

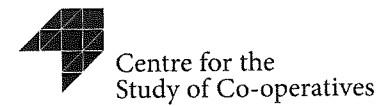
CO-OPERATIVES FOR SUSTAINABLE COMMUNITIES

# CO-OPERATIVES FOR SUSTAINABLE COMMUNITIES

Tools to Measure Co-operative Impact and Performance

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The contents of this book are based on a five-year  
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it was funded by the Social Sciences and Humanities  
Research Council of Canada and also involved the participation  
of researchers at four universities — Mount Saint Vincent,  
Saint Mary's, Saskatchewan, and Victoria —  
plus more than a dozen co-operative associations, co-ops,  
credit unions, and other academic researchers.

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## Chapter 1

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### PREFACE

LESLIE BROWN AND SONJA NOVKOVIĆ

The Measuring the Co-operative Difference Research Network (MCDRN; [cooperativedifference.coop](http://cooperativedifference.coop)) and the Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC at Saint Mary's University) joined forces to organize an international conference in May 2014 focused on how and why co-operatives assess their performance and their impacts on society.

Academics and practitioners gathered to share their research and experiences with a variety of accounting and reporting tools and practices. The event offered an unprecedented opportunity to recognize and debate various reporting needs and practices, to hear from practitioners regarding the purpose and methods of reporting in their co-operatives, and to identify the building blocks for the establishment of key supports for co-operatives engaged in performance measuring and reporting.

Over a period of three days, co-operative practitioners and researchers from Europe, North America, and Latin America discussed the strengths and weaknesses of the various tools used by co-operatives, and considered how best to obtain and share reliable and accurate information on co-operative performance and impact. Participants agreed that in addition to being useful for co-operatives as part of their self-evaluation and strategic planning processes, the sharing of information resulting from the use of various tools and reporting practices could help co-operatives in the implementation of the strategy for sustainable

growth of the co-operative movement, outlined in the *Blueprint for a Co-operative Decade* ([www.ica.coop](http://www.ica.coop)).

The key questions posed by the conference organizers were: What do co-operatives report and why? What tools exist, and what is missing? Which tools set co-operatives apart from other business forms (and do they measure the co-operative identity)? Which tools are standard in respective industries, and are co-operatives leaders or followers in those efforts?

The conference explored five interconnected themes:

1. Statistics and data collection
2. Putting co-operative principles into practice
3. Community impact
4. Member and stakeholder engagement
5. Reporting practices (co-operative identity and sustainability)

The chapters in this book are organized according to these five themes. They offer an international snapshot of the work being undertaken in these areas, with the intention of sharing the knowledge and experience obtained thus far. The authors advocate a critical analysis of these materials, and suggest ways forward as practitioners and researchers address the reporting and dissemination challenges identified during the conference.

— Leslie Brown and Sonja Novkovic

## Chapter 2

### INTRODUCTION

LESLIE BROWN<sup>1</sup> AND SONJA NOVKOVIC<sup>2</sup>

*"In an increasingly performance-oriented society, metrics matter. What we measure affects what we do. If we have the wrong metrics, we will strive for the wrong things."*

— Joseph Stiglitz, Amartya Sen, and Jean-Paul Fitoussi  
*Mismeasuring Our Lives*

CO-OPERATIVE FIRMS are business enterprises exercising collective ownership, governance, and decision making. They are typically portrayed as businesses that combine a social mission with their economic goals, placing them in the category of enterprises operating in the social and solidarity economy. Exemplifying collective rather than individual ownership, co-operatives are bottom-up organizations with the distinctive purpose of addressing member and community needs through mutual self-help. Many co-operatives claim to offer an alternative model of organization that prefigures a more humane and democratic system.

Unlike other firms and organizations, co-operatives are guided by internationally recognized Co-operative Principles and Values<sup>3</sup> which, among other things, require that they be democratically governed,

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emphasize member needs over profit, and seek financing from their members. Grounded in the values of self-help, solidarity, equality, equity, and openness, the seven co-operative principles provide a reference point for nearly one million co-operatives operating worldwide. Co-operatives are seen as a fundamentally different type of enterprise — in ownership, control, and purpose (Brown and Hicks 2013; Novkovic 2008; Spear 2000). While co-operatives world-wide increasingly recognize that the co-operative values and principles offer a framework for a “co-operative way” of doing business that may diversify the economy and disrupt hegemonic discourse, it is also evident that some co-operatives operationalize this framework more effectively than others.

The contemporary context for business is one in which responsible business practices and standards that take into account economic, social, and environmental objectives are increasingly valued, mandated, and even regulated (Chaplier 2014). Businesses of all types are pursuing and reporting Corporate Social Responsibility (CSR) and sustainability<sup>4</sup> practices, with many trying to show that they contribute to “shared value” creation (Porter and Kramer 2011). CSR has certainly met with important criticisms (Archel et al. 2011; Bannerjee 2014; Fleming and Jones 2013), implicating CSR practices in maintaining the status quo and in continuing damage to the global ecosystem. However, the drive for “responsible business” is going mainstream, with business schools introducing courses on social and ethical entrepreneurship, or even re-

3. The International Co-operative Alliance (<http://ica.coop/en/what-co-operative>) describes co-operatives as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise” (“Statement on the Co-operative Identity”). Seven principles guide the international co-operative movement: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for community. These will be referred to frequently by the authors of this book.

4. Sustainability is about “meeting the needs of the present without compromising the ability of future generations to meet their own needs” (1987 UN Brundtland Commission report). In other words, sustainability assures intergenerational equity. Social responsibility, on the other hand, is about inclusion of various “stakeholders” in the decision making of the enterprise. Future generations are also stakeholders.

orienting their entire programs around doing business responsibly. Co-operatives are taking part in the dialogue around CSR, as demonstrated by the chapters in this book.

A definition of a responsible business (Laasch and Conaway 2015) differentiates between sustainability and corporate social responsibility and includes: (a) sustainability performance; (b) responsibility performance; and (c) ethics performance. The minimum requirement for a responsible organization is that it can demonstrate a sustainable triple bottom line; social responsibility is embedded in all core processes of the company; and it is ethically responsive — manages ethical issues well (Laasch and Conaway 2015, 239). While the *Blueprint* document (ICA 2012, 20) expresses confidence that corporate CSR claims cannot hide the emphasis on profit and shareholder value maximization, which arguably impedes the realization of the requirements for responsible organizations, it is necessary to demonstrate that co-operatives may be better able to be responsible and to achieve a sustainable triple bottom line.

In theory, co-operatives are well positioned to meet the objectives of responsible organizations (Ridley-Duff and Bull 2015), especially to the extent that they deepen and promote their commitment and expertise in delivering on the “co-operative difference,” including democratic governance and transparency. Co-operatives are often believed to be the leaders in shared value creation given their member-base and social character, yet their distinctiveness is still poorly understood, and their reporting practices may or may not reflect their unique characteristics.

Two key questions arise: Are co-operatives genuinely responsible enterprises, or do they simply mimic practices of their investor-owned counterparts? Under what conditions are they leaders and strategic builders of sustainable practices in their communities?

There are many tools adopted by co-operatives to measure and report on their practices. However, there is a need for conceptual and empirical consolidation of research on the subject of co-operative social responsibility and accountability, and performance measurement. This research must specifically address the nature of co-operative distinctiveness. In this age of global crises and calls for greater responsibility by

consumers, citizens, and firms, the co-operative sector is being pressured to operationalize their distinctive nature, to measure the impacts of the co-operative form of business, and to assess what this means in their communities. The co-operative movement adopted the seventh principle — Concern for community— in 1995, yet many co-operatives still struggle with what that means in their own contexts. For example, strategies for understanding and managing relationships that engage external stakeholders in actions of the co-op, while respecting member/worker control of the enterprise, are crucial to progress in addressing the seventh principle.

Co-operative leaders and researchers alike recognize that merely being structured as a co-operative does not guarantee social and environmental responsibility. A number of obstacles can arise, including isomorphism (DiMaggio and Powell 1983) with conventional firms in relation to governance and management education, limited member engagement, and lack of a clear vision. Of specific concern in this book are the ways that accounting and reporting can enhance performance and co-operative social responsibility. In particular, the authors in this book identify practices that connect measures of performance to co-operative identity.

