governance structures, financial procedures, and operational processes. CDS, however, retains its own independent identity and is guided by its own Advisory Board.

There has been widespread acknowledgement among the contributors to this study that the current status of CDS as a Scottish Enterprise subsidiary offers a number of key advantages:

- it provides the strongest possible alignment with the Government's economic development priorities and delivery structures;
- it provides access to important resources, expertise, and contacts that can assist in the delivery of CDS objectives;
- it positions the co-operative business model within the 'mainstream', and affords credibility to CDS; and
- it offers a robust form of corporate governance.

However, there is recognition that these advantages have not yet been fully exploited. The slow establishment of CDS and perceived difficulties in fitting with Scottish Enterprise structures and culture has coloured the judgement of some on the value of this relationship.

There remain some dissenting voices within the co-operative movement who believe that the long-term interests of the sector are best served by an independent industry-owned body or Executive Agency. However, no-one has conceived of a viable future for CDS in the short-term that is independent of Scottish Enterprise. CDS is still a fledgling organisation with much to prove.

Importantly, despite some initial scepticism, we have found a strong and growing commitment among key staff at Scottish Enterprise to making CDS highly successful. With the full resources and commitment of the Scottish

Enterprise behind CDS there is no reason why an effective business support model for the co-operative sector cannot now become fully established.

### 5.3 The Advisory Board

CDS was established with an Advisory Board to help guide its work, but with no executive functions. The Board currently comprises 11 members.

We have found broad agreement that there is an important role for an Advisory Board in charting the course for CDS. It is also widely accepted that the current Board brings together professional experience, credibility, and contact within the co-operative movement, along with significant experience in mainstream business development.

Some early or ongoing frustrations have been noted by Advisory Board members. In part this reflects the turbulent formative phase of CDS, and is not unusual of a fledgling organisation. It also reflects individuals' commitment to contribute as meaningfully as possible to the objectives of CDS in the absence of any role in corporate governance.

As CDS now moves into a more stable phase of operations, consultees have variously suggested the importance of: further tapping into the skills of board members; clarification of the terms of reference of the Board; a more outward looking or ambassadorial role for the Board; greater regularity and frequency of communication with members; and an extension of Board membership to include fledgling co-operatives of the type assisted by CDS.

This appears to call for further clarification/refinement to the role and responsibilities of the Advisory Board rather than wholesale change.

### 5.4 Leadership

The early leadership and direction for CDS has been set by the Chief Executive and Chairperson. Scottish Enterprise has sought to provide CDS with the opportunity to establish its own vision and direction, albeit one which is carefully aligned to Scotland's economic development priorities and to the internal structures and approval process of the Network.

Consultees have generally commented positively on the role played by the Chief Executive and Chair during the formative phase of CDS.

With a new Chief Executive now being appointed, it will be important for the postholder to take the broad vision that has already been agreed for CDS and to translate it into an extended period of operational stability and enhanced delivery. The contributors to this Review have noted the importance of strong leadership and sound management during the forthcoming period.



## 5.5 Staffing

CDS was formed with a small and specialist staff team in mind, recognising that it would take time for CDS to build a presence in the marketplace and for demand to emerge. The CDS staff team has not exceeded four at any period, and during its first cycle of funding has had a full complement of four staff for a period of just 11 months.

The long period of time taken to recruit staff, combined with subsequent staff turnover, has significantly undermined the scope and scale of activity that CDS has been able to deliver. In particular, the loss of two key staff in early 2008 after less than a year in post followed by the departure of the Chief Executive in July. Without these difficulties it is likely that the achievements of CDS would have been even greater.

Regardless of the unplanned staff shortfalls, a number of consultees have questioned the ability of CDS to deliver on its broad and ambitious objectives with a small staff team of just four or five. Stakeholders have highlighted the importance of ensuring sufficient capacity to build/maintain productive relationships with delivery partners, nationally and locally, as well as to provide a proactive/direct service to new and growing co-operatives.

The appointment of three new staff members during recent months has brought useful additional experience in marketing and the delivery of mainstream business support. The challenge now is to build and retain a staff team that are well versed in co-operative business development and able to offer a consistently high level of expert advice to business customers.

