

DELIVERING PROMISES? THE RISE, FALL AND RISE OF SCOTTISH COMMUNITY BUSINESS

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INTRODUCTION

Scotland has pioneered a number of innovative approaches to local economic development. For example managed workspaces, new enterprise workshops and employment grants either originated in Scotland or had their credibility enhanced following the experiences of Scottish local authorities, especially Strathclyde Region (Hayton 1984a). One of the most interesting approaches to emerge in the 1980s was community business. Although the concept of community economic self help was pioneered in the West of Ireland and then transplanted to the Scottish Highlands in the 1970s, it developed as an urban initiative in West Central Scotland. From there it rapidly spread throughout the rest of Britain so that it is now seen as an integral part of the economic development strategies of many public sector agencies (Pearce 1993). This rapid dissemination took place without any clear understanding of the advantages that supporting community business brought. In part this reflected the rises in unemployment that took place in the early 1980s and the impact that this had upon many localities and their communities. This was paralleled by a seeming indifference on the part of Central Government which increasingly saw its role as creating what it felt were the appropriate

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macro-economic conditions to stimulate long-term growth. If the outcome was high levels of unemployment then this was a short-term price that was worth paying. However, many local authorities did not subscribe to this approach. Accordingly local economic development began to grow rapidly as a local authority activity (Mills and Young 1986). This growth had two consequences:

- considerable overstatement of the achievements and potential of many initiatives by their supporters;
- a tendency by policy makers to seize on new initiatives and fund them without any rigorous evaluation of their true worth.

Community business suffered from both of these factors. Its impact was 'talked up', with the growing literature about it being long on anecdote and speculation whilst being short on hard data about its impact. In McArthur's words much of it 'has been produced by enthusiasts and is characterised by an absence of critical appraisal' (McArthur 1993a, p.222). Yet, despite this, two elements of Scottish urban policy, the Urban Programme and the Scottish Enterprise legislation, were changed to accommodate it. Whether these changes were beneficial to community business is debatable. The resultant flow of resources into community business support allowed both activists and policy makers to avoid asking awkward questions and delayed the inevitable reappraisal of the benefits. In the interim there was growing scepticism about community business from policy makers and politicians. This led to a number of evaluation studies which raised serious questions about the ability of the traditional model to deliver anything other than vague, unrealised promises. The ensuing crisis resulted in a restructuring of the support structures and the emergence of new business models which have resulted in community business being given a second chance to prove itself as a worthwhile local economic development initiative (McArthur 1993b).

The aim of this paper is to consider how this situation arose and to highlight the need for community activists to ensure that they can deliver on their promises. If they cannot then any policy changes may ultimately prove to be of little value. The paper has the following sections:

- an outline of the characteristics and origins of community business;
- an examination of how it came to be funded through the Scottish Urban Programme which eventually resulted in specific funding Guidelines being produced for its support;

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- an outline of the achievements of the traditional community business model;
- an explanation of the reasons why the policy changes and the traditional model were unable to live up to the concept's original promises;
- a brief look at community business evaluation;
- a consideration of the emerging new business models which may be more sustainable in economic, policy and political terms;
- a series of conclusions highlighting some of the issues relevant to those pursuing 'bottom-up' policy changes and some specific recommendations for future community business development and support.

The starting point is to consider exactly what a community business is or, more exactly, what its supporters claim it to be.

WHAT ARE COMMUNITY BUSINESSES?

The definition of community business has tended to change over time as the movement has repositioned itself in response to changes in funding regimes and the emergence of models which seemed to be more successful (Hayton 1996) . However, it is now generally accepted that a community business has the following characteristics:

- it is a trading organisation which, through the sale of goods or services, eventually aims to become self-financing although it may receive some initial public subsidy;
- through its trading activities it aims to create jobs for the residents of defined areas or, in a limited number of instances, particular interest groups such as the disabled. The targeted areas are generally characterised by high levels of unemployment and other symptoms of multiple deprivation. The area or group of benefit is defined in the company's memorandum and articles of association, with most being set up as companies limited by guarantee;

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- residents of this area, or members of the group, own and control the business, with ownership coming through membership of the company. The directors are then elected from the members, although there is often provision for the co-option of non-executive directors who can offer specialised expertise;
- any trading profits are to be either reinvested in the business or spent on projects of benefit to the area's community or the targeted interest group.

Essentially a community business is a form of economic self help which has a strong social and spatial emphasis. Arguably its community focus allied to its self-help ethos means that it has appeal across the political spectrum. This may explain why, within Scotland, it has received support from a Conservative-led Central Government and Labour-dominated local authorities.

THE ORIGINS OF COMMUNITY BUSINESS

Like most initiatives the roots of community business are diverse and often difficult to disentangle. However, it is possible to identify a number of key influences which undoubtedly played a part in the development of the model. These include:

- the Highlands and Islands Development Board, which in 1977 established its Community Co-operative support programme drawing upon experience in the West of Ireland. Through this, staff and funds were made available to help local communities set up trading ventures. Often these were based upon existing enterprises that were only marginally viable or were about to collapse, but were felt important to retain for cultural and social reasons. The creation of jobs was therefore often a secondary consideration. This strong social emphasis has been continued by Highlands and Islands Enterprise, the successor to the Development Board, which has a statutory responsibility for social and community development. However, the focus of the present paper is upon community businesses which have as their main objective job creation and which tend to be located mainly, although not exclusively, within urban areas;

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- the experience that many community and voluntary groups had gained of setting up and running trading ventures in the late 1970s using the then Manpower Services Commission's Job Creation Programme (Hayton 1984b, p.i);
- the Community Development Projects, some of which had run trading projects, as in Ferguslie Park in Paisley where a workers co-operative had been formed (Paisley CDP 1978). This experience was influential in that in 1980 one of the first community businesses was formed in Ferguslie whilst one of the key Scottish activists was a former CDP worker;
- the considerable North American experiences of the 'non-profit' sector. The most obvious example of this was the replication of the North American Goodwill model in Glasgow (Hayton 1981a). It is possibly no coincidence that some key activists within the community business movement were members of a Tri-national Inner Cities Project which looked at community enterprise in the United States and West Germany (Newnham 1980). However, it is probably an over-exaggeration to claim that the North American impact was 'considerable' (Keating and Boyle 1986, p.119). A better description might be 'inspirational'.