### Issues with Measurement and Reporting for Co-operatives

The overarching need for a clear focus on, and measurement of, co-operative functioning and impact arises from its potential to effect change in the dominant economic model, address the root causes of socio-economic marginalization, and illustrate the social and ecological achievements of co-operative enterprises. For example, if co-operatives claim they contribute to building sustainable communities, organizations, and society, this claim ought to be backed by evidence. A key differentiator for co-ops is arguably the movement they are a part of, and its commitment to enhancing the quality of life of members and their communities. At the same time, they operate in market economies, in industries that exert competitive pressures and regulatory demands on co-operative enterprises. Not surprisingly, both financial and non-financial performance assessment and reporting by co-operatives often follow industry standards.

Industry standards have for the most part moved toward corporate social responsibility and sustainability reporting. Since the early 1990s, companies — large multinationals in particular — have included non-financial indicators in their reporting practices (KPMG 2013). Some of these indicators address sustainability, but they also reflect social responsibility that feeds unsustainable practices. As an example, “Charitable donations that relieve social problems are responsible, but they are not sustainable if they do not resolve the underlying issue” (Bansal and DesJardine 2014). Co-operatives may initially alleviate those underlying issues. However, evidence shows that as co-ops mature, they often become removed from their founders’ original social and economic conditions. Finding their identity and maintaining the founders’ commitments can become a struggle. It is then important to recognize to what extent industry standards will help co-operatives to connect with their values, and which reporting practices can jeopardize their co-operative identity. For example, the AA1000 Stakeholder Engagement Standard 2011 encourages a multi-stakeholder approach, inviting a co-operative to move away from a narrow understanding of its service to members, and thereby encouraging application of the seventh principle<sup>5</sup> (Westwood 2014).

AA1000 and other reporting standards, including the widely used Global Reporting Initiative (GRI), need to be carefully scrutinized by the co-operative movement for compatibility with the co-operative form of business.<sup>6</sup> To what extent do their performance guidelines and measures offer direction appropriate to co-operative forms of business? Do they address the specific priorities and concerns of the co-operatives using them? The unquestioning use of accounting and reporting practices and standards that mirror those of investor-owned firms are likely

5. Principle 7: Care for Community.

6. Being evaluated highly according to a particular set of standards or guidelines can lead to misleading interpretations. The GRI Guidelines are not designed to rate an organization’s sustainability performance. Rather, they relate to the level of disclosure on an organization’s governance approach and on its material environmental, social, and economic performance and impacts. This can result in situations whereby a report from a corporation with risk-driven sustainability practices might receive as high, or higher, overall accolades than a report from a business that is actually a leader in sustainable business practices (Westwood 2014b).

to be counter-productive, hampering the pursuit of alternative visions of success. Developing performance measures grounded in co-operative principles can help co-ops avoid isomorphic tendencies, strengthen alternative practices specific to co-operatives, and contribute to broad self-identification within the sector.

This volume is a contribution to these ongoing dialogues and debates. It offers a compilation of some of the available tools that are rooted in co-operative principles and values. It also presents explorations of indicators of social responsibility suitable for co-operatives, and discusses appropriate reporting practices. Some of these follow industry standards, while others depart from them to set new paths toward sustainability and responsibility reporting.

### The Content

The book is divided into five interrelated sections:

1. Statistics and Data Collection
2. Putting Co-operative Principles into Practice
3. Community Impact
4. Member and Stakeholder Engagement
5. Reporting Practices — Co-operative Identity and Sustainability

Data on co-operatives are imperfect at best. Co-operative statistics are compiled for different purposes, and concerted efforts to produce comprehensive data sets on co-operatives are rare. Researchers and practitioners alike believe that this lacuna must be addressed if we are to be able to study and accurately report on the impacts of co-operatives on their socio-economic environment. The section starts with a collaborative chapter (Carini, El-Youssef, and Sparreboom, chapter 3) discussing the strengths and limitations of existing data collection assessed by the International Co-operative Alliance (in particular from the point of view of the World Co-operative Monitor project and the strategy of the *Blueprint for the Co-operative Decade*), and by the International Labour Organization. Accurate data is essential to these organizations if they are to meet their mandates. The next two chapters (Diaz-Fonca and Marcuello, and Carini, chapters 4 and 5) describe efforts to collect data on

co-operatives in Spain and Italy, respectively. The authors offer clear indications that while micro-level (firm level) data are not collected in a consistent manner, these countries are quite advanced in their ability to separate statistics on co-operatives from those on other enterprises. Moreover, their chapters highlight the potential dangers of collecting statistics primarily for commercial purposes. That type of data invites possibly inappropriate comparisons with investor-owned firms without revealing the unique aspects of co-operatives (e.g., training and education, non-divisible reserves, and the like). Industry statistics are also biased toward large co-operatives that are mandated to report, or able to afford the costs of reporting. To supplement government statistics, EURICSE developed its own micro-level database.

The last chapter in this section (Vukmirovic et al., chapter 6) describes satellite accounts in the national statistics in Serbia. Satellite accounts for co-operatives include a set of coherent, consistent, and integrated accounts, and serve as a primary tool to ensure visibility and measure the impact of co-operatives on the economy.

Section two of the book describes tools that use co-operative principles and values to develop indicators or capture co-operative practices. It starts with the Co-operative Sustainability Scorecard (Christianson 2008) developed as a universal tool to create triple-bottom-line benchmarks for co-operatives of any size and in any industry. The Scorecard's sustainability measures include minimum recommended practices and metrics in economic, social, and environmental areas of practice. This is followed by the Sustainability and Planning Scorecard for retail food co-operatives (Brown et al., chapter 8) developed in partnership with Co-op Atlantic, and intended to help co-operatives assess their commitment to be principled, socially and environmentally responsible, alternative businesses. The chapter describes the tool, its development, and use (Jackson-Wood), but it also posits that co-operatives need to identify their strengths with respect to their highly competitive environment, and capitalize on consumer and industry trends in line with co-operative ethics. These trends include the rise of social justice and food security movements sharing co-operative values and aspirations. Hough (chapter 9) describes the development and use of the Co-op Index, a tool used to diagnose worker co-operatives for their participatory practices and adherence to co-operative identity. A case study of a



co-operative using the tool is also presented (Tusz-King). McNamara's (chapter 10) case study of Union Cab of Madison taxi co-op describes social audit as a self-evaluation method that helps worker co-operatives measure their ability to incorporate their mission and their co-operative identity into their workplace and policies. The chapter discusses social auditing as part of an emerging culture of measurement, and an entry point toward building supports for the organization in different stages of its co-operative life-cycle.

Section three offers discussions about the impact of co-operatives on their communities, outlines limitations associated with the typical indicators chosen, and proposes an agenda for future research in this area. Gordon Nembhard (chapter 11) sets the stage for the importance and challenges of impact assessment by co-operatives. "Documenting and measuring [...] benefits from co-operative ownership, and understanding and measuring the myriad impacts of co-ops on their communities require a variety of tools — quantitative statistics and financial data, qualitative interviews and social capital analysis, input-output modeling, multiplier effects — and out-of-the box thinking." (Gordon Nembhard 2014) While challenges are clear, a common vision by the co-operative movement is less apparent. It is therefore important to identify and assess the "game changing" types of investments in communities. Hammond Ketilson, Gordon Nembhard, and Hewitt (chapter 13) document the kinds of products, programs, and services credit unions provide and sponsor (illustrated by the case of Affinity Credit Union). They report the results of a survey asking members to evaluate these programs and discuss the strengths and limitations of this approach as one way to measure the impacts of credit unions on members' well-being, financial stability, asset/wealth building, and skill development.

Section four speaks to the key differentiating characteristic of co-operatives — their democratic decision making and control. While democratic decisions come in different forms, meaningful participation by their members in various aspects of co-op governance is critical to co-operative functioning. Simmons (chapter 14) talks about assessment tools that are useful when using a broad conceptualization of participation, while Strube and Yuill (chapters 15 and 16) further deepen our understanding of the assessment of democracy and member loyalty,

respectively. Member engagement is a critical component in co-operatives because members are their *raison d'être*. Besides enhancing customer loyalty, evidence mounts that engaging employees is also vital to keeping the enterprise afloat. Investor-owned businesses increasingly go to great lengths to align corporate image with their employees' values (Fleming and Jones 2013, chapter 4). Often, they resort to CSR practices to gain loyalty of their employees. Yet co-operatives, particularly in latter stages of their life-cycle, do not capitalize on their member base, and may even lose touch with their members. Simmons points out that if the potential of member engagement is to be realized, it needs to be integrated in the operational life of the co-operative. Member participation should not be considered in isolation from the governance of the organization, nor from its management. His chapter focuses on rationales and techniques for measuring member engagement and seeks to establish the extent of current developments. He examines the accuracy of measures, meanings of "good practice" and the role of benchmarking in interpreting measurement data. This overview chapter is followed by two case studies of tools relevant to discussions of co-operative democracy. Yuill describes a loyalty index at the Scottish Agricultural Organization Society that provides a valuable diagnostic tool for member engagement, while Strube outlines the Democracy Audit — a tool assessing democratic processes in co-operatives.