## 5.6 Partnership Working

With a relatively small staff team in place, it was expected that CDS would deliver on its objectives, with and through others. This was both to extend the reach and impact of CDS but also to avoid duplication or confusion in the marketplace.

To date, useful working relationships have been formed at a UK level and internationally. Close communication and collaboration with Co-operatives UK is evident. Regular dialogue and co-operation has been established with the International Co-operative Alliance (ICA).

Productive relationships with other Scottish support intermediaries in the co-operative field have also been formed. CDS was proactive in seeking early dialogue with important intermediaries (e.g. SAOS, Supporters Direct, etc.) since when relationships have been fostered and reasonably skilfully managed. CDS has attempted to find common ground with partners, maintain regular dialogue, and, where possible, take on joint work. Formal Partnership Agreements were established at the outset with key partners.

There was an expectation that CDS would have no direct role in supporting the development of co-operatives in sectors where existing support mechanisms were in place. Although one might argue that CDS may have strayed 'off brief' in some cases, or bring into question the economic contribution of some projects, CDS has generally sought to do three things:

- add value to other support organisations (e.g. Supporters Direct);
- deliver its objectives through others where possible (e.g. CETS); and
- support collaborative projects only where economic impact is likely.

Box 5.1 discusses the example of Supporters Direct as a case in point.

#### **Box 5.1: Assistance to Supporters Direct in Scotland**

Supporters Direct provides advice to supporters' trusts in Scotland on how to organise and acquire a collective shareholding in their clubs on a not-for-profit basis for re-investment. It supports some 35 trusts, which have invested £2m over 5 years and involved democratic representation from over 30,000 members.

CDS formed a partnership agreement with Supporters Direct in 2007, which helped to clarify respective roles and has provided the basis regular communication, and collaboration on two key projects:

- With support from CDS, Supporters Direct has piloted a training programme for the board members of supporters' trusts – this has built the skills/capacity of Supporters Direct to deliver training to members, and led to benefits for participating trusts
- CDS and Supporters Direct have assisted a supporters trust to examine the potential to introduce a co-operative ownership structure within a major football club – this complex process is ongoing and if successful offers the prospect of wider replication

Further opportunities for collaboration between CDS and Supporters Direct are likely.

Operationally, CDS has formed many partnering and sub-contracting arrangements, often centred on discrete projects. The project partners that we consulted have characterised CDS as a willing, responsive, and effective partner (albeit within the inevitable limits to the flexibility and resources available to CDS).

More could be done, however. As discussed, internal communication and collaboration within Scottish Enterprise and with Business Gateway is something that CDS must strengthen. The perception among partners within and outside of the Network is that CDS is not yet 'on the radar' of

established business support services – although as we note earlier, this is improving.

There is also a message from stakeholders of the need for a more localised dimension to the work of CDS. For some, a firmer understanding of the needs, characteristics and potential of the co-operative sector on the ground would be a useful starting point for developing local support strategies with Local Authorities and other local intermediaries.

## 5.7 Operational Systems and Processes

CDS has sought to establish and work within a set of operational policies and processes that are consistent with those used by Scottish Enterprise.

CDS has agreed to adopt the Scottish Enterprise approach to Consistent Customer Management and the agreed segmentation model, involving three types of intervention:

- Relationship management - a sustained relationship with a leading co-operative, either established by CDS or as a specialist input to an existing client or account managed relationship;
- One-to-one support – building the capacity of co-operatives, to generate the pipeline of growing businesses into the Network’s higher value interventions; and
- Self-service – providing a cost-effective ‘one-to-many’ telephone and website services to cater for a higher volume of interventions.

CDS has articulated its proposed client management process and CDS staff appear generally clear on the agreed segmentation model. In practice, however, and in the absence of formal connections with account managers and Gateway Advisors, CDS appears to pursue an open and flexible approach to managing customer relationships. This flexibility to provide direct support co-operatives that fall outside of the segmentation model is important if the co-operative sector is to growth in scale and breadth.

As a subsidiary company, CDS has been supported by centralised HR, financial management, and communications functions. On the one hand these systems are robust and ensure public accountability and compliance. On the other hand, some staff and outside stakeholders have commented on the fit between these systems appropriate to the needs of a large agency covering Lowland Scotland, and the needs of a small, independently branded organisation with national coverage.