All of these influences came together in the mid-1970s and coincided with the creation of Strathclyde Region, a totally new local authority set up as a result of the 1975 reorganisation of Scottish local government. In its Regional Report, setting out a corporate strategy for the new Council, the two priorities were to increase employment and tackle urban deprivation (Strathclyde Regional Council 1976). Perhaps because it was a new body, relatively unconstrained by 'tradition', it was able to take a more innovative approach to tackling these problems than had its predecessors. It was helped in this by strong political support from members who were willing to back the unconventional and the untried. In part this may have been because they wanted to establish their credibility at a time when there was considerable hostility to the new authority, partly caused by its sheer size. Against this background a community business support framework was created which was eventually to have a national, if not an international, impact. However a key factor in this was the willingness, perhaps initially unwittingly, of Central Government to provide funding.

FUNDING OF COMMUNITY BUSINESS

Without support through the Scottish Urban Programme, community business would never have developed. The Scottish Urban Programme, like its English counterpart, had its roots in the 1969 Local Government Grants (Social Need) Act (Taylor 1988). Although the Scottish Programme has been subject to many changes, in terms of its priorities and refinements to its spatial allocations, it essentially remained intact until 1995. Then some significant changes in its operations were announced (The Scottish Office 1995a), although these were subsequently postponed in late 1995 (The Scottish Office 1995b). This is in sharp contrast to the English Programme which, since 1977, has been progressively dismembered until it finally disappeared in 1992/93 (Blackman 1995, p.51).

In Scotland, the Programme basically operates in 2 stages:

- every year, local authorities submit to the Scottish Office their own and voluntary sector projects that they wish to support. These are to be located in, or to be for the benefit of residents of, areas identified in the 1991 Census as being amongst the most deprived in Scotland;
- the Scottish Office Development Department then decides which of these are to be funded bearing in mind available resources and performance against a list of evaluation criteria.

Projects that are supported receive 75% of their costs from the Scottish Office, with the balance being provided by the sponsoring authorities. Funding is initially for four years although voluntary and community sector projects are eligible to have funding extended for a further three. In a number of instances funding has extended well beyond these limits as some community businesses have, with the help of the Scottish Office, been able to restructure themselves and thereby claim continuing support. In 1995/96 the Programme had a total budget of £84.9 million which was supporting 1,100 projects of which 106 (10%) were new (Scottish Office 1995c).

Until the Urban Renewal Unit was set up within the Scottish Development Department in 1975, the Scottish Urban Programme was run by the Social Work Services Group, part of the Scottish Education Department. This no doubt reflected the emphasis in the Programme's early days on nursery education and child care projects (Hayton 1981b). After the publication of a number of advice circulars in the late 1960s and early 1970s the Programme operated without the benefit of any published guidelines for almost a decade.

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It was only in 1978 that, in answer to a written Parliamentary question, a clear statement of the criteria whereby projects were to be assessed was published (House of Commons Official Report 1978). However in the absence of any clear guidance, some authorities, especially Strathclyde Region, had begun to produce their own guidelines for Programme expenditure which both had a spatial emphasis and outlined the type of projects that were to be funded (Scottish Council of Social Service 1983). Underlying this was a strong commitment by the Region, as set out in its Regional Report, to use its resources to tackle urban deprivation.

It was against this background, of a Central Government policy vacuum and a regional authority with a clear sense of direction and a need to establish its credibility, that Urban Programme funding was obtained to support the Local Enterprise Advisory Project in 1978. Based initially in a higher education college, in its early days the Project was identified with an influential Labour politician, the Secretary of the Strathclyde Labour Group, from which it gained much of its credibility. Its remit was to 'work ... with specified community groups ... to encourage and support the investigation, design and preparation of locally based job schemes' (Local Enterprise Advisory Project 1979, p.3). In this 'bottom-up' model, professionals worked with communities to help them realise their business ideas. Out of this grew the concept of the 'bottom-up' community owned company, the community business, with the first being set up in Strathclyde in 1980.