The concluding section of the book encourages renewed reflection on sustainability reporting practices for co-operatives, both by raising key issues around the rationales and means of reporting by co-operatives and by examining case studies of organizations offering leadership in this area. Herbert (chapter 17) sets the stage by asking a tough question: do co-operatives succumb to an inherently unsustainable paradigm when they adopt reporting practices built for organizations that maintain the socio-economic status quo? While the intention of sustainability reporting was to bring clarity to the relationship between firms and society and the environment, all too often reporting is used to pre-empt criticism and legitimize behaviour. For example, although the initial purpose of GRI was to challenge large corporations and push them to transform their behaviour, corporations often use the seeming transparency that GRI affords them to avoid addressing the real issues (Westwood 2014b; Herbert, chapter 17).



Since the early days of social and ethical accounting, auditing, and reporting (Zadek 1998), a number of co-operatives have provided leadership in developing internationally respected sustainability and social responsibility reporting standards and practices (the Co-operative Bank in the UK, Rabobank in the Netherlands; Vancity Credit Union in Canada), although co-operatives do not engage in sustainability reporting as often as investor-owned firms (Dale et al. 2013). Contemporary leadership in social reporting is demonstrated by Mariño (chapter 18) and Glas (chapter 19) in their discussions of a social audit tool used in co-operative certification by the Co-operatives of the Americas, a regional branch of the International Co-operative Alliance. Co-operatives are certified for their social responsibility in an assessment that contains measures and indicators of adherence to co-operative principles. Advocating the value of this approach, Glas (p. 326) argues that “The audit further helps raise awareness of the co-operative movement towards the responsibility that they bear as social and solidarity economy enterprises....”

Co-operatives in Latin America have built a consensus that co-operatives belong to social and solidarity economy. Certification in that context separates co-operatives from other organizations, demonstrating that they are indeed responsible enterprises with respect to sustainable practices, social responsibility, and ethics.

Rixon and Beaubien (chapters 20 and 21) describe two cases of co-operatives demonstrating leadership in social and sustainability practices and reporting. The first, Vancity Credit Union, was an early adopter of social audits, GRI Sustainability Reporting Guidelines and the AA1000 Framework. Vancity continues to play an international leadership role, advancing integrated reporting efforts. The second case features Co-operators Insurance, which embeds sustainability in their products and operations. It is no surprise, then, that both organizations have won awards for their sustainability efforts, reporting practices, and as best employers. Connecting these achievements to co-operative ownership structure and leadership remains an important goal.

A key element in most of the tools described in this book is member (and often employee) participation in both the development of the tool and in the assessment of their co-operative’s performance. These tools

therefore directly or indirectly invite member and stakeholder participation, encouraging member engagement and potentially strengthening loyalty.

Any discussion about measures and metrics must recognize, too, that context matters, as does recognition of the often intense disagreements about the centrality of co-operative identity (meaning co-operative principles and values) in managing a co-operative business. Co-operatives in regions outside Latin America do not necessarily see themselves as an integral part of the solidarity economy.<sup>7</sup> Many co-operatives function in a political and economic context that is hostile to the very idea of a solidarity economy, either because it is perceived as a threat to the entrenched capitalist model, or because of fears of a potential return to socialism. This reality must be acknowledged. However, even when these concerns are not a factor, co-operatives often see themselves as addressing market failures, and/or as being ameliorative — not as part of the agenda for social and economic transformation advocated by proponents of the social and solidarity economy. For some co-operatives, often ones focused on competing for market share or on survival in a market, a focus on the transformative potential of co-operatives as a distinctive form of business seems more like ideology than like good business. This kind of thinking can be damaging to the co-operative movement as it makes it more difficult to see the co-operative advantage, and thus increases vulnerability to isomorphic practices. Co-operatives that mimic investor-owned businesses may be in danger of losing their identity as co-operatives, perhaps coming to see themselves as hampered rather than strengthened by the “constraints” of democracy and other co-operative principles.

It is the premise of this book that co-operatives are distinctive forms of organization that, while they can adapt and succeed in a wide variety of social, political, and economic contexts, are rooted in alternative paradigms for meeting the needs of people for goods and services. Further, there are signs that the range of alternatives offered by co-operatives may be the very ones needed by a world faced with a series of crises — economic, ecological, and social (a point made by Herbert, chapter 17).

7. There are some exceptions, most notably in Quebec, Spain, Italy, and France.

Creating tools that allow co-operatives to assess their performance in relation to the operationalization of co-operative principles and in relation to the priorities of their members, employees, and communities is one step toward articulating and interrogating co-operative identity and its relevance.

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## SECTION ONE

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### Statistics and Data Collection

## Chapter 3

THE IMPORTANCE OF STATISTICS ON CO-OPERATIVES:  
WHY AND HOW SHOULD WE COLLECT DATA?CHIARA CARINI,<sup>1</sup> HANAN EL-YOUSSEF,<sup>2</sup> AND THEO SPARREBOOM<sup>3</sup>**Introduction**

IN RECENT YEARS, the issue of data collection and the measurement of the impact of co-operatives has been the focus of scientific and practitioner debate. In order to understand the role and potential of co-operatives, it is necessary to realistically quantify the overall size of the sector. Despite growing interest, knowledge about the economic and social dimensions of co-operatives worldwide is still fragmentary. A realistic estimate of the economic and social impact of co-operatives is required to demonstrate that co-operatives are neither small nor marginal organizations. Evidence is needed to be able to show that a valid model exists that is different from the for-profit model dominant in today's global economy. Developing such an estimate requires efforts to define the target population, identify the most appropriate tools for data collection and, finally, identify and define the key indicators for the assessment of co-operatives' economic and social impact.

Given these premises, this chapter will provide some considerations on the subject of data collection, presenting the importance of collecting

1. European Research Institute on Cooperative and Social Enterprises
2. International Co-operative Alliance
3. Statistics Department, International Labour Organization

data on co-operatives from the perspectives of the International Labour Organization (ILO) and the International Co-operative Alliance, two organizations that are increasingly involved in promoting co-operatives worldwide. In particular, we will explain why the two organizations advocate the collection of data on co-operatives, and we will present some projects advanced by these organizations, including the World Co-operative Monitor, a project promoted by the International Co-operative Alliance in conjunction with the European Research Institute on Co-operative and Social Enterprises (EURICSE).

**The Importance of Statistics on Co-operatives:  
The ILO Perspective<sup>4</sup>**

Within the United Nations system, the ILO is the only organization to have a general, explicit mandate to work on co-operatives. The Co-operatives Unit of the ILO (COOP) was established in 1920 in recognition of the role of co-operatives in employment creation and their contribution to the advancement of social justice. Located in the ILO's Enterprises Department, COOP contributes to ILO's overall mission of creating decent work for all through the promotion of sustainable enterprises of all types and sizes. Within this broad mandate, COOP is responsible for ILO's work on job creation and growth through co-operative enterprise development, including applied research, policy advocacy and advisory services, technical co-operation, and partnerships.

Of particular importance, the implementation of ILO Recommendation No. 193 concerns the promotion of co-operatives through advisory services on legal provisions and policies at the national and international levels. Paragraph 8 of Recommendation No. 193, adopted by the International Labour Conference in 2002, encourages governments to ensure that national policies "seek to improve national statistics on co-operatives with a view to the formulation and implementation of development policies."<sup>5</sup>

Statistics on co-operatives are essential, too, when it comes to quan-

4. Theo Sparreboom, Statistics Department, ILO.
5. The text of the recommendation is available online at [http://www.ilo.org/dyn/normlex/en/?p=NORMLEXPUB:12100:0::NO::P12100\\_ILO\\_CODE:R193](http://www.ilo.org/dyn/normlex/en/?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R193).

tifying and analyzing the impact they have on their owner-members, as well as on the economy as a whole. They can provide evidence, for example, on how co-operatives fare with respect to employment and income in comparison with other economic units and throughout economic cycles. Statistics on co-operatives also help to elucidate how different business models affect communities and workers, which is a topic of growing interest. At a minimum, such statistics should include: (a) the number of co-operatives and their characteristics; (b) the number of members of co-operatives, the number of workers engaged in co-operatives and their characteristics; and (c) statistics on the value of production by co-operatives.