Whatever the case, it has taken time for systems to bed-in and for the benefits of these to be fully realised. Staff have noted also the lack of administration support available to the CDS until recently, and the additional burden that this has placed on the team.

## 6. The Changing Context

### 6.1 Introduction

This Section examines some of the broad shifts in the CDS operating environment that will shape the future role and direction of CDS. These include: the increasing National priority being assigned to sustainable economic growth, and business support; an increasing emphasis on intervention in priority industries; institutional changes on the economic development scene; and key changes in the co-operative field.

### 6.2 Sustainable Economic Growth to the Fore

The Scottish Government has put **sustainable economic growth** as its central and overriding priority.

The Government's Economic Strategy<sup>13</sup> identifies five Strategic Priorities that are internationally recognised to be critical to economic growth: Learning, Skills and Well-being; Supportive Business Environment; Infrastructure Development and Place; Effective Government; and Equity. It recognises that Scotland's businesses as the primary driver of economic growth.

In response Scottish Enterprise is increasingly focusing support on those businesses which have high growth potential and are of regional or national significance. This means helping companies to realise their growth potential and increasing the impact and speed to market of high growth start-ups. Scottish Enterprise intends to work with 10% more account managed companies during 2008-09, and is building its Account Management service to work more intensively with companies ambitious to grow.

The baseline CDS evidence shows that compared with the wider Scottish economy the co-operative sector has shown the potential to yield a disproportionate number of companies of scale (economic growth). At the same time it offers a democratic business model that promotes inclusiveness and participation (equity).

To make a meaningful contribution CDS must ensure that it has a clear framework for intervention in place that is closely aligned with Scottish Enterprise's remit of supporting Growing Businesses, but which recognises the wider objectives and remit of CDS. It must build capacity in co-operatives and generate the 'pipeline' of growing businesses. Moreover, it must demonstrate a measurable contribution to sustainable economic growth, and the wider social and environmental impact arising from its unique role in supporting co-operative enterprise.

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<sup>13</sup> Scottish Government, *The Government Economic Strategy*, November 2007

## 6.3 A Sharper Focus on Priority Industries

The Government's new economic strategy places a greater emphasis on Scotland's key sectors to boost productivity and improve Scotland's position in the global economy.

Support for Scotland's key/priority industries has become a much more important focus of activity for both Scottish Enterprise and Highlands & Islands Enterprise. There is now a renewed focus on competitiveness and growth in the following industries: energy; financial and business services; food and drink; life sciences; tourism; and creative industries.

CDS has identified a small number of sectors with particular potential for the co-operative sector, including: financial services; food and drink; retail/consumer services; and farming and aquaculture.

As discussed, CDS has initiated a range of activity, some of which is intended to encourage co-operative innovation, investment, collaboration, and growth in key/priority industries – most notably the renewable energy sector.

CDS, like Scottish Enterprise, must consider where it might further develop its focus and product offering to ensure that these are aligned with opportunities in each of the key/priority industries. A more strategic and focused programme of work will be required on the part of CDS and greater connection with the industry teams within Scottish Enterprise and Highlands & Islands Enterprise.

## 6.4 Changes in the Delivery of Business Support

In order to deliver on the economic priorities for Scotland, and reflecting the shift in emphasis discussed above, there have been changes in the structure and responsibilities for the delivery of business support.

These changes build on the reforms to the Enterprise Networks that were announced by the Cabinet Secretary for Finance and Sustainable Growth in September 2007<sup>14</sup>. In particular, the drive for Scottish Enterprise to focus on supporting high growth businesses, with Local Authorities taking on responsibility for Business Gateway and regeneration activities.

Scottish Enterprise with a refreshed and refocused remit as Scotland's enterprise, innovation and investment agency is undergoing a number of changes. The network of Local Enterprise Companies no longer exists although the 12 local offices have been retained. Specialist teams focused on innovation, commercialisation and business infrastructure have been

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<sup>14</sup> See [www.scotland.gov.uk/News/Releases/2007/09/26143846](http://www.scotland.gov.uk/News/Releases/2007/09/26143846)

established to support business customers and industry teams. At the same time the number of account managers will increase to enable more intensive work with businesses.