GUIDELINES FOR COMMUNITY BUSINESS SUPPORT

With hindsight it would seem that the early community businesses were funded through the Urban Programme as 'one offs'. Little thought was apparently given by the Scottish Office to the implications of using a Programme designed 'to tackle social and welfare service provision' (Local Enterprise Advisory Project 1984, p.96) to fund economic initiatives. By the early 1980s this had caused a number of concerns to be voiced about the use of public funds to create potentially viable businesses. At its extreme this had seen protests by local traders when community companies were set up which were receiving public funds (see Hayton 1984b, pp.59-60, for one example of this). However by the early 1980s community business had begun to establish its own momentum, and the 'model' of the Local Enterprise Advisory Project was attracting attention not only from elsewhere within Scotland but from further afield. It seemed to have something to offer to areas of multiple deprivation which was more than could be said for many

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conventional initiatives. The concept also had strong political support particularly at the Regional level. Against such a background it was probably very difficult for the Scottish Office to contemplate removing funding, as can be seen from the success of the lobbying campaign mounted against the refusal to fund a home production business in Port Glasgow in 1982 (Hayton 1984b, p.17). Moreover it could be argued that community business closely matched the political priorities of the 1980s, with its emphasis upon self help and economic objectives. Accordingly, in the Autumn of 1982, Guidelines were produced which clarified the situation for all Urban Programme projects that were income-generating (Scottish Development Department 1982). The key points were that:

- the Programme could be used to support income-generating projects including community businesses;
- income that was generated could be retained by the projects as long as it was recycled or used to benefit the local community;
- grant aid was not to be used to pay the wages of the main workforce, although it could be used to pay the salaries of 'key supervisory and managerial positions';
- grant should not be used to give the business any unfair competitive advantage, for example by charging artificially low prices.

The Guidelines were 'generally welcomed by the community business movement' (Local Enterprise Advisory Project 1984, p.96) as they removed considerable uncertainty about future funding. Following this clarification, the political climate throughout the 1980s moved progressively in favour of community business.

At the local government level, especially in the Regional Councils, community business was seen to have an important role to play in fighting deprivation and creating jobs. For example, it was included in Strathclyde Regional Council's Social Strategy (Strathclyde Regional Council 1983, p.38). At the national level Central Government's political priorities increasingly stressed community and voluntary sector involvement as can be seen in the 1984 Urban Programme Guidelines (Scottish Development Department 1984). However it is a debatable point how far this was motivated by a real wish to see community empowerment rather than a desire to reduce the power of local government. There was also, as the Programme's 1986 Annual Report showed, an increasing emphasis upon economic regeneration projects at the expense of ones with education and

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social work objectives (Scottish Development Department 1986). The official 'seal of approval' was finally given to community business in 1988 when The Scottish Office's White Paper, *New Life for Urban Scotland* (Scottish Office 1988), announced the setting up of four Partnerships on outer housing estates. Within these, community business was seen as having a role to play in regeneration. Not surprisingly the outcome was a gradual increase in the amount of Urban Programme money going to community business support. Thus it has been claimed (McGregor et al 1988, p.4) that between 1980/81 and 1986/87 support to community business averaged £0.6 million a year. By 1989/90 this had increased to £2.5 million, accounting for 4.3% of total Programme expenditure in that year (Scottish Office 1991). Funding has remained at this level into the 1990s, with £10.7 million being spent upon capital and revenue support in the five years to 1992/93 (Hayton et al 1993).

This increase in resources was paralleled by changes in the delivery of support services. The main change was the establishment of semi-autonomous community business support units. This was pioneered by Strathclyde Region in 1984 when the Local Enterprise Advisory Project was replaced by Strathclyde Community Business. This was to provide a 'one door' approach for community business development with a single organisation being able to provide training, development support and finance. Eventually this model was followed by all other Scottish Regions except for Borders. By 1993 the units employed 100 staff and had total budgets of almost £5 million (Hayton et al 1993).

The final stage in the political acceptability of community business as a form of economic activity worthy of Central Government support came in 1992 when specific criteria for community business support through the Programme were published by the Scottish Office (Urban Renewal Unit 1992). These were more detailed than the 1984 Guidelines and were undoubtedly provoked by the increasing number of community business bids for funding and the lobbying power of the support units and their supporters both in Central and Local Government. The key points of the Guidelines were that:

- management grants or loans of up to £30,000 a year were to be available to meet the revenue costs of employing management and administrative staff;
- grants towards capital costs were normally not to exceed £30,000 a year;

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- the businesses supported were not expected to prejudice the operations of existing operations in the same area and were expected to 'progress towards viability' (Urban Renewal Unit 1992);
- income generated was either to be reinvested in the business or used for the benefit of the community.

These Guidelines are still current today although, as is made clear below, they were framed with a particular type of community business in mind, one that is increasingly irrelevant given the emergence of new models. This will bring its own problems. However, greater problems came to the fore in the early 1990s as the publication of these Guidelines coincided with a major reevaluation of the benefits of community business support.

GATHERING CLOUDS

By 1992, community business had become a Scottish urban regeneration success story, were success to be measured by the amount of money that was being allocated to it and its recognition as an important element in many of the regeneration strategies that were being implemented by Central and Local Governments and the voluntary sector. This success had resulted in the Urban Programme Guidelines being changed on two occasions. However, this policy success was increasingly being off-set by a growing volume of academic analysis which was raising questions about the impact of community business and its cost effectiveness. Much of this work emanated from Glasgow University. Thus in 1988 an evaluation of community business carried out for the Scottish Office found that, despite almost 10 years of financial support, community business still had a long way to go before it lived up to its claims of creating self-sustaining jobs (McGregor, et al 1988). For example, of the 15 businesses studied in the evaluation, one collapsed during the course of the study whilst the other 14 were still dependent upon public subsidy. Cost-per-job figures were exceptionally variable, ranging from £1,300 to £31,000. More worrying for policy makers was that research was also finding that some of the main advantages claimed for community business, especially its ability to target deprived areas, could be gained far more economically by supporting other initiatives. Thus McGregor and Fletcher's research, carried out in 1990 and 1991, although it found that community enterprises employed a greater proportion of the long-term unemployed than did the tenants of managed workspaces, found that the proportion of 'local' people employed was the same (McGregor and Fletcher 1994). More significantly, the public-sector costs of creating a job through

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community enterprise were 10 to 13 times greater than the cost of creating jobs through workspaces. The credibility of community business also suffered a major blow in 1989 when one of the 'flagship' businesses, Barrowfield based in Glasgow's East End, went into liquidation (McArthur 1993a). This had been widely seen as a model worth replicating and had influenced the Scottish Office's approach to regeneration in the four Partnerships.