Compilation and analysis of statistics on co-operatives has been carried out in many countries, but has generally been based on administrative information drawn from co-operative registers, and much less on establishment and household surveys. Administrative information serves as an important source of statistics, but may also suffer from shortcomings in terms of, for example, timeliness, coverage, and (international) comparability. Furthermore, registers do not necessarily include information on membership of co-operatives or the number of workers employed in co-operatives. Nevertheless, surveys targeting registered co-operatives represent a rich source of information on current activities and challenges, which may relate to both economic and social data.

A second source of data could be household surveys that have the advantage that they allow for the production of complete statistics on the number of members in co-operatives, as well as the number of workers engaged in them. In contrast to administrative information, in principle, household survey-based information prevents double counting of workers engaged in more than one co-operative, and includes socio-economic characteristics of workers that are difficult to obtain through other means of data collection. Thus, regular household survey-based information can be used, for example, to analyze relationships between economic sectors, types of co-operatives, and characteristics of workers. In contrast, household surveys do not allow for the production of accurate statistics on the number of co-operatives or their economic value.

Current statistical standards make reference to “members of pro-

ducers’ co-operatives” in the International Classification of Status in Employment (ICSE), which was adopted in 1993. This figure can be easily misunderstood because the ICSE definition of members of co-operatives only includes workers who work in a producers’ co-operative of which they are also members. It therefore excludes workers who own a farm and are members of a co-operative that provides services to them, such as the marketing or processing of the goods they produce.<sup>6</sup> This means that in Indonesia, for example, no members of producers’ co-operatives are reported in international statistics, while according to government data there are more than 30 million members of co-operatives in that country.<sup>7</sup>

At the 19th International Conference of Labour Statisticians (ICLS) held in Geneva in October 2013, governments and workers’ and employers’ representatives reaffirmed the importance of having more comprehensive and (internationally) comparable statistics on co-operatives. It is worth mentioning that this was the first time in its history that a specific item on co-operative statistics was included in the ICLS agenda. This session at the ICLS provided an opportunity to share experiences on the current production of statistics on co-operatives, as well as on the statistical challenges faced in many countries.

The ICLS adopted a resolution concerning further work on statistics of co-operatives, and several country representatives expressed their interest in sharing more details of their experiences and in participating

6. See Paragraph 11 of the resolution concerning the ICSE: “Members of producers’ co-operatives are workers who hold a ‘self-employment’ job ... in a co-operative producing goods and services, in which each member takes part on an equal footing with other members in determining the organization of production, sales and/or other work of the establishment, the investments and the distribution of the proceeds of the establishment amongst their members. (It should be noted that ‘employees’ ... of producers’ co-operatives are not to be classified to this group.)” The resolution is available at: [http://www.ilo.org/global/statistics-and-databases/standards-and-guidelines/resolutions-adopted-by-international-conferences-of-labour-statisticians/WCMS\\_087562/lang-en/index.htm](http://www.ilo.org/global/statistics-and-databases/standards-and-guidelines/resolutions-adopted-by-international-conferences-of-labour-statisticians/WCMS_087562/lang-en/index.htm).

7. ICA Committee on Consumer Co-operation for Asia and the Pacific – Indonesia, retrieved from: [http://jccu.coop/eng/public/pdf/asia\\_2012\\_04.pdf](http://jccu.coop/eng/public/pdf/asia_2012_04.pdf); and [http://www.depkop.go.id/index.php?option=com\\_phocadownload&view=file&cid=338:rekapitulasi-data-keragaan-koperasi-per-31-desember-2013&Itemid=93](http://www.depkop.go.id/index.php?option=com_phocadownload&view=file&cid=338:rekapitulasi-data-keragaan-koperasi-per-31-desember-2013&Itemid=93).



in pilot exercises to test new or modified measurement approaches. The resolution recommends that the Office, in co-operation with the ILO's constituents and interested national statistical offices, carry out further developmental work on the measurement of co-operatives through administrative registers, establishment or household surveys.<sup>8</sup> Accordingly, data collection on co-operatives in selected countries is being reviewed by the ILO, and pilot activities are under consideration.

### The Importance of Statistics on Co-operatives: The International Co-operative Alliance Perspective<sup>9</sup>

The International Co-operative Alliance has been the global voice for co-operative enterprises since it was established in 1895 by co-operative movements around the world. It is the guardian of the Co-operative Values and Principles<sup>10</sup> — the collective co-operative heritage and patrimony — and is the advocate for the co-operative model of enterprise in spheres of global advocacy and influence. The Alliance unites, represents, and serves co-operatives worldwide. Moreover, it provides a global voice and forum for knowledge, expertise, and coordinated action for and about co-operatives. It boasts members in 100 countries around the world, representing 1 billion individuals.

The importance of data and statistics in advocacy work hardly requires explanation. Understanding the true quantitative and qualitative volume of the global co-operative economy is essential in the advocacy efforts of the Alliance, as effective advocacy must be based on hard evidence. If we are to claim the existence of a co-operative difference, that, too, necessitates a robust body of research and analysis.

8. For further information, see the documentation of the 19th ICLS, particularly Room Document 6, the presentation and the report of the conference, which are available at: [http://www.ilo.org/global/statistics-and-databases/meetings-and-events/international-conference-of-labour-statisticians/WCMS\\_222036/lang-en/index.htm](http://www.ilo.org/global/statistics-and-databases/meetings-and-events/international-conference-of-labour-statisticians/WCMS_222036/lang-en/index.htm); and [http://www.ilo.org/wcmsp5/groups/public/-dgreports/-stat/documents/meetingdocument/wcms\\_223915.pdf](http://www.ilo.org/wcmsp5/groups/public/-dgreports/-stat/documents/meetingdocument/wcms_223915.pdf); [http://www.ilo.org/global/statistics-and-databases/meetings-and-events/international-conference-of-labour-statisticians/19/WCMS\\_234124/lang-en/index.htm](http://www.ilo.org/global/statistics-and-databases/meetings-and-events/international-conference-of-labour-statisticians/19/WCMS_234124/lang-en/index.htm).

9. Hanan El-Youssef, International Co-operative Alliance.

10. <http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>.

Despite such requirements, standardized, harmonized, and complete statistical data on co-operatives is scarce. Moreover, the application of existing metrics to measure and capture the influence of co-operatives often proves inadequate, as such metrics are largely founded upon an enterprise paradigm into which co-operatives do not fit.

The need for statistics on co-operatives is twofold. On the one hand, data are required to fill a significant gap in knowledge about the true size and demeanour of the global co-operative economy in all its diversity. Accurate evidence is at the core of advocacy efforts the Alliance undertakes on behalf of co-operatives at the global level. On the other hand, data — including the specific methodologies utilized to gather and analyze data, the indices, metrics, and the approaches in and of themselves — influence how co-operatives behave and how we assess performance in non-co-operative sectors.

The need to address the “data challenge” is not particular to co-operatives. In other sectors, the harmonization, standardization, and coordination of data for comparability has allowed for the development of nuance. A strategic approach helps to avoid duplication of effort and reduces the disparity in methodologies that, while useful for some purposes, do not yield a collective description of the size and quality of the movement. Significant efforts have been made and excellent reports have been generated, but these are not coordinated or made cohesive in a way that would allow for more credibility and legitimacy. These valiant and impressive efforts yield but a fragmented depiction of co-operative economy — an incomplete mosaic.

The Alliance has a role to play in developing, guiding, and driving a strategic approach to statistical data and research on co-operatives. A closer and stronger collaboration between national statistical agencies and co-operative federations would allow for more accurate and nuanced data. Closer, stronger collaboration between the UN and its agencies' efforts to depict co-operative economy and the Alliance would provide additional credibility to the figures collected. A more robust network of research and intelligence would facilitate the streamlining — if not the standardization — of what is collected and how. Furthermore, data banks would become far more robust and cumulative in both type and quality of data for long-term comparability. Such efforts

would build the foundation for comparability, but also and especially for the longevity of data gathered, so that changes, progress, and growth would be captured in a more meaningful manner.

While the Alliance has a strategic role to play in coordinating efforts and facilitating synergies, it does not seek to dictate the trends of research and methodologies. Various institutions offer complementary strengths and capacities for gathering data on co-operatives. For example, the ILO brings national statistical agencies together in the International Conference of Labour Statisticians, which allows for the development of international statistical standards, while the Alliance can mobilize its members (themselves federations of co-operatives at the national level) to support data collection efforts. The Alliance Committee on Co-operative Research provides a forum where professionals in the field of (applied) research can exchange, coordinate, and synergize efforts.