Local Authorities are now assuming a greater role in delivering local economic development. This has been backed up by the Single Outcome Agreement which places specific value in increasing the business start up rate. To deliver on this, Local Authorities are developing their role as a single point of advice and guidance to local businesses serving local markets. They are assuming responsibility for the Business Gateway service, with a lead council taking on responsibility for each contract in order to minimise cost communications and increase efficiencies.

For CDS, the landscape of partners involved in local business support has now changed. This brings the need to build relationships with more diverse group of local stakeholders, including key Local Authorities. There is an opportunity for CDS to take a more proactive approach during this period of transition and ensure that it becomes fully connected into local economic development and business support arrangements.

## 6.5 Growing Profile of the Co-operative Sector

At the same time that the economic priorities in Scotland are being refocused, and the business support system changing to accommodate them, the co-operative business model is also rising up the agenda.

Evidence of this shift can be seen in a number of respects:

- large corporate bodies within the co-operative sector are generally performing well with, for example, the Co-operative Group's £1.6bn acquisition of Somerfield the biggest in co-operative history;
- there is increasing political attention and support being afforded to the co-operative sector, with plans now in place to establish a Cross Party Group on Co-operatives within the Scottish Parliament; and
- steps are being taken to help modernise the sector and level out the playing field with other forms of business – HM Treasury plans to amend the legislation for industrial and provident societies (IPSS) and credit unions is likely to be passed within the next year.

To some extent CDS has been riding on this renewed wave of interest in the co-operative sector, but is also beginning to create its own ripples. The priority for CDS must be to capitalise on opportunities to take the co-operative business model to new audiences.

## 7. Findings and Recommendations

### 7.1 Introduction

This Section draws together the main findings of the review and examines the issues and implications for the future development of CDS.

### 7.2 Progress to Date

This study set out to examine the progress and performance of CDS during its formation and early operation.

The Review has found that it took longer than expected to establish CDS, and that this process proved challenging. With the benefit of hindsight, the timeframe to establish CDS proved overly optimistic. There are also lessons to be taken on board by Scottish Enterprise regarding the priority it assigns to atypical projects and the process it goes through to establish subsidiaries.

Nonetheless, in its short period of operation CDS has taken forward some interesting work and achieved some promising results. In particular CDS has:

- helped to build a better understanding of the scale and economic significance of the co-operative sector;
- established itself as a focal point for support to the sector, and worked well with other key players in the co-operative movement;
- brought increased prominence and attention for the co-operative sector, and established the CDS brand; and
- tested some interesting projects that have the potential to encourage innovation and growth of the co-operative sector.

CDS has, however, made use of relatively modest human and financial resources and has spread itself thinly across a number of fronts.

Our findings suggest that CDS could and should have achieved more in some areas. In particular, it has not interacted quickly or fully with established forms of business support.

On balance, given its slow start and the staffing difficulties experienced during the period, CDS has performed adequately during the period.

## 7.3 Review of Current Position and Status

Based on the evidence produced during the course of this Review, the current position of CDS might best be summarised as follows.

### Strengths

- Access to internal knowledge and resources in Scottish Enterprise
- Broad network of intermediaries/ partners in the co-op movement
- Highly experienced and well connected Board
- Broad-based political and stakeholder support
- Positive media coverage and distinctive brand
- Staff team with a mix of co-op and generic business development skills
- Growing track record and a positive message

### Weaknesses

- Wide vision and unfocused set of objectives
- Limited staff capacity to deliver a broad and ambitious agenda
- Difficulty in recruiting and retaining key staff
- Lack of alignment with mainstream business support
- Unclear offering to established co-ops with growth potential
- Gaps in intelligence on the needs and potential of the co-op sector
- Lack of full alignment with Scottish Enterprise systems and processes

### Opportunities

- Planned legislative changes to modernise the co-op legal structure
- Continuing alignment with the Government's economic strategy
- Strong demand for co-op solutions from rural communities
- Growing interest in alternative and ethical business, especially among young people
- Thriving corporate role models in the co-operative sector
- Growing profile of Scotland on the co-operative scene
- Untapped market for employee buy-outs (e.g. family businesses)
- Potential for new waves of co-operative formation in priority industries

### Threats

- Added complexity of stakeholders following the transfer of Business Gateway to Local Authorities
- Challenging economic conditions as a constraint on business start-up and growth
- Continuing weak or unproven demand for co-op formation
- Limited priority assigned to co-ops by wider business support services
- Potential for confusion/overlap with the social enterprise agenda
- Ongoing change/uncertainty in the economic development field
- Uncertainty regarding long-term funding to CDS



## 7.4 Issues, Implications, and Options

The findings outlined in this Review suggest the need for continued refinement and refocusing of the work of CDS, rather than wholesale change. We now turn to some of the main issues and implications for CDS.