In part because of this academic work and business collapse, in the early 1990s a growing number of local authorities and, more significantly given their resources, the Scottish Enterprise network's delivery agents the Local Enterprise Companies, began openly to express their scepticism about community business. In a number of areas this found expression through the restructuring of support units, which often involved major staff changes. This concern crystallised in mid-1992 when a study of Scottish community business was commissioned by a consortium of Scottish local authorities and Scottish Enterprise (Hayton et al 1993). Based upon questionnaires issued to all of the identified trading community businesses, the support units and the study's sponsors and a series of detailed follow-up interviews, the study had three main objectives, to:

- assess the achievements of Scottish community business;
- identify good practice in community business development and support;
- make recommendations aimed at ensuring that a greater proportion of businesses could become commercially viable, that is could survive without being continually dependent upon on-going public sector support.

Underlying these objectives was an increasing unwillingness on the part of local government to fund projects which claimed that they would eventually become self supporting only to find that this rarely happened. The authorities were then faced with difficult decisions about providing continuing support, with the potential bad publicity having to be balanced against the possibility that even with more money viability would still be as far away as ever.

COMMUNITY BUSINESS PERFORMANCE

The evaluation identified 100 businesses in Scotland. Eventually half of these, employing 912 people, responded to the survey. The businesses were

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mainly trading in the service sector, with 23% being involved in workspace management or security. Construction accounted for a further 18%, chiefly in relatively low-skilled areas such as fencing and building maintenance. What typified most of the activities was that entry thresholds were low, requiring minimal capital, averaging less than £1,000 per employee in 1991/92. The exception was workspace where the larger amounts of capital required had invariably been provided through the Urban Programme. Very few businesses were involved in manufacturing (5%) and even this tended to be in marginal activities such as home production where the workers were effectively providing such capital as the business required.

Sales were low, averaging £9,700 per employee in 1991/92. However the public sector was a key customer for almost a quarter of the businesses. Given the financial constraints that many of the new authorities are facing and moves towards Compulsory Competitive Tendering in some service areas, this must be a market that will be increasingly difficult to retain. Problems were evident when the businesses' main markets were analysed. Almost half of the businesses saw their main market as their local neighbourhood, neighbourhoods which were invariably characterised by low levels of disposable income and widespread poverty. This made it doubly difficult for the businesses to become viable. The competitors that the businesses identified were also local, with 72% identifying their main competitors as being based in the local neighbourhood or the adjacent urban areas. Displacement is therefore considerable. This is likely to be a key consideration for policy makers if they are concerned with creating net additional jobs for the wider urban area, rather than simply targeting jobs at small localities with no concern for the wider policy impact.

The average number of jobs in each business was 19. These were mainly manual (78%) and unskilled (55%), reflecting the types of activity that the businesses were involved in. Wages were low, averaging £142 a week, half of the 1992 Scottish male manual average. Given this, the contribution of the businesses to alleviating poverty seems to be limited. On a more positive note the businesses were good at targeting both the long term unemployed, with half of employees having been out of work for 6 months prior to getting a job, and those who lived within the businesses' intended area of benefit, with over 80% of employees living within the locality in which the business was based.

The businesses were, however, experiencing problems in becoming commercially viable, that is moving towards a position when they could

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cover their trading costs from trading income and not be reliant upon public sector subsidy. For the businesses for which it was possible to obtain accurate financial data, only 10 (34%) were judged to be making a surplus from their trading activities. This was typically less than 10% of trading turnover. However this viability seemed to have been attained at some considerable cost to the public sector, with the cost of creating a self-sustaining job being calculated to be over £16,000. This figure does not however take any count of the multiplier effects and the wider community benefits which many community business activists argue should be assessed (Pearce 1993). This issue is considered in greater detail below. In part this high cost-per-job reflects the high community business death rate, calculated to be in excess of 70% over a 6 year period. Whilst this was matched by a high birth rate, the outcome is that, over the period 1987 to 1993, four businesses had to be funded in order for one to survive. One inference from this is that targeting by the support units was poor. Whatever the reason, McArthur's conclusion that 'community business is a fairly expensive job creation vehicle' was borne out by this study (McArthur 1993b, p.867). This perception of community business as being an expensive and ineffective local economic development initiative was no doubt responsible for Scottish Enterprise being reluctant to fund it.

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Given community businesses' economic objectives it might be thought that they would receive considerable support from the development agencies in Scotland, particularly the Scottish Development Agency (SDA) and its successor Scottish Enterprise and its network of Local Enterprise Companies. This is not the case. In part this reflects the attitudes of staff towards community businesses which have generally been seen as social rather than economic initiatives. As such it has been claimed that support fell outside the remit of these bodies. In its turn this led to the SDA claiming that it could not become involved in the type of areas typically targeted by community businesses, such as the outer housing estates, as its objectives were economic and these areas had no economy (Hayton 1993). Where the SDA did provide support, this tended to be for initiatives such as property which were directly related to its statutory responsibilities. Even this support was not always provided without some difficulties as can be seen from the experiences of one of the pioneering workspaces in Glasgow (Buchanan 1983).

