Social Enterprise: Good For Everyone?

Fraser Kelly
Chief Executive
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Apex Scotland Annual Lecture

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Previous Apex Scotland Annual Lectures have been delivered by:

1 September 2015
Michael Matheson MSP
Cabinet Secretary for Justice

2 September 2014
Professor Lesley McAra
Co-Director, Edinburgh Study of Youth Transitions and Crime, University of Edinburgh

3 September 2013
Sir Stephen House
Chief Constable of Police Scotland

4 September 2012
Jeane Freeman OBE

6 September 2011
Tam Baillie
Scotland’s Commissioner for Children and Young People

7 September 2010
Baroness Vivien Stern CBE
Senior Research Fellow at the International Centre for Prison Studies King’s College London

8 September 2009
Professor Fergus McNeill
Professor of Criminology and Social Work, University of Glasgow

9 September 2008
Kenny MacAskill
Cabinet Secretary for Justice and Richard Jeffrey, The Prisons Commission

11 September 2007
Professor Wesley Skogan
Institute for Policy Research (IPR), Northwestern University, Illinois

12 September 2006
The Rt Hon Lord Cullen of Whitekirk

13 September 2005
Cathy Jamieson MSP
Justice Minister

15 September 2004
Duncan L Murray WS
President of the Law Society of Scotland

16 September 2003
The First Minister, The Rt Hon Jack McConnell MSP

18 May 1998
Henry McLeish MP
Minister for Home Affairs and Devolution, Scottish Office
Foreword

When we set out to consider what the topic of our Annual Lecture should be, we try and anticipate what will be relevant and reflect either the concerns of our interest area, or new information and thinking which will promote change or discussion.

For 2016, we recognised that the wide-reaching changes in community justice and criminal justice thinking in Scotland would be at a stage where it would be difficult to predict trends or changes without pre-empting some tough decisions which still need to be made. What is abundantly clear, however, is that the impact of the economy and the pressures which this creates for commissioners and providers is not likely to reduce. Indeed there are still significant challenges as policy makers and funders try to balance the needs of core services against the aspirations of innovative non-core programmes. With this in mind we decided to depart a little from tradition and asked Fraser Kelly, Chief Executive of Social Enterprise Scotland, to deliver this year’s lecture looking at whether the economic models which have underpinned welfarism are still viable, or whether an enterprise model generating its own income might be more practical for the future? This is particularly pertinent to Apex at a time when we are developing a number of enterprise options in addition to All Cleaned Up, our first venture into this arena.

Fraser offers a tour de force of Scottish local government economics and political dogma, pointing to the way in which thinking is changing and to the successes of social enterprises both at an economic and personal level. The pace and energy which was shown in the subsequent question and answer session is testament to the high levels of knowledge and interest in the subject among the audience, and their willingness to engage in considering whether social enterprises can be a significant contributor to the Scottish social fabric. I hope that you will enjoy reading/listening to the lecture (the video recording of which is also on our website) and would encourage you to also take the time to browse through our Annual Report (available on our website) to get a flavour of the sort of things we are doing, including social enterprise based activity. I think you will be amazed at the range of stories of human endeavour and perseverance to change their lives, which is of course the stark reality behind the discussions about socio-economic models.

Alan Staff
Chief Executive
Apex Scotland
In 1979 I went to Hampden Park to watch Scotland play Argentina. They arrived as Champions of the World, we played still in the shadow of an inglorious exit from the 1978 World Cup with Willie Johnston sent home in disgrace and, with defeat to Peru and a draw with Iran, rescued only by Archie Gemmill’s legendary goal against the Dutch. Diego Maradona made his debut for Argentina during that game and scored in a 3-1 victory. Arthur Graham who, amongst others, played for Manchester United and Aberdeen, scored for Scotland.