### **Stimulating the market**

In part, CDS was established to raise the profile of the co-operative sector, and to counteract the lack of awareness that may restrict people's ability to make informed choices about the type of enterprise they will form. While CDS has been reasonably successful in achieving positive media coverage for the co-operative model, its presence and its promotional work have so far resulted in only a modest but steady stream of start-up enquiries. Much more must therefore be done to turn around the stagnation in new co-operative formation and to develop the full potential of the sector.

In order to encourage a stronger flow of quality start-ups it is vital to raise awareness of the co-operative model as a way of doing business. This means introducing the idea of co-operative working to young people and other audiences that are most attuned to ethical/alternative business, and in situations where the co-operative model provides a ready-made solution to a recognised business problem (e.g. family business succession). It also means using the right 'touch points' to carry the CDS message – such as a network of 'ambassadors' with the profile and reach into target markets and business advisors of all types (e.g. Gateway advisors, accountants, lawyers, etc.). It is still a moot point as to whether Business Gateway can be used to cost-effectively stimulate demand in the marketplace.

### **More integrated business support**

CDS was established to provide the specialist expertise unavailable elsewhere. It was intended to work with established business support structures and to ensure that advisors and products were responsive to the needs of new and growing co-operatives. However, CDS has not interacted quickly or fully with established forms of business support, and could have achieved more. As such business support providers are not much better able to service the co-operative market than previously, and the impact of CDS remains more limited than might have otherwise been possible.

Following recent and positive dialogue with Gateway Contractors and representatives from the Scottish Enterprise regional offices, CDS must now refine its product offering, formalise referral arrangements, and build relationships with business advisors in lowlands and highland Scotland. For business advisors to engage fully with CDS they must: be informed about the co-operative model in way that is informative and relevant; be offered clearly defined, complementary, and useful support products; and be confident that engagement with CDS will positively contribute to their own targets. This will require clear, intensive, and sustained communication on

the part of CDS, senior buy-in from within the Scottish Enterprise, Highlands & Islands Enterprise, and Gateway contractors. New dialogue will also be required with COSLA and those Councils leading on local business support.

### **A sharper focus**

CDS has made progress to date in establishing a broad vision and business plan that has commanded widespread support. Within this it has used its resources flexibly to develop and test various methods of promoting innovation and growth in the co-operative sector. It is now doing most of the things that you would expect of a co-operative development agency. However, it has made use of relatively modest resources and has spread its efforts across a number of fronts – its activities and outputs have been diffuse.

There are now a number of areas where a sharper focus and more concentrated impact may be possible. In particular CDS should give further consideration to how it can: be more strategic and proactive in promoting the growth of the co-operative model in priority industries; invest in growth projects on the basis of a more robust economic appraisal; and focus more on increasing the impact and speed to market of high growth co-ops. Overall, the focus of CDS must be more fully articulated and aligned to the Government's economic strategy, with its renewed emphasis on sustainable economic growth.

### **Upscaling delivery and impact**

CDS was established to provide direct and specialist advice and information to start-up co-operatives and others seeking growth opportunities. The evidence to date is that CDS has responded effectively to enquiries from nascent groups and has provided highly satisfactory input to the process of forming a number of new co-operatives. Beyond this the CDS offering to established co-operatives has been less clear-cut and its input more ad hoc.

Now moving into a new period of operational stability, there is a widespread expectation among stakeholders that CDS will significantly ramp-up the level and impact of its direct business support. This might be achieved through: increasing the volume, impact and speed to market of high growth start-ups; more systematically assessing the training and support needs of established co-operatives and responding with a clear product offering to help realise their growth potential; and extending relationships with larger co-operatives, where possible encouraging collaboration, inter-trading, business mentoring, and their progression into the account management services of Scottish Enterprise.