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Undoubtedly the scepticism that local government increasingly felt about community business as the 1980s went on was replicated within the Agency. Yet despite this the legislation setting up Scottish Enterprise included a discretionary power to 'assist the establishment or growth of community enterprises' (Enterprise and New Towns (Scotland) Act 1990). The Act defines community enterprise, which is essentially the definition of a community business. Despite this, funding is minimal. Thus the 1993 evaluation (Hayton et al 1993) identified only £51,000 going from the Local Enterprise Companies into community business support. The reasons for this apparent dysfunction are similar to those aired earlier. The legislation was apparently amended following lobbying by a Member of Parliament who, as a Strathclyde Regional Councillor, had been very supportive of community business (Pearce 1993, p.90). However the legislation committed Scottish Enterprise to providing support only 'to such extent as it considers appropriate'. It did not, as has been claimed, make this a duty (Pearce 1993, p.90). The conclusion must be that neither it nor the Local Enterprise Companies felt that such support was appropriate. The reasons advanced for this included (Hayton et al 1993):

- a lack of commercially feasible community business ideas;
- the experience that staff had in the past, with community businesses continually using their social objectives as an excuse for their failure to attain economic viability.

Once again the message is that it is little use for grass roots initiatives to change Government policy if those responsible for implementing this policy feel that these initiatives have little or nothing to offer. The outcome is a pyrrhic victory: community business feels that it has benefited, but the policy changes are ignored by those responsible for their implementation.

DELIVERY PROBLEMS

So why has community business failed to deliver its promises, despite policy changes and the considerable financial support that it has received from both Central and Local Government? Paradoxically the conclusion that the 1993 study came to was that delivery had failed because of the amount of support offered. To explain this more fully, the characteristics of the 'community businesses' analysed in the study need to be considered. The study started from the assumption that the businesses that were analysed were community businesses, that is they had the characteristics of a community business

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outlined above. However detailed analysis found that this was not the case. The 'businesses' studied fell into four groups:

- ones that were community businesses, being for the most part owned and controlled by local residents with a remit to create jobs for these residents by setting up commercially viable trading organisations;
- businesses that were essentially conventional private sector companies whose ownership and control was vested in those who owned the company rather than the wider community;
- 'businesses' that were Urban Programme funded projects that had been set up to run for the duration of the grant with no expectation on the part of those running them that they would continue beyond the period of the grant;
- 'businesses' whose objective was to create a service for a community rather than to create jobs. Often there was no intention that they would become commercially viable. Essentially they were voluntary sector projects which, after an initial period of public subsidy, were able to survive largely as they relied upon unpaid labour.

What all these very different initiatives had in common was that they had received support, be it finance, training or business advice, from units that were set up specifically to assist community business, not small firms or voluntary sector projects. What many of the critics of community business therefore may be criticising are not community businesses but, for example, voluntary sector projects which have no intention of ever becoming commercially viable. The final three categories accounted for 36% of the surveyed 'businesses'. Their removal from the cost-per-job calculations resulted in the average cost of creating a self-sustaining job falling by 25% to £12,000. Whilst still expensive, the attraction of community business as an economic and effective job creation initiative increases. When the costs of creating a job in only those businesses that were making a trading surplus were considered, the potential cost effectiveness became even more apparent. These costs averaged £4,500, with the cheapest gross job creation cost being £2,300. This compares favourably with the costs identified for other job creation initiatives (Turok and Wannop 1990).

So why had the support units funded projects which, it must have been clear, were not, and never had any intention of becoming, community businesses? The answer is a direct reflection of the success of community businesses' supporters in attracting resources. By the late 1980s, community business

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was very well resourced, so much so that the 1993 study claimed that the key development problems had little to do with resources (Hayton et al 1993, p.37). However, the late 1980s were also a period when concerns about efficiency and effectiveness were coming to the fore. One outcome was that the support units were increasingly having to meet targets to which their funding was directly tied. These targets generally stressed new starts rather than supporting existing businesses. The outcome was that the support units were under pressure to spend their resources on setting up new businesses. However, the gestation period to create a business under the traditional 'bottom-up' model was quite lengthy. Accordingly, the units were not very selective about what they funded. For their part many initiatives that were not community businesses realised that by using the 'community business' label they could gain access to resources that would not otherwise be available to them. There were 2 main outcomes of this process:

- the units supported many initiatives that were not community businesses;
- the emphasis in the targets upon new starts meant that the 'business' failure rate was high, in part as little support was offered beyond the start-up stage (Hayton et al 1993, p.27).

In their turn, this meant that cost-per-job figures were high, and few businesses were able to become commercially viable. As a consequence, community business became increasingly discredited in the eyes of many policy makers and funders. Essentially what had happened was that community businesses' ability to deliver had been talked up by its supporters whilst these delivery promises had been accepted almost at face value by public sector policy makers and funders. Funding had then been provided at a far higher level than the support framework was capable of absorbing. The consequence was an inability to deliver and the increasing discrediting of the whole of the community business concept. Community business obtained some short term benefits by overselling, but these were gained at the expense of the concept's longer term credibility. However, it could be argued that the cost-per-job evaluations outlined above fail to acknowledge the wider benefits that community business support brings. Accordingly the issue of evaluation needs to be briefly addressed.

