

Review of Experiences Of Scotsar Design (an emerging Social Firm) July 2003-June 2004

By Graham McGrath

This report was written by the ex-Chief Executive Officer of Scotsar Design, Graham McGrath, who is keen that others should learn from the difficulties he experienced that forced his emerging Social Firm to close.

Scotsar was registered in July 2003 as a Company Ltd by Guarantee with three non-executive directors. The company ceased trading in June 2004. Scotsar was an idea conceived and developed by myself with the objective to provide employment for disabled and disadvantaged people. I firstly thought of a marketing idea which could be used by a web design company in 2000 and took a course in Business Development with Devon College to learn how to turn a business idea into a 'going concern'.

I became disabled in the late 1990's while I was a deep sea fisherman and had to re-train to force a career change. As my disability was one of lack of mobility I chose IT as this would enable me to sit whilst working and I passed numerous IT, management and design courses.

I then started looking for funding for his project. At this point I learnt about Social Firms. Unfortunately, funding was still very difficult to find. I took onboard help from The Cascade Project who helped me put together a viable business plan. Mid Cornwall Enterprise also helped by checking the business plan and once they accepted its possibilities of success, agreed to help find fund holders.

Despite my spending years of work and over £2,000 of my benefits money to start this business I agreed to hand it over to three directors and work as a volunteer for no pay. With the help of Restormel Regeneration Programme, I gained success and received funding from Restormel Council Regeneration (£3,000), and Cornwall Rural Key Fund (£27,000), and in December 2003 moved into new premises. Staff were interviewed and employed.

In keeping with the ethos of the Social Firms structure, the new recruits were selected with disabilities in mind. For example one designer was selected on the grounds of suffering from dyslexia and was having to work in a slaughterhouse despite having a degree. Initially there were two designers. There was a Sales Manager who was able bodied and an appointments clerk. There was also a volunteer P/A to myself as CEO.

The business started off well. Scotsar received letters of commendation for its work from many sources, the local press published good reports about it and new custom started to come its way. The Sales Manager reported four sales within the first two weeks. A spin off from one deal (a Social Firm), produced the opportunity of a contract with a large American Radio Conglomerate which would keep Scotsar busy for months. Work also came in from the networking I had done previously and the decision was made to increase the number of staff.

Scotsar was inundated with requests from agencies including DEA's at JobCentre Plus and the West Country Training Centre to take people on their books. It was decided to employ a young man who was suffering from a low esteem and acute lack

of confidence. Scotsar placed him on a course at St Austell College where he excelled and entered the New Deal programme. A similar chap was also taken on but he worked for no wage as he just needed the confidence to return to work. He was placed on the same St Austell web design course and also excelled. Another designer was employed part-time as he claimed to be disabled and suffering from arthritis. He came from the DEA at Redruth JobCentre Plus and had the added problem of having been bankrupted. He had his web design company previously which he gave away to some directors. Two other young men were taken onboard under the work preparation scheme. One had cerebral palsy and the other a shattered spine. Both could not work for very long and both attended as unpaid volunteers but the idea was to train them to get them into a position where they could do a job and be in a position to earn a wage.

Shortly after the new recruits were taken on board, the company was inundated with agency visitors. They came almost daily to see their clients. One day there were four ladies around one guy seeing how he was doing. Every one of them, of course, needed to discuss this clients needs and ask how he was getting on. Another occasion, the CEO returned from an appointment to find that his office and the sales office had been emptied whilst agency staff interviewed their client.

At this point, the Sales Manager went sick. Then the company received an email from their ISP complaining of hacking from the company and viruses being sent out from the design studio. Yetiserve IT Services was brought in to close the security gaps at some expense to the company. It was then found that files had been going missing from Scotsar's client's folders on the server. Other files which were being worked on started to be corrupted.

I then received a call from the MD of a Social Firm Scotsar had done some business with, that the contact who had a job involving the American radio stations was a 'Walter Mitty' character. As Scotsar had already done some work for him, it was decided to chase up the unpaid invoice which was only for a small amount. It was found to be very difficult to get the money paid. I then chased up this contact and it became apparent that the business thought to have been gained from this source was in fact not there at all.