The Alliance is diversifying its institutional partnerships in order to close the knowledge gap, establish baselines, and grow the global co-operative data bank. EURICSE produces the World Co-operative Monitor,<sup>11</sup> which will be presented in the next section, in partnership with the Alliance; this provides a powerful depiction of the world's largest co-operative enterprises. It is already proving to be a useful advocacy tool. The International Organization of Industrial, Artisanal, and Service Producers' Co-operatives' (CICOPA's) work on co-operative employment<sup>12</sup> sets the foundation for an increasingly robust understanding of the employment generation — real and potential, direct and indirect — of the co-operative model. A "Survey on Co-operative Capital"<sup>13</sup> conducted by the Filene Research Institute gathered data never before collected on the finance mechanisms that co-operatives utilize, as well as providing a taxonomy of such instruments from a specifically co-operative perspective.

The Alliance engagement in such initiatives paves a solid foundation

11. <http://www.euricse.eu/en/worldcooperativemonitor>

12. [http://www.cicopa.coop/IMG/pdf/empl\\_report\\_fachsheets\\_cicopa\\_\\_en\\_web\\_def\\_22-09.pdf](http://www.cicopa.coop/IMG/pdf/empl_report_fachsheets_cicopa__en_web_def_22-09.pdf)

13. [http://ica.coop/sites/default/files/352\\_ICA\\_Coop\\_Capital.pdf](http://ica.coop/sites/default/files/352_ICA_Coop_Capital.pdf)

for a strategic approach that does not diminish the value of diversity in research methodologies. However, if we are to amplify the global voice of co-operatives, we must ensure that our figures provide us with solid, evidence-based claims from which to construct advocacy messages. We laud the co-operative difference; we know that its impact is real and promising. Strategic collaborations, co-ordination, and synergy will take all of these efforts to a new level of influence, as well as creating a deeper understanding of co-operative contributions to a sustainable global economy.

## The World Co-operative Monitor

### *Aim and Methodological Issues*

The World Co-operative Monitor<sup>14</sup> is a project promoted by the International Co-operative Alliance with the scientific support of EURICSE. The project is continuing the work started by the Alliance with the Global 300, which brought together economic information about the 300 largest co-operative and mutual organizations in the world, broadening its goals and reviewing its methodology.

The intent of this new project is to define a new process of data collection, integration, and analysis, culminating in the creation of a regularly updated database containing economic, employee, and other social data to monitor and demonstrate both the economic and social impact of the largest co-operatives worldwide. The database is expected to be useful in strengthening the Alliance's role in building networks of global co-operative leaders. It also has the potential to lead and coordinate global, regional, and national initiatives on data collection and evidence-based policy and advocacy. Finally, the development of this database will further address the Alliance's strategic objective of promoting co-operatives as a special values-based business model by building a co-operative business intelligence service for analysis and benchmarking performance, not only in financial terms, but also in terms of co-operative values and principles.

The aim of this project is to collect robust economic, organizational,

14. [www.monitor.coop](http://www.monitor.coop).

and social data — not only related to the top three hundred co-operative and mutual organizations worldwide, but also an expanded number of co-operatives — in order to represent the co-operative sector in its organizational, regional, and sectorial diversity. That said, providing a clear and agreed-on definition of the population under study is the first methodological issue that researchers face. For the purpose of the project, it is important that the boundaries of the population under study are understandable worldwide, and that they reflect the characteristics of co-operative organizations in different areas of the world and in different contexts. The process of definition and classification, however, is not trivial, as researchers working on this face two main issues: (a) the diversity of national legislation and (b) the variety of co-operative forms. Comparative studies show that legislation concerning co-operatives varies widely from country to country — much more than does legislation on for-profit enterprises (Roelants 2009). In particular, national laws often do not consider all forms of co-operatives, and they are restrictive about various aspects, such as the minimum number of members or the rules limiting the distribution of profits. In addition to the legislative diversity, it is necessary to consider the organizational diversity within the co-operative sector. In recent years, researchers have been studying the varied and multifaceted nature of co-operative organizations (Hansmann 1988; Fici 2013), highlighting how co-operative organizations vary in the relationship between the co-operative and its members and for the type of activity carried out. The co-operative sector is generally characterized by a high prevalence of alliances and vertical and horizontal collaborations (Zevi et al. 2011). For these reasons, hybrid forms such as co-operatives of co-operatives, co-operative groups, and co-operative networks, as well as investor-owned enterprises in which co-operatives have a controlling interest, have also been considered in the study.

To evaluate the role and importance of the co-operative movement within the global economy, and of co-operatives within their economic context, it is important to consider not only their direct, but also their indirect, impact. In other words, the value created in the final production process has to be added to those created in previous rounds of production. Furthermore, in many cases, co-operatives develop a system of relationships with other companies through which they gain advantages

in the distribution of final goods, credit, and other services (Fontanari and Borzaga 2010).

The variety of existing organizations that refer to the co-operative model has been schematized for the purpose of the project in the typologies shown in table 1. Another stage of complexity derives from the role played by members within the organization and their composition. On this basis, co-operatives have been divided into the subtypes shown in table 2 (overleaf).

Table 1. The World Co-operative Monitor's Types of Co-operative Organizations

Co-operative type	Definition
Co-operative	An autonomous association composed mainly of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership.
Mutual	Private co-operative type organization providing insurance or other welfare-related services. Consider also micro-insurance and mutuals with both voluntary and compulsory membership.
Co-operative of co-operatives/mutuals	Co-operatives composed mainly of co-operatives/mutuals that carry out an economic activity for the production of goods or the provision of services of common interest for their members. It periodically publishes its own financial statements.
Co-operative group	A co-operative group: 1) is composed of organizations that operate as a single economic entity, 2) regularly publishes a consolidated financial statement, 3) includes mainly co-operatives, 4) acts according to co-operative principles and values, and 5) is controlled by co-operatives.
Co-operative network	A co-operative network: 1) composed of organizations that operate as a single economic entity, 2) does not publish a consolidated financial statement, 3) includes mainly co-operatives, 4) acts according co-operative principles and values, and 5) is controlled by co-operatives.
Non co-operative enterprise	Non co-operative enterprise in which co-operatives have a controlling interest

Source: World Co-operative Monitor, *Exploring the Co-operative Economy* — Report 2014



Table 2. The World Co-operative Monitor's Subtypes of Co-operatives

Subtype	Definition
Worker co-operative	A co-operative owned and democratically controlled by its worker-owners. Worker co-operatives enable members to obtain more favourable working conditions than those available on the market, both in terms of quality and economy.
Producer co-operative	A co-operative owned and democratically controlled by producers who band together to process or market their products.
Retail co-operative	A co-operative formed to purchase and supply goods and services at competitive conditions in the interest of members (retailers).
Consumer co-operative	A co-operative owned and democratically controlled by its main consumers. Consumer co-operatives enable members to obtain supplies and/or durable goods on more favourable conditions than those available on the market. They work to safeguard the quality of products and services as well as sales prices.
Purchasing co-operative	A co-operative formed to aggregate demand to get lower prices from selected suppliers. It is often used to reduce the costs of procurement.
Financial co-operative	Co-operative bank, credit union, insurance, and other financial service co-operative. Private co-operative enterprise providing banking and financial intermediation services, democratically controlled by its member customers (borrowers and depositors). Consider credit unions and banks whose capital is composed by individuals without rights regarding the management of the bank. An insurance co-operative owned and democratically controlled by its main insured. Insurance co-operatives enable members to obtain insurance policies on more favourable conditions than those available on the market.
Housing co-operative	A co-operative formed to provide an owned or rented property on more favourable conditions than those available on the market. This category includes both housing co-operative and co-operatives in the construction sector.
Social co-operative	A co-operative that manages health, social, or educational services and productive activities for the work integration of socially disadvantaged people.
Other types	Co-operatives not classified in the previous types.

Source: World Co-operative Monitor, *Exploring the Co-operative Economy* — Report 2014

Considering this population, the aim of the World Co-operative Monitor is to collect a set of SMART<sup>15</sup> indicators grouped into six categories inspired at the Impact Reporting and Investment Standards (IRIS), a universal language of impact-related terms and metrics for social, environmental, and financial performance reporting promoted by the Global Impact Investing Network (GIIN). The six categories composing the World Co-operative Monitor Metrics Framework Structure are presented in table 3.