EVALUATING COMMUNITY BUSINESS

Most of the evaluations of community business that have been undertaken to date, many of which have been referred to above, have adopted a neo-classical approach. This looks at concepts of efficiency and effectiveness by relating financial inputs to measurable outputs such as jobs. Both academics (for example Turok 1990) and activists (Pearce 1993 and Crabtree et al 1992) have argued that initiatives such as community business should be evaluated against a wider set of criteria. This approach is often described as social accounting, and attempts to assess 'the wider economic and social consequences' (Turok 1990, p.10) of policies. The assumption is made, especially by activists, that were such a framework to be applied to community business, then it would result in a more positive picture than emerges from the conventional evaluations. Unfortunately this does not necessarily follow. For example the research cited earlier, by McGregor and Fletcher, found that spatial targeting by community enterprises was no better than for conventional managed workspaces which had no explicit targeting policy (McGregor and Fletcher 1994). It also has to be accepted that, certainly within Scotland, community business has sold itself first and foremost as a job creating initiative with outputs such as empowerment and other community benefits being relegated to a secondary position. Given this, the neo-classical evaluations, which evaluate community business against its own objectives, seem to be perfectly valid. There is also a need for equity. For example why should community business be evaluated against a different set of criteria to a conventional private sector business? The assumption often is that social accounting would uncover benefits that community business support brought that were not gained from supporting private companies. Yet, as the McGregor and Fletcher example shows, this may not be the case. It may be that many of the qualitative benefits that are claimed to come from community business support are also gained from supporting more conventional enterprises. This is not an argument for not having social accounting. It is an argument for evaluation by or for the public sector to be done using a consistent framework which does not change according to the initiative being evaluated. It also has to be accepted that bodies such as Scottish Enterprise, regardless of one's views as to what they should be doing, are not in the business of buying community or social benefits other than those that come from job creation. All these factors justify the evaluation of community business against the same criteria that are used to evaluate other types of job and wealth creation initiative.

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If the evaluation criteria are accepted as being valid, then how can community business redeem itself and gain credibility as an effective and efficient economic development initiative?

THE RESURRECTION OF COMMUNITY BUSINESS?

The starting point needs to be to question some of the key elements of the model which seem to make the attainment of commercial viability difficult. There are three aspects to this:

- the ability of the traditional 'bottom-up' model of community business development to deliver what it promises;
- the extent to which the collective ownership model undermines business viability;
- the need to explore hybrid business models which link community and private sector ownership, combining the strengths of each.

In their turn these aspects have implications for the type of community business support that is provided and the stage of business development which the support units should concentrate upon. The starting point for any new approach has, however, to be to question the viability of the 'bottom-up' model.

Under this model the role of the professional development worker is to act as an 'animateur': to work with a community to help it articulate its business development ideas and take these to the stage when it is possible to start trading. Whilst this model has had some notable successes (Pearce 1993), the process of development is very slow, very uncertain, often costly and with a considerable probability of business failure. It also tends to result in businesses being set up which are trading in marginal and often highly competitive markets. Again this conspires against business success. The failure of this model to produce viable businesses was responsible for major restructuring of many of the support units in the early 1990s. One outcome of this has been the emergence of new development models, ones which are best described as 'top down'. Some of the most interesting of these are being developed on Tayside, based upon the City of Dundee and featured in the recent Joseph Rowntree report on community regeneration (Thake 1995). Whilst it is still too early to know if these will be more successful than the 'bottom-up' model, the early indications are encouraging.

THE TAYSIDE COMMUNITY BUSINESS MODELS

The Tayside models were originally developed by the support unit that was funded by the former Tayside Regional Council. The unit, Tayside Community Business, was set up in 1992, following a major restructuring exercise. This had its roots in the failure of the 'bottom-up' model to create commercially viable businesses, in part because of the conflict and tension between economic and social objectives. Learning from this experience, Tayside Community Business decided that its priority had to be to deliver commercially viable community businesses, separating business development from community involvement. It was felt that this could not be done unless the traditional model was abandoned. Accordingly, the Tayside Community Business approach involves the following four stages:

- the identification and development of viable business ideas by professionals, not lay people drawn from the community. This includes both the generation of ideas 'in-house' and the use of external networks. For example one of the existing businesses, a delicatessen, evolved from an idea that Tayside Community Business had. Another business, food processing, came from Tayside Community Business's involvement in the Tayside Food Suppliers Action Group which was trying to link suppliers to the area's food distributors. Once identified, ideas are subject to in-depth evaluation and analysis. Not only does this assess commercial viability, but it also considers suitability as a community business in terms of the skills needed and the number of jobs to be created, with 6 to 7 full-time jobs being the usual viable minimum;
- ideas that pass the evaluation stage then have a business plan prepared;
- Tayside Community Business starts the process of implementing the plan, having a central role in finding premises, finance and staff, setting up the legal structures and identifying directors, with a key emphasis upon targeting influential people from the private sector who can play a role in steering the business towards viability;
- Tayside Community Business then provides on-going support for as long as needed. The extent to which this is required varies according to the nature of the business and the experience and confidence of the staff and board.

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The key difference between this model and the traditional approach is that business development, from identification of ideas up to trading, is done by professionals with little, if any, involvement of the communities which, it is hoped, will eventually benefit from the resultant jobs. Using this model, three businesses have been set up. These are:

- SuperSalads, which started trading in mid-1994 and manufactures a range of prepared salads, sandwich fillings and dips. It currently employs 15 people of whom 8 were previously long term unemployed;
- Woodlands Furniture, which imports and finishes non-upholstered furniture made in Romania. A section of the company applies decorative coatings, both to the furniture and for external contract customers. The business started to trade in mid-1995 and employs 10 of whom 6 were previously unemployed;
- Pacino's, an Italian delicatessen based in the commuter town of Broughty Ferry to the East of Dundee. It employs 8 women, including several single parents, and began to trade in June 1994.

