

The Entrepreneurs Cooperative

Draft 2.1

The primary purpose of this proposal is to stimulate the economy in Wales and generate employment by promoting entrepreneurial initiatives. At the same time it suggests a new working model to stimulate social enterprise and a means of sharing risk to offset some of the worst characteristics of over reliance on individual performance.

Summary

A Cooperative would be established to raise working capital to implement the purpose. The money would be a combination of public, voluntary and perhaps private finance. The first two would be canvassed in pursuit of raised employment and economic stimulation, the last at commercial rates. Part of the public sector contribution might come in the form of underwriting the commercial investment.

The Cooperative would recruit an initial tranche of entrepreneurs each of whom would have a model and a business plan to exploit a niche in the market. Bids would be sought by extensive publicity aimed at attracting as wide a range of applicants as possible. The successful applicants would be employed by the Cooperative and would, at the same time, become share owning members of it.

The Cooperative would provide central back office services including HR, payroll and IT, legal and accountancy services. Each successful project would receive the start-up capital and revenue to implement their business plan. A small project management team would be established for each which would include the original proposer as director to develop and run the business. The project teams would report progress to the Cooperative to which they would be accountable.

Staff employed within each business would be accountable to the project management team but they would be employed by the Cooperative. The Cooperative would establish baselines for both wages and conditions of service. Above those baselines the level of remuneration staff received would be determined by the project management team and agreed with the Cooperative as part of the business plan. All staff would be invited to become equal share owning members of the Cooperative.

Each project management team would be responsible for keeping properly audited accounts for the business. Year-end profits for each business would be distributed in the ratio 70% to the Cooperative, 30% back to the individual business [or some other ratio to be identified at the planning stage]. It would be for each project management team to submit a business plan for the use of the 30%. They might wish to use the surplus to increase wages, to spend on development or marketing or to increase or improve capital stock.

The remuneration of each project management team would be determined by the Board. The remuneration of the director of each project would be recommended by the project management team.

Once established the business would be able to seek further capital support from the commercial financial market as part of their business plan. Some of the

businesses, especially those with a clear social/community purpose in addition to providing employment, may attract further public finance in the form of grants or loans on favourable terms.

Background

The major problem for the economy, in Wales as elsewhere, is depressed demand so there should be no illusion that this essentially supply side initiative will have more than a marginal impact. On the other hand there are always some opportunities which are being missed for a variety of reasons.

Among those reasons, especially in Wales, is the low level of start-up and rapid growth industries and services compared with most of the rest of the United Kingdom. There is clear evidence that this is the case. Wales also has the lowest per capita income, the lowest rate of research and development and the second lowest level of productivity (1). There are many opinions about why this is so but little research support for them.

1. The comparatively high ratio of public to private sector employment here is often postulated. Presumably the argument, especially in this low wage region, is that the public sector "sucks up" most of the available talent. This assumes that the same kind of talent is attracted to the public service as to entering the marketplace. A questionable assumption as we shall explore later.
2. The heavy industry background which employed many people in large scale enterprises is said to have undermined a culture of individual initiative. But this is not borne out by comparing the most and least successful regions of the UK. For example one of the least competitive cities is Birmingham, with its industrial background of small scale tool and component making. One of the most competitive is Manchester with its background of (large scale) cotton weaving.
3. Welsh people are said to be more cautious and risk averse and less creative than their English counterparts. I have seen no evidence to support this, without which it is at best condescending.

In Wales as elsewhere one of the reasons for the low level of start-up is the reluctance of banks and other sources of capital to invest in them. This is the gap the Cooperative is designed in part to fill.

Psychology

Two of the commentators on the original discussion paper raised the issue of the possible conflict of interest of the individuals who might seek initial support and the longer term interests of the Cooperative. The suggestion was that anyone prepared to take the risk to initiate this kind of project would expect the reward from its success for themselves and would be unwilling to share it with the less successful. It is worth examining initial and on-going motivation in some detail.

The initial attraction to a potential entrepreneur is clear. If they are successful in persuading the Panel of the merit of their project plan they have access to the capital funding and start-up revenue not available at present from any other source. Not only that but the initial financial risk is taken by the Cooperative: if the project fails they are not left with a large personal debt burden and no means to finance it. They are of course left without a job and an income so they

do share a major risk – but it is of a different order from the one they would otherwise face (if they could get the start-up in the first place.)

But what happens if the venture is successful? If they had been able to raise the capital in the form of a loan a large part of the business gross profit would go towards financing the loan. The Cooperative taking a predetermined proportion of the profit would be no different in principle. They would share in the success of the project: though they would be unable to determine their own remuneration they would be in a strong bargaining position given they could argue that they were a large part of the reason for the success of the venture.

The big difference from the traditional position is that they would not own the project however long they worked in and for it and would not be able to sell it. If that became a problem in any project they, or the management team, or the project staff could negotiate a buy-out at a commercially agreed rate. There would be little point in the Cooperative hanging on through thick and thin if loss of motivation began to create hostility and affected performance.

Would individual entrepreneurs become involved in the wider cooperative? There is little doubt that some would be attracted by the wider opportunities which that might present and would become actively engaged. Others may take little interest in the wider movement except insofar as it had an impact on their own project. There is no compelling reason why they should. If their project is successful there is no reason to demand more from them than that, unless they have an active wish to participate. They would of course receive an annual dividend equal to that of every other member but that would be a return on their share, not a return for work done.