Table 3. The World Co-operative Metrics Framework Structure

ORGANIZATION DESCRIPTION Metrics that focus on operational model, type of organization, sector of activity, and location	OPERATIONAL IMPACT Metrics that describe the organization's members, employees and volunteers
PRODUCT DESCRIPTION Metrics that describe the organization's products and services	PRODUCT IMPACT Metrics that describe the performance and reach of the organization's products and services
FINANCIAL PERFORMANCE Reported financial metrics	GLOSSARY Definitions for common terms that are referenced in the metrics.

Source: World Co-operative Monitor, *Exploring the Co-operative Economy* — Report 2014

The questions of the World Co-operative Monitor are mainly concentrated in three sections, namely, Organization Description, Financial Performance, and Operational Impact. In the Organization Description section, questions are designed to collect general data on organizations, such as the name, year founded, location of the organization's headquarters, organization type, sector of activity, and so on.

Looking at the Financial Performance section, the choice of economic data to be collected is based on the analysis of the most recent

15. This means Simple, Measurable, Appropriate, Realistic, and Timely. For more than three decades, the acronym SMART has been widely used and read in various ways in management (Doran 1981).

developments of scientific thought concerning the measurement of the economic performance of co-operatives (Lerman and Parliament 1991; Austin et al. 2006; Marin-Sanchez and Melia-Martí 2006; López-Espinosa et al. 2009; Beaubien 2011; Beaubien and Rixon 2012).

Looking at the Operational Impact section, the questionnaire focuses mainly on the governance and ownership structures and on employees. The choice of data related to members is justified by the objective for which a co-operative is formed.

Regarding the methodology used for data collection, the purpose is to provide a new process with respect to the methodology used by the Global 300<sup>16</sup> in data collection, integration, and analysis, culminating in the creation of a regularly updated database containing not only economic data, but also employee-related and other social data about the largest co-operatives worldwide. In selecting the tools for data collection, a dual strategy was pursued that involved (a) defining an integration process to create a single database from existing databases and other data collected by national associations, research institutes, and other organizations and (b) the development of a questionnaire used to collect new data.

With respect to the first strategy, in recent years, several federations and research centres have initiated national or sectorial plans for the systematic collection of economic data in order to publicize lists of the largest co-operatives at the national and sectorial levels. In addition, some private companies have developed regional databases that capture personal and economic data about co-operative organizations from different parts of the world.

The questionnaire explores different aspects of the organizational structure of co-operatives (e.g., types of organization, internal procedures, principles, etc.), and includes questions about economic, social, and financial data. The questionnaire is made available in English, Spanish, and French in both online and PDF formats.<sup>17</sup> The aim of this is to increase the number of languages in which the questionnaire is distributed.

16. <http://ica.coop/en/global-300>.

17. <http://www.monitor.coop>.

Of these two paths, online data collection presents the greater challenge, especially given the need to explain the objectives of the project to individual co-operatives, as well as the need to ensure that co-operatives take ownership in realizing that a greater availability and variety of data can lead to achieving the objective of visibility, and, above all, recognition of the importance of the co-operative sector, as described above. Despite these difficulties, the questionnaire has the greatest potential for the project: it facilitates collection of a wider range of data than is available in existing databases, and since definitions of the data are common and detailed, the economic and social data collected are robust, thereby allowing for a full comparison of co-operatives in different countries.

#### *The 2014 World Co-operative Monitor Report*

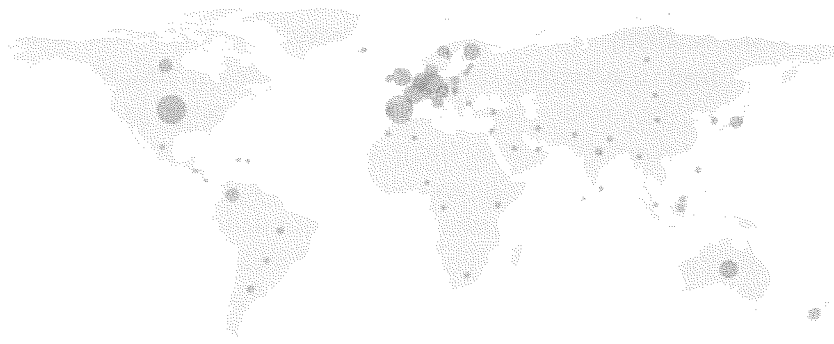
The 2014 edition of the *World Co-operative Monitor Report* aimed to collect economic and social data for 2012 on the largest co-operatives around the world. The data obtained through the questionnaire are still limited. Most of the data collected are economic in nature and come from lists and databases of national or international federations.

These data were integrated with other economic data relating to European co-operatives with turnover of above \$100 million in 2012 and extracted from the Amadeus database of Bureau van Dijk. For this reason, the analyses presented in the 2014 report are purely economic and define the largest co-operatives and mutual organizations in the world in terms of turnover.

Data were collected on 1,926 co-operatives from sixty-five countries (figure 1, overleaf) with a total turnover of USD\$2,623.1 billion in 2012.

To measure the economic dimension relative to the wealth of the country in which the organization operates, rather than in absolute terms, the ratio between the turnover of the co-operative and the country's gross domestic product (GDP) per capita was calculated. The ratio turnover on GDP is not proposed to compute the contribution of each co-operative to the national GDP, but instead represents a first attempt to relate the turnover of the co-operative to the wealth of the country in which it operates. The GDP and GDP per capita in fact have

Figure 1. Co-operatives in the World Co-operative Monitor Database by country (2012)

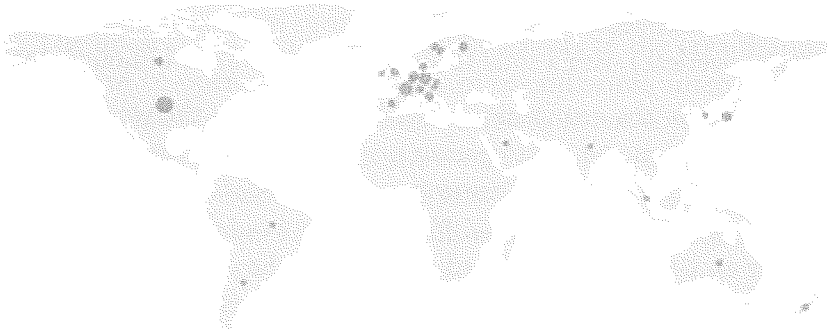


Source: World Co-operative Monitor, *Exploring the Co-operative Economy* — Report 2014

meanings: the GDP is the overall output of all the final goods and services produced within a country during one year, whereas the GDP per capita measures the purchasing power of an economy in an internationally comparable way. Therefore, the ratio turnover on GDP per capita measures the turnover of a co-operative in units of the purchasing power of an economy, in an internationally comparable way.

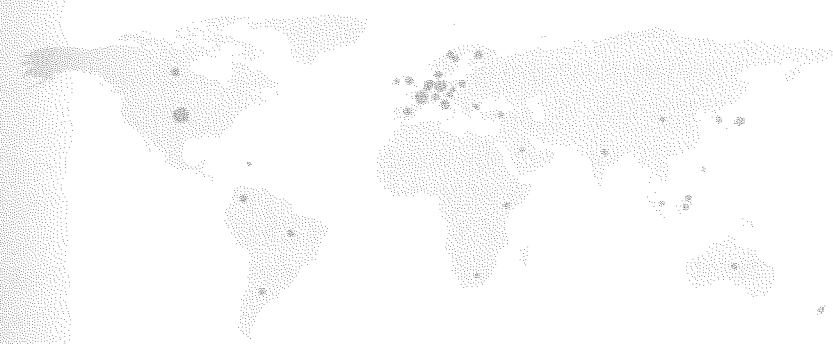
The map in figure 2 shows the 300 largest co-operatives and mutuals in the world in terms of turnover. The 300 largest co-operatives in terms of turnover compared with GDP per capita are shown in figure 3.

Figure 2. The 300 largest co-operatives and mutuals in the world by turnover (2012)



Source: World Co-operative Monitor, *Exploring the Co-operative Economy* — Report 2014

Figure 3. The 300 largest co-operatives and mutuals in the world by turnover in GDP per capita (2012)



Source: World Co-operative Monitor, *Exploring the Co-operative Economy* — Report 2014

## Conclusions

This chapter has sought to provide an overview of why data on co-operatives should be collected, and particularly how such data should be collected. There are many aspects of co-operatives that are important to monitor. The point of view of the ILO opens interesting questions on the measurement of the employment and membership dimensions, highlighting in particular the complexity of the process of collecting this type of data both from the methodological and operational points of view. The discussion of this data collection process is ongoing and involves national statistical offices; the goal is to arrive at international standards that allow for the production of solid and internationally comparable data. It will take a few years for the results of this effort to be visible, but the interest aroused by this discussion bodes well for the future.