In economic development terms, one of the most significant factors is that two of the businesses are involved in manufacturing, rather than the low-cost, low-waged service-sector activities characteristic of most community businesses. Both are serving national markets, with SuperSalads distributing its products through the supermarket chains whilst Woodlands will sell through a national network of agents. There will therefore be real job and economic gains to the Tayside area rather than the usual displacement which has tended to characterise most businesses, given their concentration upon serving local markets where the main competition has come from other local firms.

However, the move into manufacturing has major financial implications. The point has already been made that capitalisation of most businesses is very low, a direct reflection of the activities that they are involved in. Manufacturing has far greater capital requirements. For example, SuperSalads required £100,000 to equip its factory to meet food hygiene regulations whilst capital investment to date, in equity and from sources such as Regional Selective Assistance, has come to £750,000. Total investment in the three businesses is of the order of £1.1 million. This level of capital poses major challenges to public sector perceptions of community business which are associated with low cost, marginal activities. It also potentially conflicts

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with the Urban Programme Guidelines which generally restrict capital to £30,000 a year. This has given rise to what have been described as the '£30,000 companies' which were driven by available capital rather than any clear business plan (Pearce 1993, p.101). If the SuperSalad scale of community business is to be set up more widely, then this capital problem has to be tackled.

In parallel with this new model, Tayside Community Business has developed new strategies of community involvement and ownership. The traditional model involves the community, that is residents of the target area or people drawn from the interest group, through their appointment as company directors. However this has not been without its problems, with some directors apparently thinking that their role is to run the business on a day-to-day basis (Hayton et al 1993, p.53). This model also assumes that directors, most of whom have little commercial knowledge or experience, can play an effective role in company development. The limited commercial success of the traditional model seems to show that this is not the case.

Given this, Tayside Community Business is evolving a new approach. At the moment the three businesses are controlled by Tayside Community Business, through its ownership of the majority of the equity. Community involvement comes about in two interlinked ways which are illustrated diagrammatically in figure 1. The first of these comes about through:

- Tayside Community Business which is a company limited by guarantee with charitable status. It has 10 directors including 4 local government councillors. As well as owning and overseeing the businesses, which are effectively wholly owned subsidiaries, some Tayside Community Business directors are appointed as non-executive directors of the subsidiaries.

However whilst Tayside Community Business's directors are drawn from the political and business community, they are not representative of the type of areas of deprivation that the businesses have been set up to benefit. Accordingly a parallel structure has been created through:

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- Dundee Community Business which again is a company limited by guarantee with charitable status. Its 200-plus members elect 15 directors. However, a deliberate attempt is made to ensure that they are representative of the businesses' target areas. Thus a majority of directors must live in one of the City's areas of deprivation, as defined for Urban Programme funding purposes, as must a majority of members. The directors nominate some of their number to sit on the Tayside Community Business board and on the boards of the trading companies.

The community involvement model that is being developed has therefore moved away from the small-area approach that has characterised community business up until now. In this there was theoretically a close relationship between individual businesses and particular areas of deprivation and their residents. This link has now been broken, and businesses are located in areas best suited to their commercial needs with the community links being city-wide. There may be far less community identification with the businesses in this model. However, the reality is that, despite the rhetoric surrounding community control and ownership, very few people are involved with the businesses in any in-depth way (Hayton et al 1993, pp.50-53). Indeed the type of mass involvement that some activists seem to advocate is clearly unrealistic. The city-wide model also brings benefits in that any job losses will not be concentrated in one area but will be spread across the city.

Yet this apparent loss of 'community identification' may not matter if commercially viable businesses can be created which succeed in employing people from the Urban Programme target areas. The creation of viable businesses depends primarily upon the companies' boards and staff and on Tayside Community Business. However, Dundee Community Business has a crucial role on the boards of the various companies to ensure that priority is given to recruiting staff from the target areas of deprivation so that the businesses do not simply operate like any private sector company with little regard being paid to targeted recruitment. So far, Dundee Community Business seems to have been reasonably successful in this, with 61% of the 33 jobs in the businesses being held by residents of the target areas. Given this, the Tayside Community Business model, whilst being theoretically very different to the traditional one, probably differs far less in practice in terms of active community involvement and local recruitment.

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[insert figure 1, landscape]

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In the longer term, the aim is that Tayside Community Business's shares in the companies will be transferred to Dundee Community Business, thereby strengthening the community's role. However this will not be done until the businesses are trading profitably and there is something other than vague promises that can be offered to the community.

Hybrid business models are also being explored, with one company being partly owned by the community and partly by key management staff who have invested capital. One of the justifications for this is that there will then be a greater commitment by staff to make the business a trading success. However, the challenge of this type of model is to ensure that the business does not begin to operate in an identical way to any conventional business, especially as regards recruitment. There are also challenges to the Scottish Office in so far as this model may conflict with the Guidelines which state that members of any business receiving funding should not make any personal financial gain from the activities of that business. However, these and the other challenges have to be tackled if community business is to have any future as a mainstream economic development player.

CONCLUSIONS

The experience of community business in Scotland shows that activists can change urban policy. However, for 'bottom-up' action to work the key factors seem to be the ability to:

- offer something that is innovative in terms of its problem solving ability;
- fill what is perceived to be a policy vacuum;
- gain support from both local and national politicians. In its turn this releases resources.

