



**Materials
Processing
Institute**

PASSION, PROFIT AND PURPOSE NEW OPPORTUNITIES FOR SOCIAL ENTERPRISES

A speech given about 'Passion, Profit and Purpose',
held at The Wilton Centre, Redcar.

15th March 2019



Less A Social Enterprise, More An Enterprise That Is Part Of Society

I am delighted to be invited here today, to address this gathering on social enterprises. I would like to thank Lola Ibhaddon and Redcar and Cleveland Council for their kind invitation.

Some of you may have noticed that in the supporting information for my talk today, it is mentioned that I lead the Materials Processing Institute, itself a social enterprise. The interesting thing about this is that I had never really thought about the Institute as a social enterprise, until Lola pointed it out to me, late last year.

The Institute is a research and innovation organisation, developing new technologies, primarily for the global steel industry. I established the Institute as an independent entity, by divesting it from its then parent company, a multi-national steel business, in 2014.

Many of the key features that make the Institute a social enterprise, local sourcing, not-for-profit, employee ownership and social engagement, are there not because I wanted to tick the boxes for a social enterprise, but because I wanted to create an enterprise that met my vision for a what a responsible business should be.

Less a social enterprise and more an enterprise that is part of society. Not just a presence in a community, but a participant in that community.

This morning I would like to address three topics

1. The need for more businesses to be social enterprises and **new measures of economic prosperity**.
2. Critical success factors in **new models of ownership** and employee engagement.
3. The urgent need for more community based businesses, to address the societal impact of the fourth industrial revolution.

New Measures of Economic Prosperity

Considering my own story, the Materials Processing Institute had, in one form, or another, been carrying out research and development in Teesside for over 70 years, but I realised that we were more well known in South Korea than South Bank. I was determined that this had to change and so I wrote a new constitution, which embedded the philosophy of the 'double bottom line' into the DNA of the organisation. What this means is that as well as serving industry, the Institute aims to have a wide, positive social impact. Yet, one of the most significant challenges in making the case for social enterprises, versus traditional thinking in business, is the narrow way in which success is conventionally judged.

The financial crisis wasn't just a challenge to the economic system but to assumptions that had built up over time, most especially perhaps that progress can best be measured by GDP or gross domestic product alone.

This is a theme I explored in a speech I gave in Sheffield in April 2017, where I highlighted that the genuine desire for 'an economy that works for everyone', means that Gross Domestic Product, GDP, is a necessary, but insufficient measure of progress. What was once considered radical thinking, that GDP is an incomplete metric of the wellbeing of the people in a nation, is now mainstream thinking.

It is said by some who place maximising GDP above all other considerations, that increasing the concentration of City-based financial services jobs in our economy – with less concern for lower paid manufacturing jobs – is economically rational. Whilst industrial jobs may have merit, the fact you make more money in a bank than in an engineering workshop means that financial service dominated economies are simply more productive.

However, what this also means is that you deliver an economy which is less diversified and less balanced leaving it more vulnerable to shocks – exactly like those we saw with the financial crisis in 2008. You also end up with higher levels of national inequality with London and South East England motoring ahead as places like Teesside, Clydeside, South Wales and coastal towns get left behind and lectured that we should work harder to keep up.

Giving economic value such a high status means that any cost-benefit analysis for government investments gives priority to transport and infrastructure projects in London, against which train lines, roads or other projects out in the regions can never compete.

So I would argue that GDP is not the only metric we need to recognise, we would benefit as a country and a society by finding a way to capture the social benefit from achieving a mixed economy and reducing inequalities, and of acknowledging the importance of different types of work in different regions and places. The overall effect of this is that we accept there is a trade-off between maximising GDP and a higher level of personal satisfaction, with a lower level of inequality.

In the context of this significant cultural shift, it is apparent that a business which is wholly focussed on a single financial metric, such as profitability, is not meeting the wider needs of the community, from which its licence to operate is derived.

The age of the social enterprise is now and as many companies are realising, every enterprise, in some way, must be a social enterprise.

New Models of Ownership

I have talked about the impact of a social enterprise on its wider community, but a critical success factor must also be how employees are involved in the running of the business. I am in the reasonably rare position of having once been the trade union shop steward and now being the company CEO. This is why when writing the constitution of the Materials Processing Institute, our colleagues were given a central role in the direction and governance of the business.

At a time when politicians at the national level are debating the relative merits and pitfalls of employee representation at board level, we have instituted a system of democratically electing an employee representative to our governing Council, who sits as a registered director with the same powers and responsibilities as all of our non-executive directors. We have 10% employee ownership, an employee profit sharing scheme where the lowest paid receive relatively higher benefits than the highest paid, collective consultation, paid internships and a commitment to pay the real living wage.

This approach to employee involvement is radical for some and yet for us, it is simply good business practice and the starting point for a societal and ethical mission, that aims to have a much wider impact on our local community in the areas of economic development, education and art & culture.