The Alliance offers several reasons why data should be gathered on co-operatives, highlighting the need to obtain data in order to promote the role of these organizations both nationally and internationally. According to the Alliance, understanding the true quantitative and qualitative volume of the global co-operative economy is essential to their advocacy efforts. For this reason, high-quality data are essential, and the World Co-operative Monitor is an example of the work undertaken by

the Alliance. By recognizing that a lack of accurate knowledge concerning the economic and social impact of co-operatives affects the view of how important these organizations are, the World Co-operative Monitor project intends to promote an improved methodology for data collection and analysis of co-operatives worldwide.

To summarize, this chapter has shown a strong need for methodologically robust, internationally comparable, and regularly updated data to elucidate the role and importance of co-operatives. Achieving this objective is not simple, and it will require a huge amount of work by both the co-operatives and researchers. To provide some examples of how to implement data collection, the next few chapters will present some case studies on countries that have launched nationwide, systematic data collection projects related to co-operatives in recent years.

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## STATISTICAL DATA ON CO-OPERATIVES IN SPAIN

MILLAN DIAZ-FONCEA AND CARMEN MARCUELLO<sup>1</sup>

## Introduction

SPAIN IS A COUNTRY with a long co-operative tradition, and it is one of the world's most dynamic countries with regard to the creation of co-operative firms (Díaz-Foncea and Marcuello 2015). In this chapter we will investigate whether Spain ranks as one of the first countries in the world to collect statistics on these organizations. Specifically, the chapter aims to present the data sources on the co-operative sector in Spain and connect them with statistical databases available in this country in the business field. To do this, we first describe statistical sources on business in Spain that have historically been used by researchers. Second, we describe the available data sources in the specific field of co-operatives. Finally, we present the limitations of these sources and some proposals to improve the current situation.

## Business Statistical Sources in Spain

There is little statistical tradition in the business field in Spain (Carreras and Tafunell 2005), which limits the existence of historical series and sources of reliable data to understand the behaviour and structure of companies. Historically, business studies in Spain have been based on

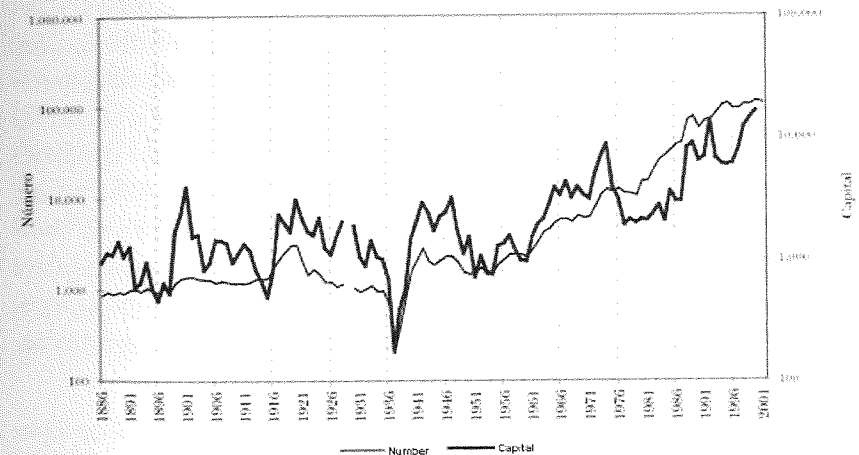
1. Both from the GESES Research Group at the Universidad de Zaragoza in Spain

the analysis of individual companies and entrepreneurs, using a different analytical methodology for each case (Carreras and Tafunell 2005).

Statistical data on companies in Spain come mainly from registries and notary's protocol. The motivation for collecting this data is the public record of private contracts and the development of commercial associations (Chambers of Commerce have historical series of business data). So, statistics on business trends begin in Spain in 1886 with the creation of the Commercial Registry and the compulsory registration of new and dissolved companies and of changes in their structures and statutes (Carreras and Tafunell 2005). The statistical series obtained from the Commercial Registry and the individual balance sheets of companies deposited in this Registry or in regional Chambers of Commerce are the oldest sources of statistical data on business dynamics. Administrative tax collection records are a useful complement to the previous sources and can be used to obtain data at the local and regional level to study business dynamics.

From these sources, Carreras and Tafunell (2005) have compiled data on entrepreneurship shown in figure 1 (see Carreras and Tafunell 2005, 711, for a discussion of the empirical evidence seen in the figure).

Figure 1. Creation of business in Spain, 1886–2001. Number and capital (millions of pesetas, 1995).



Source: Carreras and Tafunell 2005 (using data from General Department of Registries and Notaries, and Spanish National Institute of Statistics)



However, this data has many limitations that prevent its widespread use in research. Among other things, we can highlight the following:

- data is provided on the number of contracts and registries, rather than on the internal data of companies or on the monetary amounts related to them
- historically, there has been no obligation to report in some contractual formulations
- there are cases of no evidence in registries, even where it was mandatory
- there are errors in transcribing the data or unexplained jumps in the series
- data is not broken down by province or sector

From 1936 onward, these sources have to be supplemented by the *Statistical Yearbooks of Spain* and the *Statistical Bulletins* published by the National Institute of Statistics (INE in Spanish), which extend and complete the information about new and dissolved financial companies contained in the Commercial Registry. It is undoubtedly the best statistical source on business dynamics in Spain from 1964 onward (Carreras and Tafunell 2005).

Traditionally, the main sources of microdata about businesses, besides the Commercial Registry, were their own annual accounts. Currently, there are databases that collect and organize this information, facilitating searches by various criteria (company name, location, activity, financial data, market data, and legal form — the latter is useful for easily identifying co-operative firms). One of the most useful databases is the Iberian Balance Sheet Analysis System<sup>2</sup> (SABI in Spanish), which has provided individualized information on over 850,000 Spanish companies since 1995. SABI enables detailed, statistical, and comparative analysis of companies and groups of companies, as well as macroeconomic studies, analysis of sectoral ratios, market research, and microeconomic studies of any parts of their balance sheets.

Despite co-operatives being identified under legal forms of companies, there is a lack of representation of co-operatives in these business

2. SABI: <https://sabi.bvdinfo.com/>.

statistics sources, which nevertheless include peripheral collections of data on co-ops. In this sense, SABI offers data on 6,037 co-operatives (0.44 percent of the 1,369,186 companies collected by this database).<sup>3</sup> Its main interest is in access to the annual accounts and balance sheets of businesses, information difficult to obtain by other means in terms of time and money.

However, these databases are not adapted to co-operative realities. In many cases, we need to interpret the information provided in a way that suits the co-operative sector and make appropriate extrapolations. For SABI, this information is governed by commercial parameters, thus producing some isomorphism with capitalist companies with regard to the data and hiding specific aspects of co-operatives (the allocation of special reserves, special reserves for training and education, differences between employees' wages, and co-operative members' incomes, etc.). In addition, this data source is biased toward large co-operatives, since co-ops are only obliged to publish business information in the Commercial Registry if their annual turnover exceeds 600,000 (see Commercial Code) or do so by their own choice (this is a costly process, so companies avoid it). Despite these limitations and its private character (one has to pay for access), SABI is one of the main sources of information used by researchers to conduct studies of co-ops using microdata.

Another traditional source of business data is the directories (catalogs) of companies. They present microeconomic data on individual companies, which are useful for studies of specific companies or specific productive sectors. Historically, two of them are noteworthy: the *Bilbao Financial Yearbook* and the *Financial Yearbook of Corporations*, although these were not used for co-operatives due to difficulty of access to these sources and the low reliability of the data on co-operatives.

With both a modern character and a more commercial spirit, new censuses of companies have appeared; for example, *Production Development (Fomento de la Producción)*<sup>4</sup> and the *Survey of Business Strategies*

3. Search on 7 April 2015, regarding the number of companies with legal form of co-operative and the total number of companies listed.

4. Fomento de la Producción: <http://fomentodigital.com/busqueda/empresa/espana25000.jsp>.

(*Encuesta Sobre Estrategias Empresariales*)<sup>5</sup> have served as useful sources of data for studies in the business field, including the co-operative sector. This is due to the abundance of quantitative and qualitative variables that they present, as well as the fact that they are constantly updated and they have the ability to perform temporal comparisons among companies.