1979 was a signal year for me. I began working with Black & Edgington plc in an Industrial Estate in Port Glasgow. Black & Edgington were the parent company to an international consortium of connected businesses: Blacks of Gretnock Ltd, Blacks Camping & Leisure, Blacks Travel Agency, Millets Stores, Black & Edgington Hire, Vango (Scotland), Andrew Mitchell & Co, Kerr & Kerr, Gailey Caravans, Players Sports, Cantors Jackson & Warr, Insight International and many, many more. Their registered office was 1 Tower Bridge, London, SE1 with operations extending across the UK and around the world. However, the head office, and operational centre, was Muirshiel Road in Port Glasgow Industrial Estate. This was a legacy of the forward thinking and imagination of the senior management of the then Thomas Black & Sons who, over a number of years, had diversified their product ranges, their market penetration and their organisational structure. Doyens of the Stock Exchange, Black & Edgington stock was much sought after and the markets followed closely any new developments in which Black & Edgington took an interest.

Innovation, progressive thinking and imagination were cultural norms in Blacks. There was constant encouragement to imagine new ways of working and, in an era when businesses had staff appointed to ‘time and motion studies’ and ‘organisation and methods’ rather than strategic planning, Blacks had an ethos of innovation and a set of guiding principles which was about no fear of failure and which permeated throughout the whole organisation. Sir Robin Duthie was the, then, Chief Executive of Black & Edgington and to this day, I remember him describing to me three key things that made Black & Edgington successful:

1. Primarily it was about local ownership and control provides for good decision making – in every business that Blacks acquired there was a recognition that change was inevitable but, where knowledge of customers, markets, systems, procedures and staff existed, it was better to build on that than to discard it.

2. Every member of staff makes a contribution – the Black & Edgington Group were incredibly committed to developing staff both in their skills and their working environment. In the early 80’s the company introduced a Savings Related Share Option Scheme that allowed staff, through a salary sacrifice scheme, to buy shares in the company. The ethos was that ‘it was the staff who were contributing to the growth of the business, and that it was they who should share in it’.

3. Most importantly, put your customers at the heart of every decision you make. Always consider the person who uses your product and your service as the most important focus of your attention. It is they who know what they need and it is they who will tell you how to design the next product to make it better than the last.

I remember fondly looking from our office window at 4:25pm on any weekday afternoon to see between 60 and 80 double decker buses lined the full length of Muirshiel Road. At 4:30pm a surge of humanity would explode from a variety of workplaces: Blacks, Playtex, Sangamo, Fescol, AMP, Redditch Needles, Wovenair, Newey Goodman, and so many more; filling the buses with chatter and heading in every conceivable direction – Clynder Road, Midton, Larkfield. If you left at 4:30 and hadn’t reached Broon’s, on the Port Glasgow Road, by 4:40, you would wait a further 30 minutes while “the yards” exploded and an enormous flood of people would head along the length of the Inverclyde waterfront. Lamonts, Fergusons, Browns, Lithgows, Scots, Kincaids, despite many of them being nationalised in 1977 were still busy.
For those of you who remember, however, the late 70’s and early 80’s were turbulent times and economic uncertainty was as equally pronounced. Inflation in the UK was spiralling out of control, VAT had been hiked from 7.5% to 15%, unemployment was surging beyond 2 million and would, in relatively short order, reach 3 million. The Government of the day was increasing interest rates (these were the days before the Bank of England Monetary Policy Committee existed) to try and stem inflation and, all of which, coincided with tax increases, leading to comparisons with the great depression of the 1930’s.

Over 2 million jobs were lost in the recession between the late 70’s and early 80’s and in 1983 Blacks was subjected to a hostile takeover. A former subsidiary company, but which wasn’t wholly owned, was used as a Trojan horse to achieve the dawn raid. We knew the architect of the approach and we knew their intention was to asset strip. The lucrative and internationally focused tour operator Insight International (you will still see Insight Vacations coaches in Edinburgh and there is still a base of operations in Port Glasgow) was the prize, with most other parts of the group being sold off to a combination of management buy outs and disposals. Encouragingly, many parts of the group still operate today with Insight Vacations, Blacks Outdoor, Arena Event Services and AMG Group (Vango) flourishing.

As a small aside, Vango (Scotland) was based at 47 Colvend Street in the East End of Glasgow but originally hailed from the South West of the City in Govan. You may already have twigged this but the name Vango is an anagram of Govan and now, whenever I hear of people who use Vango equipment, particularly their tents, I chuckle that many family holidays have been spent in a form of Govan sheltered housing.