Any generalisations about the extent to which the Scottish experience is transferable need to bear in mind that there was a particular set of circumstances which favoured the initial rise of community business, in particular institutional reform which created new agencies, the regional councils, which had many new councillors on them. This formed a background against which there was a greater willingness to experiment and innovate, in part as this could help to give the new agencies credibility. Unemployment was also rising, and there was a search for initiatives that

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could offer at least a partial solution, which community business claimed to be able to do.

However, the Scottish experience shows that policy changes are only the start. There then has to be the ability to deliver what has been promised. In the case of community business it was possible to survive for over a decade without being called to account. The start of the 1980s were, however, very different to the 1990s. By the 1990s there was an increasing emphasis upon monitoring and evaluation in order to achieve value for money. Increasingly, academic work was comparing and contrasting the cost effectiveness of different approaches to economic development (see Foley 1992 for an overview of some of the major studies). In this context, community business was seen to be failing to deliver what its supporters had promised. In part this failure was caused by successes in winning policy changes. These had resulted in more resources. However the ability to use these to support community businesses, as opposed to other initiatives, had been limited. This resulted in the community business umbrella being used to shelter projects that were not, nor had any intention of ever becoming, community businesses. This was caused by the need for the support units to show that they could spend the money allocated to them. They were therefore relatively indiscriminating in the type of projects that they funded. The outcome was the crisis that precipitated the 1993 study when the future of community business was seriously threatened. Its survival now rests with support units such as Tayside Community Business which are modifying the traditional models.

The experience of Scottish community business therefore shows that having too many resources can be as much of a problem as having too few. Activists and lobbyists invariably focus upon the need for money. In the case of community business, success in getting Urban Programme Guidelines changed meant that money was available. However the 1993 study showed that money was only a part, and possibly a relatively small part, of the community business development problem. Others have argued that the Urban Programme funding regime meant that 'small, undercapitalised businesses were created' (Pearce 1993, p.101). Undoubtedly the businesses matched this definition. However, to assume that if there had been more money then there would have been greater success ignores some of the fundamental flaws in the model and the development support that was provided in the 1980s and early 1990s. Indeed one of the interesting things about the 1993 study was that it found that there was an inverse correlation between the amount of support available and business success. Thus there

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was a greater probability of businesses being commercially viable if they were based in rural areas that were not eligible for Urban Programme support (Hayton et al 1993, p.56). One explanation for this was that, in the absence of relatively easily obtained public funds, the business ideas and management support had to be of a high calibre if the business was to get off the ground.

However, raising capital will become an increasing problem if the types of models that Tayside Community Business is developing prove to be successful. If they are, then it is unrealistic to expect the Urban Programme to provide capital at this level. Yet, if the model works, then it may be possible to tap the conventional sources of finance such as the banks, with community business being treated as if it were any other small firm, rather than some type of marginal social initiative.

Success would, however, have implications for the type of support offered by units such as Tayside Community Business. Under the traditional model the units provided a very broad range of services, albeit that these were often at a rather basic level (Hayton et al 1993, p.24). To support the type of businesses that Tayside Community Business is now setting up requires:

- more in-depth skills, albeit that it may not be necessary for these to be as broad as some units have offered in the past;
- the ability to tap even greater expertise if needed. Usually this has been done through some form of consultancy fund. It would be far better if these needs could be met by board members, following Tayside Community Business's example of recruiting high calibre people from the private sector. In the past it has been argued that this was difficult. However, Tayside Community Business has shown that, if it is possible to set up community businesses that are first and foremost serious economic enterprises, it is equally possible to attract board members who are willing and able to make a serious contribution to business development.

Such support also has to be targeted across the life of a business, from start-up through its development stages until it can survive using its managers' and directors' skills alone. A consequence of this is that the targets and other performance measures that funders rightly insist upon need to be modified. Greater stress needs to be placed on such things as increases in turnover and trading surpluses rather than what have been proved to be rather meaningless measures such as the number of new business starts.

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Unless there are these changes, then any success in changing policy will achieve little if the business development model is flawed and the wrong support services are provided. Yet to some extent there may be an inevitability about the trajectory that Scottish community business has followed. Any new and novel initiative needs to talk itself up if it is to gain support (Geddes and Erskine 1994, p.199). Scottish experience shows that this can change policy and release resources even in the absence of any clear indication of what the initiative can achieve. Yet Scottish experience also shows that novelty in isolation is not enough. There has to be the ability, eventually, to deliver something. If this is not possible then policy changes will, as the Scottish Enterprise example demonstrates, mean nothing. In part this reflects the fact that the traditional Scottish community business model proved to be so flawed that it was unable to deliver anything beyond grandiose promises.

The wider issue that Scottish experience of community business shows is the danger of special interest-group pleading which can result in policy changes being made in a way that may undermine long-term success, as Pearce has argued (Pearce 1993, p.101). Policy makers make changes but these are not sufficient to ensure long-term sustainability. Indeed, they may undermine it if the changes are simply a token gesture. However, to use Scottish legal terminology, this argument has to be seen as 'not proven' given what are now widely perceived to be the flaws in the traditional community business development model.

In conclusion, Tayside Community Business is showing the way in creating community businesses that could make a considerable impact upon alleviating unemployment. Its success in promoting these alternative models is crucial for the future of community business. If the model fails, then it is hard to see how community business can survive. At the very best it will remain as a small, undercapitalised, commercially precarious enterprise which provides a limited number of poorly paid, low-skilled jobs and is funded as an arm of social policy. This will be the case regardless of the success of its supporters in changing national urban policy.

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