### **Building the capacity to deliver**

CDS was conceived as a small, flexible, and well networked organisation with a budget of up to £3m over three years. This small-scale delivery

model, combined with early delays and ongoing staff turnover, has meant that only a fraction of the original budget has been required. Although the staff team at CDS will soon be up to full strength for the first time, it is debateable whether it has the scale and capacity to deliver on a broad and ambitious set of objectives during the current period of funding.

A priority for the incoming Chief Executive must be to ensure that CDS is fit-for-purpose and that necessary infrastructure, capacity, and skills are in place. Based on the evidence presented in this Review, this will mean: refining the Advisory Board structure and responsibilities to ensure that members are able to make the fullest possible contribution; reviewing staff resources in line with a new operating plan; ensuring that adequate training and support is in place for staff; introducing a focused media strategy and improved communication channels (e.g. website); and ensuring that operational systems and processes are robust, workable, and consistent with Scottish Enterprise.

### **Becoming a Hub for Innovation and Intelligence**

CDS has made a reasonably good start in helping to build a shared understanding of the scale, characteristics and potential of the co-operative sector. However, it has yet to begin to fully understand the impact and added value of the co-operative sector, and its own work within it.

There is now the potential for CDS to establish itself more firmly as a hub for ideas, intelligence, and innovation in the co-operative sector. This might include: the gathering of further, ongoing and detailed research on the co-operative sector in Scotland; investigations into the prevalence and potential for co-operative development among various groups in society; building an informed business support infrastructure in Scotland; the measurement of the added value or Social Return on Investment from the co-operative sector; the regular assessment of the economic impact of its work; and the systematic transfer of knowledge and good practice.

## **7.5 Recommended Actions**

In summary, in order to address the development issues highlighted, and to build on the work of CDS to date, a number of actions should be considered:

- prepare a detailed and focused Business/Operation Plan, that attaches particular priority to –
  - appropriate alignment/integration with established business support services
  - the delivery of support to high growth start-ups
  - work to develop co-operatives in priority industries;
- clarify the segmentation criteria and product offering of CDS, and communicate these through a revamped website and other channels;

- work with partners to form an agreed strategy for increasing co-operative innovation and growth in selected priority industries;
- embark on an intensive and sustained communications campaign to raise awareness of the co-operative sector among business advisors;
- review the structure/membership of the Advisory Board, using short-life working groups to drive forward the work of CDS in key areas;
- review resourcing levels and staff training needs, to ensure that the skills/capacity is in place to deliver on an agreed work programme;
- agree a revised set of performance targets based on a reduced set of KPIs, which are aligned with the focus of the Operating Plan;
- review CDS systems and processes to ensure that they are robust, workable and consistent with Scottish Enterprise requirements; and
- commission a full economic impact evaluation in two years, to more fully assess the performance and impact of CDS.

## Appendix: Key Consultees

Alan Kay	Community Business Scotland Network
Alex Walker	Ekopia
Alistair Thornley	Formerly Scottish Enterprise
Brian McVey	Scottish Enterprise
Calum MacPherson	HIE and CDS Advisory Board
Gillian Kirton	CDS
Guy Turnball	Care & Share Associates Ltd
Hugh Donnelly	CDS
Ian Hughes	CDS
Ian McCall	Scottish Government
Ivan Broussine	Independent consultant and CDS Advisory Board
James Graham	SAOS and CDS Advisory Board
James Proctor	Supporters Direct
Jim Lee	Co-operation and Mutuality Scotland
Jim O'Connor	Scottish Enterprise
Julian Pace	Scottish Enterprise
Linda Hanna	Scottish Enterprise and CDS Advisory Board
Liz Bogie	Scottish Enterprise
Mark Jennison	Energy4All
Martin Meteyard	Independent consultant and CDS Advisory Board
Dame Pauline Green	Co-operatives UK and CDS Advisory Board
Stephen Phillips	Burness Solicitors
Terry Currie	Scottish Enterprise
Terry Hogg	Scottish Enterprise
Tom Kennedy	Co-operative Education Trust Scotland