Risk

This model is constructed on the assumption of a relatively high risk of failure for many of the start-ups. The working assumption is that as many as 75% of the first start-ups will fail within three years. A few might be a total capital loss, the rest would be a partial loss. For the cooperative as a whole the capital loss from business failure is assumed to be 15% pa.

A lot more work is needed to correct and assure the figures on the previous paragraph. Actual failure of start-up businesses is even higher than this: as high as 90% within five years. But some of that must be down to the financial pressure to repay loans during the initial growth period. In this case there would be no loan to the project. It would be wholly owned by the Cooperative.

However carefully the general risk is calculated it will be based on past performance and these are highly unusual times. On the one hand this might be a less risky period than normal for business start-up. Very few are finding support to begin so the competition for those which do get off the ground may actually be lower than normal. But this needs to be offset against the low level of general demand throughout most of the market.

By the nature of the enterprise the level of risk for the individual businesses cannot be predicted with any certainty. The selection panel would be wise to go for a portfolio of relatively high and (relatively) low risk initiatives (e.g. plumbing at one end and new ground technology at the other) but they would be entirely dependent on the proposals put to them for consideration. The project management team established to manage each project would need to be carefully judged to balance between creative flair and enterprise and skilful risk

management. The need to balance risk is the reason why a relatively large start-up capital sum is necessary before launch so that a mix of sizes and levels of risk is possible.

Key Principles

The most important determinant of the success of this project is the engagement of committed and competent leaders at key points, especially at the head of the Cooperative and of each of the projects. Below that a set of priorities should determine which project proposals to support. The higher level priorities are essential; those lower down the list are desirable in a descending hierarchy.

1. The project must be commercially viable. A feasible product must be achievable and a market must (at least potentially) exist.
2. The project must create some employment commensurate with the outlay it demands.
3. The project must "do no harm" either to its local community or to the wider world.
4. Priority will be given to areas of high unemployment, low business start-up and low personal income (in practice all the same areas).
5. Priority will be given to projects which provide development and training to their staff.
6. Priority will be given to projects which have a good fit with others in the local community.

A couple of comments suggested that the cooperative would gain synergy from focusing on specific clusters of industry or services. That may be the case but as there is no way of identifying in advance which of those clusters might be most effective the gains from inviting bids from any part of the market seem to have the advantage. It may be that as the cooperative matures clusters will form within it. If it seems to offer them an advantage to do so a group of projects may decide to break off from the main body to increase the synergy within that group. We should be clear from the outset that the Cooperative does not exist to form an empire but to promote employment and collaborative work opportunities.

Governance

The Cooperative would be established by a steering group some of whom would become its first Board of 11 founder members and shareholders. They would each purchase an equal one pound share once the Cooperative was legally established. They would be the sole members until sufficient finance to begin operations had been raised. The recruitment panel, which might comprise some Board members and others with relevant expertise, would also be invited to join the Cooperative as would the successful applicants and, once established, any employees taken on by the businesses. Remuneration for work would be for the individual project team to decide. Every member would be entitled to an equal share of the declared surplus profit at year-end.

On leaving the employment, the Board, the Panel or a project management team eligibility for continuing membership would be relinquished and the share value would be repaid with an honorarium reflecting years of membership.

The Board

The strategic direction and the interpretation of its policy would be the responsibility of the Board of the Cooperative which would report annually to a meeting of all the members. Changes to the constitution could only take place with the agreement of a majority of members present at the AGM.

The Board would appoint a Managing Director to be responsible for day to day running. Once appointed the MD would become an ex-officio member of the Board. Election to the board would be by nomination and election at the Annual General Meeting. Anyone, whether an existing member or not, would be eligible to be nominated by any member of the Cooperative. If elected they would remain a Board member for three years unless they resigned before the term ended. Retiring members would be eligible for re-election. The Board would elect a Chair, a Vice Chair and a Treasurer. The three elected officers and the MD would together form the Executive Group.

The working assumption is that each project management team should include at least one Board member.

Timeline

Stage	Purpose	Outcome	Timescale
Consultation on outline plan	To produce a strong proposal	Outline case for the Entrepreneurs Cooperative	30 June 2012
Steering group established	1. Consolidate vision and purpose 2. Draw up a constitution and business plan 3. Apply for cooperative status	Successful completion of purpose	
Cooperative formed	To implement the Business Plan	Founder members recruit 11 Board members. Board appoints an MD	
Fundraising stage	Identify a minimum start-up figure and begin raising capital	Network among possible public, voluntary and commercial funders Capital secured	
Recruitment stage	Recruit selection panel.	* nascent projects established	

	Advertise for proposals Select project leaders		
Development stage	Launch each project as it is agreed	Project Management Teams established	
Operational stage	Management Teams monitor and report on progress and outcomes	All projects reviewed	
Second stage development	Further projects selected using recycled and new capital		

Conclusion

The original on which this paper is based was shared with a small but diverse group of people. I have attempted to take account of the comments some of them have made, for which I am very grateful.

In general the proposal has been well received as a concept, though almost everything needs further work in practice for it to become a viable prospect. The Coalfields Regeneration Trust and Abcul, representing the great majority of Credit Unions in South and West Wales, have both expressed interest in exploring the idea so a first logical step is to set up a forum, perhaps in the form of a seminar, to do that.

For the moment the paper at this stage is shared with the original group of commentators, the credit union movement in Wales, the Welsh Coalfields Regeneration Trust, the Bevan Foundation, Enterprise Europe Wales and the Wales Cooperative Centre. Comment and advice from any of these sources would be more than welcome.

If you would like a presentation or a discussion about the proposal please contact me.

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