This level of employee engagement is important for the satisfaction and wellbeing of our staff, but it is also the only way that we can ensure that we are able to successfully implement change in response to our external environment. That's because the most responsive firms need to be nimble when incorporating new technologies and processes, and that cannot just be by top down diktat, but works best channelling the experience, expertise and diverse perception from across an engaged workforce.

This leads me to the third aspect I would like to mention this morning, the urgent need for community based businesses to address the societal impact of the 4th Industrial Revolution.

Societal Impact of the 4th Industrial Revolution

Most of us are familiar with the first industrial revolution, the dawn of the age of steam and coal. The second and third industrial revolutions, which introduced electrification and computing, as less well recognised, but it is this 4th Industrial Revolution, based on new digital technologies, that is changing the world around us at an unprecedented rate.

We know from the first industrial revolution that technological change led to improvements in society and living standards for all. But what we forget is that these improvements took generations to achieve and the experience of those living through the change was often brutal and cruel. We can look back now at the institutions that arose to support working families, such as social security, libraries, schools, health care, training colleges and co-operatives – with trade unions performing a vital role expanding protections and pushing rights further.

Yet, we forget that their establishment was as a response to changes in society that pulled apart the existing social fabric and networks of support. Standards of living, infant survival rates and life expectancy fell, before they rose. New industrial diseases were 'discovered' and regulation was slow to follow.

We will face all of these challenges and more, in this 4th industrial revolution. The impact not only on workers, but on our wider community, of service users accessing healthcare, education and social support. Issues such as loneliness, stress and social exclusion that arise from how a technology is implemented, are not inconvenient by-products of change, but also need to be assessed whilst discussing the potential for the technologies themselves.

This aspect of the potential societal upheaval associated with the 4th Industrial Revolution and how it can be addressed is a theme I will be exploring in more detail in a speech I will be giving in the City of London, on 21st May, but for today I want to highlight the effect this will have, on jobs, skills and prospects for employment.

We can be sure that many of the jobs our children will be doing in ten years' time have probably not even been thought of yet, so how do we train our young people to be ready to enter the job market and perhaps even more pressingly, how do we retrain those already in employment to make the leap from jobs that are vanishing to the jobs that are needed for this new economy.

As in the first industrial revolution the solutions that are required will be new forms of regulation, new institutions and new ways of working and living together. What we cannot accept is that this takes generations to be achieved, with often miserable consequences for those who live through the change.

What I find most disconcerting is how little our mainstream political debate has to say on this subject. With domestic politics overshadowed by Brexit, there is little airtime to discuss this revolution in technology, skills and work. I have listened carefully to the different sides of this debate and what I have heard is that there are those on one side who believe that there will be a new utopia of the three day working week and those of the other side who acknowledge there will be hardship and upheaval, but such is the price for rapid technological change.

I do not accept either of these arguments.

As an entrepreneur and an innovator, if you give me Thursday off, I will think of a new business idea by Friday. I also believe that there is an intrinsic value in work, giving purpose, direction and a sense of self-worth. Equally, like most people with a social conscience, I cannot accept that technological change must inevitably be accompanied by leaving behind swathes of our society, or by creating fear and uncertainty in people's lives. Yet this technology cannot be resisted, it must be adopted and we must understand how to do this.

Challenge the Notion of What is a Social Enterprise

I would like to conclude by challenging the notion of what is a social enterprise. The Materials Processing Institute is a relatively small organisation, but it has a unique capability, to act as a catalyst for economic growth and development in Redcar and throughout the Tees Valley region. That is why we have identified the areas where we can make a significant and sustained impact, which is distinctive, yet complementary to what others can achieve. I would encourage all business to look at how they can reshape their goals to respond to the change in society and recognises the double bottom line.

It is my view that the key to our achieving this is the intrinsic role of employees in the ownership and governance of our organisation and more than this, that such employee participation is essential if we are to implement the changes necessary to adopt the technologies of the 4th industrial revolution, in a way that is sensitive to our colleagues, clients and wider community.

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Chris McDonald is the Chief Executive Officer of the Materials Processing Institute. The Institute carries out industrial research and innovation in advanced materials, low carbon energy and the circular economy. Chris's background is in industrial research and manufacturing, where he has worked internationally. He led the divestment and return to independent, not-for-profit ownership of the Institute in 2014, the year the organisation celebrated its 70th anniversary.

In addition to leading the Institute, Chris provides expert consultancy support to companies, Governments and public bodies, in technology strategy and the technical due diligence aspects of mergers and acquisitions. He is prominent in the development of public policy, around innovation, steel and SMEs, where he works to support growth and inward investment. He is the policy chair for Innovation and Enterprise for the Federation of Small Businesses, a member of the CBI Regional Council for the North East and is the Innovation Lead for the UK Metals Council. Chris is also a member of the Steel Advisory Board for UK Steel (EEF).

A graduate of Cambridge University, Chris is a Fellow the Institute of Chemical Engineers and of the Institute of Materials, Minerals and Mining. He sits on industrial advisory boards at a number of universities, including Oxford and Sheffield.

He is often called to commentate in the media on innovation leadership and the steel industry.

“Chris provides expert consultancy support to companies, Governments and public bodies in materials, technology and innovation strategy”

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