In 1990 I joined Inverclyde Council where I went into the Finance Service and into the Capital and Management Section. Inverclyde was struggling to cope with the scale of economic decline that had affected the traditional economic base. Population decline was already evident and those who were economically active were leaving to seek their future elsewhere. IBM, since 1951, and National Semiconductor, since 1967, had been a constant source of highly skilled and well paid employment in Inverclyde but even they were experiencing the threats of globalisation, and increased competition.

In 1995 local government reorganisation saw the bringing together of Regional and District Councils and, with that, the establishment of an Economic Development Service in Inverclyde. I joined the service early in 1996 and became Head of Service in 1998. This was also a period where European Structural Funds were playing an increasingly important role in economic regeneration in Scotland and Inverclyde, for a time, enjoyed Assisted Area Status across the whole of the local authority area. Unfortunately, in my view, the area failed to capitalise on this.

Policy interventions were, at that time, largely national. In 1988 UK Government granted Inverclyde Enterprise Zone (EZ) status with incentivised capital allowances, and relaxed planning conditions, available to developers in a series of 27 sites across Inverclyde.

Unfortunately, the early stages of the EZ did not develop in the way which was envisaged. The archipelago nature of the sites meant it was difficult to achieve a critical mass of development interest. Competing investment options, with potentially greater returns, were available elsewhere, derelict and often contaminated land conditions were costly to remediate, end tenants were hard to find and, because of this, investment flows were difficult to predict with certainty. Some local tensions also emerged around the perceived focus on attracting foreign direct investment, and inward investment, over indigenous growth in businesses which were core employers of the economic population in Inverclyde.

Encouragingly, Inverclyde had a growing small business sector and the Council actively supported this through provision of a small business loan fund; innovative for its time but small in scale and unlikely ever to compete with EZ status. The Scottish Business Birth Rate Strategy had been published by Scottish Enterprise in 1993 with the focus on small and medium sized businesses forming an established part of the content.
The Business Birth Rate Strategy hoped to close the gap between business births in Scotland and the rest of the UK; it identified access to finance as a particular barrier and championed investment in key growth sectors and in technology as a means of future proofing the economy. Looking back now, I think some of that drive towards the knowledge-age economy would have been better to focus on people rather than place and competitiveness.

On 21st June 2004 I walked into the Braes Shopping Centre in Castlemilk. It was my first day at Castlemilk Economic Development Agency. I was suited and booted and looked incongruously out of place. I walked toward a guy coming out of the Braes, with a bag of ‘messages’ in each hand, obviously the worse for wear but wearing highly polished Adidas Samba training shoes. As we passed he shouted “Hey Big Man, are you CID”? I shouted back “Naw”. “Well you must be The Social then” he said. I’m sure he headed off chuckling to himself, thinking “What an eejit!”, and I headed on my way thinking pretty much the same. The worth of mentioning his footwear was that I met him regularly thereafter, he was a customer of CEDA, and his trainers were a badge of honour, for want of a better phrase. I had highly polished Sambas as well. We had a connection and realised that we had played football against each other 20 or 25 years beforehand.

At that time, the economic outlook for Glasgow was generally of a strong and growing economy. The city centre had generated 45,000 new jobs in the previous 10 years. Planned investments included the M74 corridor, Glasgow Airport Rail Link, Clyde Gateway URC, the Commonwealth Games, South Glasgow Hospital, the emergence of Glasgow’s International Financial Services District and significant housing and neighbourhood renewal investment by GHA were all expected to contribute a further net growth of 13,000 jobs by 2016. The South East of the city then also had a strong economic base and in 2008/2009 there were nearly 2,800 businesses employing just over 39,000 people. In this context, and with economic activity levels reflecting the city average at 66%, the South East was making a really positive contribution to Glasgow’s economic growth. Then there was a crash!

At CEDA we wrestled constantly with differing indicators which, on one hand, would tell us that there was a reduction in the number of people who were employment deprived, yet an increase in the number of people who were income deprived. We struggled to understand if we were doing the right thing and, I suspect, we struggled to understand why the policy interventions were structured in the way they were. Getting people into work was our priority, we were good at it, yet we were worried that the quality of jobs were declining and showing trends toward low skilled and low waged work.