I then started chasing up the many customers who had walked into my office asking for Scotsar to do work for them. Most of them said they were waiting for grant money from Act Now. This company offers Cornish companies 40% grant towards a website being built. This process was proving a long drawn out affair. One of the clients who we contacted through our appointments clerk did get the grant, but then used the money to employ a company from outside Cornwall to design their site. This meant that cash which was used to improve the economy of Cornwall was going, in this case, to Cheshire.

The Sales Manager returned to work and I gave him more sales training but he then went sick again after a few days of inactivity. During this spell, I started to chase up the sales my Sales Manager had reported. I also started to chase up his Sales Manager's statistics. They did not add up correctly at all. Out of 109 appointments made for him, it appears he only attended 4. The sales did turn out to be bogus. Despite being off sick, it was decided to dismiss him. He in turn took Scotsar to an industrial tribunal.

At this point, I checked the books and found that the cashflow was getting low. It was obvious that something was going wrong very quickly, as the increase in wages met

with this unexpected stop in income. The CEO chased up all the clients who owed money. Getting the debts paid was proving a difficult task.

At this point, I had to provide support to some of the disabled employees, go out and sell, chase debts owed, help design sites, deal with all the security issues and much more. It was found at this point that the designer, who had been made personally bankrupt and had helped design the Scotsar website, had placed into the Meta tags information relating to his old company. It was also found that he had hacked into the Scotsar server. The PA and the appointments clerk went out cold calling to try to drum up business. Only one of the people who had walked through the door asking Scotsar to do business returned. There were, of course, no sales from the Manager. I decided to inform the staff that redundancies would follow.

The designer, who was full-time, was told that he would have to go part-time. He had been asked if he would go on the Workstep scheme, which would alleviate the wage problem but refused as he then told me that he was not disabled. At the interview stage, he had told me that he was disabled. The day after he was put on part-time hours, he handed in one week's notice. He was then found stealing photo stock and clients' work from a computer and so was asked to not work the rest of his week's notice. He decided to take Scotsar to an Industrial Tribunal claiming that he'd been sacked. He is now showing the work he stole from Scotsar on his own website and claiming it is his own work.

Within a few days, the part time designer who'd been bankrupted previously was brought in to see me. It was found that the company which this designer had 'given away' because of his bankrupt status was showing this man's phone numbers and emails as the contact for the company. He also said he was not disabled either despite coming via a DEA. The next day, he handed in one week's notice but was allowed to leave. Despite being poor and bankrupt, he was reported to have bought six 21" monitors from Yetiserve Computers. There is no proof, but there is a possibility that the potential clients who walked through the door were somehow directed to another web design company.

This now meant that Scotsar had to find more wages as the staff worked one month in advance of wage and also had to pay out holiday pay. It also meant that Scotsar now had two industrial tribunals to fight. The advice from Cornwall Enterprise was to close down the company.

The directors were informed but I thought we should try to fight on. More finance was sought. When this was refused, it was felt that because the volunteer directors would be liable for any future debts that Scotsar should close.

Insolvency practitioners found no wrong doings at the company, nor did the funders. Thorough investigations were carried out and it was agreed that no new company could have survived so many unfortunate circumstances. Both I and Directors were completely absolved of any blame.

I, however, admit that with hindsight, I should have dealt with the Sales Manager much sooner and should not have taken on more staff but turned away business first. He should have also kept the company 'cash rich'. This means that the company should have grown much slower than it did.

The main lessons to be learnt here are:

- ◆ Check staff references before employing them
- ◆ Stay cash rich if possible. Indeed, turn business away in early days if it means losing cash rich status
- ◆ Sack under-performing staff early whilst under temp contracts.
- ◆ Social Firms should not be too soft but business like
- ◆ Keep on top of bookwork (cashflow etc)
- ◆ Be aware that disabled workers can equal many agency staff which is time consuming
- ◆ If in the IT sector, always plan in high security measures
- ◆ Get potential clients signed up on contracts straight away
- ◆ If potential clients are waiting for grants then forget them until they have the grant money onboard
- ◆ Seek help and advice early
- ◆ The time gap from selling a website to getting the cash in can be a long time despite using a two week invoice.