The recently published Scottish Index of Multiple Deprivation (SIMD) was interesting but challenging because it shows much still needs to be done to address the barriers of inequality.

I remember fondly a further conversation with the guy I met in The Braes in 2004. As we often did, we engaged our service users in roundtables with politicians, desperate to see the circumstances of real people and the worth of their policies. I spoke to a meeting that included John Hutton, the then Minister for Work and Pensions. As I regaled my frustration at having been involved in all manner of employability programmes from Employment Grant Schemes, to Employment Training Initiatives, through National Programmes, Training for Work/Get Ready for Work to Action Teams for Jobs and on to New Deal, Flexible New Deal and many more, the riposte from the back of the room was “Hey Big Fraser, I’ve been involved in all of those as well….and I’ve still not got a job”! I didn’t know whether to applaud him or hide under the table. Whichever, he delivered my message better, than ever I could.

It was during this time however that I came across social enterprise as a business model. The Scottish Social Enterprise Coalition existed (established in 2005) and whilst CEDA were not eligible as members (the Council was our sole member), the concept of doing business differently was emerging. CEDA operated a wholly owned subsidiary in Castlemilk Property Company. CPC owned and managed around 20,000m² of industrial and business space in Castlemilk and the Gorbals.
Between Glenwood Business Park Drakemire Drive, Riverside Business Park and Adelphi, CPC was landlord to more than 70 tenants. We charged roughly £5.50 per ft² (plus service charges), there were no leases, only licences to occupy and we enjoyed close to 100% occupancy every month of the year for about 6 years – and people told me we would never be able to let industrial business space in Castlemilk. Many of our tenants had tenure of 8, 9, 10 years and more but, if you didn’t pay your rent we knocked your door. In February 2010, those tenants provided for 648 full time equivalent jobs with over 60% coming from Castlemilk, Croftfoot and the Gorbals. For my part, this was the best example I had found, and have seen since, of economic regeneration delivering social benefit. CPC had a turnover of circa £2m and regularly gift aided £400k back to the charitable company. The beauty of that was that it was clean money to us, it was matchable and we were able to use it outwith the constraints of service level agreements that we had from the public authority and from other parts of the publicly funded infrastructure.

I was then hooked on a business model that, I thought, was able to deliver against all of those things I have held fast to for many years. Locally owned and controlled decision making, recognising that every member of a team has value and, above all, putting the customer at the heart of every decision.

What, then, does social enterprise in Scotland look like?

Some of you may have seen the work that was done in September 2015: the Social Enterprise in Scotland Census. There is some interesting data that has come out of the census: 5,200 social enterprises in Scotland, employing 112,000 people – that’s more than life sciences, it’s more than food and drink, and it’s more than creative industries, yet they are priority sectors for our mainstream economic development agency in Scotland. 67,000 volunteers, £1.15bn worth of traded income, £8.77bn worth of asset value – that’s the housing associations primarily. Some people argue that we should take the housing associations out of this model because it distorts the figures. I believe that housing associations should be in there as our jewel in the crown. They are asset-backed, they have deals to die for they are locally owned and they are locally controlled. They have independent management committees and they have a focus on, not simply the tenancy holder, but in the household and connect to many people that other agencies do not.

42% of social enterprises started within the last 10 years, 200 social enterprises start every year. I suppose there are a couple of challenges: 60% of social enterprises are operating at turnover of less than £100,000 and that makes it pretty tough to pay the wages on a Friday. There is a piece of data in the census that I still need to understand better which tells us that 82% of our community and social enterprise activity is outside of the worst 20% of enumeration districts in Scotland when I think it should actually be inside. That is possibly about headquarters organisations which are actually operating in disadvantaged areas, and indeed we also know that there are many people who experience and show the circumstance and characteristics of disadvantage outside of the SIMD data zones as there are inside.

The data captured in the Census is hugely encouraging. Social enterprises now operate across the length and breadth of Scotland, and in every business discipline from construction and facilities management, through financial services and creative industries, to IT, sport and life sciences and in health, social care and criminal justice.

It is quite interesting to note that 22% of social enterprises in Scotland operate in the Highlands and Islands where there is only 9% of the population. So there is something different that is happening in the Highlands and Islands. Highlands and Islands Enterprise has a strengthening communities remit which does not exist within Scottish Enterprise, but for me there is also something more fundamental and it is about the role of social enterprises supporting fragile communities as much as it is about supporting disadvantaged communities.
SOCIAL ENTERPRISE IN SCOTLAND: CENSUS 2015

To find out more about social enterprise, please visit: socialenterprisescotland.org.uk

- **5,199** social enterprises currently operating in Scotland
- **42%** of Scotland’s social enterprises formed in the last 10 years
- **22%** of all social enterprises located in the Highlands and Islands
- **112,409** employees in Scotland’s social enterprise sector

- **60%** of Scotland’s social enterprises led by a woman
- **67,768** volunteers supporting the delivery of social enterprise activity
- **£3.63bn** the annual income of social enterprises in the country
- **66%** of social enterprises expect their income to increase next year

- **54%** of social enterprises generating half or more of their income from trading
- **£1.15bn** in traded income generated by Scotland’s social enterprises
- **68%** of all social enterprises selling direct to the general public
- **£8.77bn** in combined assets on the balance sheet of the social enterprise sector

- **£3.86bn** the net worth of Scotland’s social enterprises
- **£1.68bn** GVA
- **45%** of social enterprises operating with the stated objective of ‘creating employment opportunities’
- **200+** new social enterprises forming each year
I live in Kelso; I live in a rural community, having lived most of my life in Inverclyde. I understand now the differences in the interventions that are required at an urban level and at a rural level, and indeed I know many people in the Borders now who hold down 3 jobs just to make ends meet.

What is encouraging is the emergence of new social enterprises – I mentioned over 200 forming each year and the growth of consumer facing social enterprise. The data confirms that over 40% of social enterprises have been formed within the last ten years which vindicates some of the challenges and campaigns we have had around a dedicated business support infrastructure built around social enterprise. It evidences the opportunity for the growing social investment market. Alan and I have had a discussion about funding versus investment and unfortunately there are still many in the third sector and within the social enterprise community who view funding and investment as the same thing. Fundamentally they are not. I am excited about the growth in social investment but I am also clear that there are organisations which need that grant funded support as they continue through the business life cycle and the journey that they are on. Social enterprise provides for job creation and, at its most fundamental, helps to address the wicked and chunky problems which exist in our society.

I mentioned that there are 60% of social enterprises operating with turnover of under £100k and we need to grow that. We also need to grow the scale, scope and substance.

What then of the future for social enterprise in Scotland? It will not replace the public sector in its entirety. It is not the panacea for all ills but, it is exciting and it has much to offer as a business model of choice. I’m encouraged by the Economic Strategy for Scotland which positions competitiveness and tackling inequality as two mutually reinforcing themes. I believe there is a desire to see social enterprise, and other forms of ethical business, operate in Scotland. I’m hugely encouraged by the commitment from Scottish Government (through the Third Sector Division) to the co-production of a Social Enterprise Strategy for Scotland; that is current and we hope will be launched in September or October this year. I’m excited to see the local Social Enterprise Networks in Scotland constituting and growing into powerful local networks of support. I’m blown away by the new, young, talented and ambitious collection of social entrepreneurs emerging in Scotland and I’m pleased to see some movement in the recognition, by public and private sectors, that social enterprise has a role to play the delivery of public services and as part of the wider economic base of Scotland. I’m impressed by the progress of public social partnerships which are emerging – there are 5 strategic PSPs across Scotland, but there are many more local variations beginning to come to the fore.

Now, if you wish to start a business and you want to choose social enterprise as the way to do that, you can; now, if a public body wished to contract with a social enterprise, it can; and, now, if we as the general public want to buy products and services from a social enterprise, we can. Many of you will know the good example of Social Bite in Edinburgh and Glasgow. Anecdotally, over 78,000 people over last festive season bought a suspended meal from Social Bite – a fiver across the counter and the transactional simplicity is that the only record of that is a till receipt. No-one expects to get their £5 back. The basis of Social Bite taking a sandwich from the shelf and feeding someone who is homeless is based entirely on trust. I believe we need to examine that model, which is essentially £390,000 worth of crowd funding by any other means, to get this transactional simplicity into spending the public pound in the same way. It’s not simply that we’ve taken our pound out of our pocket and passed it to Social Bite; we need to get that way of thinking into the way the public sector spends what it perceives as the public pound.

How best to harness all of that energy and purpose and what message for our policy makers? I suspect it reverts to a relatively clichéd phrase which I have worked to for some time – People, Place and Business. Firstly, by putting people at the heart of every decision we make. It is easy to speak of person-centred approaches – working with the most vulnerable social enterprise – it is
less easy to do it. Secondly, a focus on social enterprises being locally owned and locally controlled (I apologise if you have heard that a number of times this evening but for me that is fundamental because that is where you get most purchase). Thirdly, understanding the economic and social circumstances of Greenock, Govan and Galashiels may be similar but the solutions to addressing those problems may be very different; and, finally, recognising that business is crucial to economic competitiveness, but that innovation is not solely the preserve of manufacturing or technology businesses. There is much more innovation to be had in driving change in the way we do business rather than focusing only on the business we do.

Back to Hampden in 1979 and I didn’t realise that, in future years, I would find myself thinking of the tenuous yet, for me, connected circumstances of those events. Whilst working at the Adelphi Centre one day, I spoke with a guy who regaled me with the story of Alexander Watson Hutton, born in the Gorbals and, widely respected as the founder of the Argentine Football Association. He showed me an article from the Scotsman in 2008 (titled: Argentine Football Returns to the Roots of its Founder). This was a report on Maradona’s managerial sojourn to Hampden. However, I’m convinced that Alexander Hutton was a social entrepreneur. The background story of how he left the Gorbals and went to Argentina is quite interesting; what he did there in terms of establishing an English school and making sure that sport and physical activity were interconnected with a business ethic. And, of course, there was the Arthur Graham part of it – he is a Castlemilk boy.

I came this evening at the invitation of Alan and I didn’t want to speak to you about the justice system because it is not an area where I have a specific set of skills. I have been close to it most of my working life in terms of the employability focus that I’ve had. But, interestingly, I looked at our website 2 or 3 days ago and we have a blogger (we don’t tell anyone who it is) who blogged back in 2010 around justice. The blog said:

We don’t have a justice system, we have a legal system. We need new social enterprises to solve some of our petty crime and associated recidivism and prison problems.

Our existing system of community service orders is ridiculous. The innovation is to trust people and the victims of crime and not rely on the State for all the answers. We need to create local social enterprise “justice businesses” who get involved in designing and managing local solutions/programmes and monitoring participation and outcomes. The business model requires some of the criminal justice and prisons budget to be diverted into more effective social enterprise models.

‘Oooh vigilantism’ I hear you cry. I don’t think so. Tabloid and political manipulation of the imagery and fear of crime has failed every person and every community affected by crime. Ordinary folk feel fearful and resentful because they are marginalised and excluded from the system and the process of justice. They have little faith in justice professionals who don’t live in their communities and who don’t suffer the consequences of their decisions. Getting social entrepreneurs involved in community rights and justice is the solution.

This could mean that what works in one community might not be the same in another. If a justice business designs socio-economic or environmental sentences/programmes to be carried out why do we need an additional State bureaucracy to manage this? The justice business can send their reports to procurers, politicians, the judiciary, the media and local people – is that not enough?

In addition, all victims of petty crime ought to receive a demonstrably sincere apology. This is a liberating and restitutive experience for victims and criminals. Justice businesses would work with criminals and their families to prepare them to make an apology. It’s all about giving and receiving “respect” innit? Insincerity or refusal will carry a price measured in additional community payback work. Deduction of salary or benefit income if criminals do not carry out community payback should remain as a punitive option. Justice businesses would work on contracts with the DWP and HMRC to manage this.
That was back in 2010. I'm not sure if these circumstances resonate with your understanding of where we are but that was a plea at that point in time to begin to establish social enterprise as a business model that can actually start to tackle, as I mentioned, some of Scotland’s wicked and challenging problems.

I am delighted that there are now so many social enterprises operating in the justice sector, and indeed speaking to Patrick Nicol about what is happening with Apex’s social enterprise, All Cleaned Up, and now the new Apex Track to Train, I think there are some really exciting developments in the future.

Thank you for listening.