In this sense, the *Survey of Business Strategies* (ESEE in Spanish) has been used by Spanish researchers to infer data about the internal structure of Spanish companies, recording the responses of managers about questions related to the strategy and decision making of their firms. Specifically, the ESEE offers annual data on 1,800 manufacturing companies (on average) with ten or more workers based on a questionnaire with 107 questions, which likewise incorporates information from their income statements and balance sheets. One of the main advantages of the ESEE is the consistency and quality of the statistical series and the amount of data collected. Its application to the co-operative field must be qualified, since, although the ESEE shows a significant bias toward large companies, the weight of co-ops in the survey is similar to the weight of these firms in the Spanish economy (1.55 percent in the ESEE compared to 1.46 percent of total companies in Spain; see table 1, p. 44).

However, the main drawback of these censuses is their bias toward large (and some medium-sized) companies; they do not analyze and interpret the evolution of the business population as a whole. To do this, we had to wait until 1995, when the National Statistics Institute developed statistics regarding the business population: the *Central Directory of Companies*<sup>6</sup> (DIRCE in Spanish). It is the first statistical overview of companies in Spain (after the census of companies done by this Institute in 1950) under the requirement of completeness that enables one to obtain a true picture of the business dynamics (Carreras and Tafunell 2005).

The DIRCE is the main tool showing current business dynamics in Spain. This free-access directory brings together in a single information system all Spanish companies and their local units in the country. It

5. ESEE: <https://www.fundacionsepi.es/esee/sp/spresentacion.asp>.

6. DIRCE: <http://www.ine.es/jaxi/menu.do?type=pcaxis&path=/t37/p201/&file=inebase>.

provides annual statistics by region according to legal status, main economic activity, and number of employees, and focuses on the establishment, functioning, and closing of firms. Co-operatives are partially present in this directory, although they are not included separately, but under the heading "Other companies."

### Specific Statistical Sources for Co-operative Firms

As indicated above, co-operatives have historically not been represented in most of the statistical sources in Spain, and the existent statistics are mainly available at the macro level. Therefore, we can say that in Spain there is a need to provide reliable and homogeneous statistics on the co-operative sector (and the social economy more widely) that enables analysis and intertemporal and international comparisons based on a generally accepted methodology (Monzón et al. 2010).

The reason is that co-operatives have been understood more as a form of association conducting business activities than in terms of their commercial nature, which appears very diluted in Spanish law (Chaves 2001; Guinnane and Martinez-Rodriguez 2009). Therefore, on top of the traditional scarcity of business statistics in Spain, co-operatives have been excluded from databases concerning the creation, dissolution, and stock or corporate structure developed by public or private institutions linked to the commercial sector of the Spanish economy.

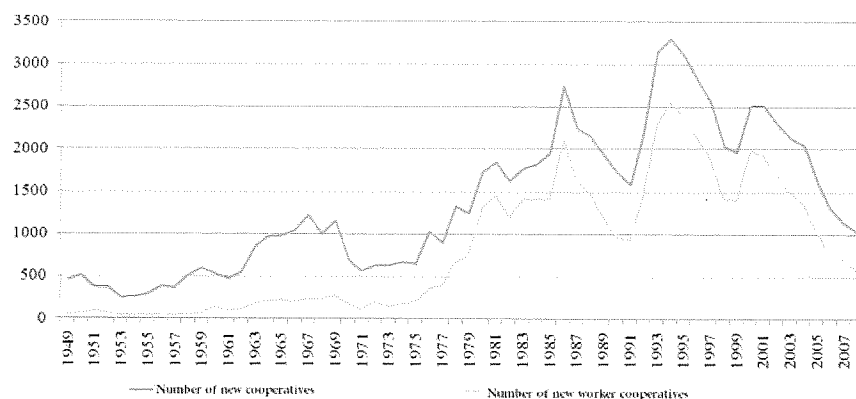
Moreover, in Spain, co-operative federations (either of worker or farmer co-operatives or other types) have not been stable or strong enough to collect statistical data on these companies that reveal the reality of the sector, unlike in other countries. Neither the regional nor state Registries of Co-operatives — public entities devoted to the collection of accounting and census data about these organizations — maintain updated and accessible databases on these organizations at the micro level. In fact, the monitoring of the presentation of financial statements by co-operative firms is far from exhaustive.

However, there are official statistics on co-operatives with reliable and extensive data at the macroeconomic level. Due to its continuity, the *Statistical Yearbook of Spain*<sup>7</sup> compiled by the National Institute of Statistics is particularly noteworthy; under the heading "Labor, Welfare

and Social Action,” it collects data on co-operatives and their members approved by the Ministry of Employment and Social Security (MEySS). It has been freely available from 1942–1943 onward, with regional disaggregation, and with more continuity than for other economic variables (GDP, unemployment rate, etc.) that are not available for these dates at this level of disaggregation.

Figure 2 presents information from this data source on the creation of co-operatives with regard to general and worker co-operatives in Spain between 1949 and 2007. This series clearly shows that the creation of co-operatives peaked in 1993 (3,300 new co-operatives in general and more than 2,500 worker co-operatives), and subsequently the business trend is steadily downward until 2007. Moreover, the increase in the creation of co-operatives is linked closely to the advent of democracy in Spain in 1975, except for the period 1963–1969, which was of importance to farmer co-operatives, as well as times of economic crisis (before the entry of Spain into the European Union, during the 1992 crisis, and during the short crisis in 1999).

Figure 2. Creation of co-operatives and worker co-operatives in Spain, 1949–2007.



Source: *Statistical Report of Spain*, Spanish National Institute of Statistics

Another major source of data is provided by the Ministry of Employment and Social Security.<sup>8</sup> Since 1992, the MEySS has undertaken

7. Statistical Report of Spain: [http://www.ine.es/prodyser/pubweb/anuarios\\_mnu.htm](http://www.ine.es/prodyser/pubweb/anuarios_mnu.htm).

the task of regularly providing free-access statistics on co-operatives and “*sociedades laborales*”<sup>9</sup> that have positioned Spain at the top of Europe’s labour statistics with regard to the market sector of the social economy (Monzón et al. 2010). The best-known studies on this sector are based on these statistics.

The provided information comes from various public bodies linked to the MEySS and from state and regional Registries of Co-operative Firms. The data is from 1999 to the present and covers new co-ops, new members, active co-ops, workers, workers’ characteristics, survival, size of co-ops, and added value (absolute data and by region, economic activity, and type of co-op). This database includes all types of co-operatives: worker, farmer, housing, education, etc.

Data from this source was used to compile table 1 (overleaf). In this table, one can see that the trend in the co-operative sector in Spain has been downward since 2005–2006 in terms of numbers, members, and workers (although on relative numbers the drop was since 1999). However, the weight of the value added created by these organizations has grown steadily since the beginning of the series.

In recent years, there has been an effort to develop statistical sources covering the gaps in reliable statistics on the social economy in general, including co-operative firms. One of the major contributions comes from CIRIEC–Spain, a scientific association specializing in social economy. It has carried out a number of studies (the main ones are the “Report on Social Economy in Spain” and the “Satellite Accounts of the Social Economy in Spain”), which are the first approaches to quantifying the social economy in Spain. Particularly noteworthy is the report “Major Figures from the Social Economy in Spain,”<sup>10</sup> which includes data on numbers, employees, added value generated, and employment characteristics of co-operatives, among other things. Data was obtained from the 2008 CIRIEC national survey of 24,738 co-operatives that in 2008 had employees participating in a social security system in Spain.

8. Social Economy Statistics: [http://www.empleo.gob.es/es/sec\\_trabajo/autonomos/economia-soc/EconomiaSocial/estadisticas/index.htm](http://www.empleo.gob.es/es/sec_trabajo/autonomos/economia-soc/EconomiaSocial/estadisticas/index.htm).

9. It is an intrinsic legal form in Spain emerged during the eighties crises and in which labour has very relevant presence, similarly to co-operatives.

10. Major Figures from the Social Economy in Spain: <http://ciriec.es/fondo-editorial/>.



Table 1. Basic data on the co-operative sector in Spain, 1994–2010.

Year	Co-op firms	Percent of total commercial firms	Co-op members	Percent of total firm owners	Co-op workers	Percent of total employment	Co-op added value *	Percent of Spanish GDP
1994	19,871	.	122,800	4.93	189,725	1.55	.	.
1995	19,096	.	113,400	4.33	201,251	1.64	.	.
1996	20,401	.	112,500	4.28	214,477	1.64	.	.
1997	21,531	.	89,800	3.41	227,609	1.68	.	.
1998	22,155	.	90,100	3.36	244,711	1.73	.	.
1999	22,564	2.59	97,500	3.68	259,757	1.74	3,287,511	0.55
2000	23,334	2.50	87,100	3.20	269,063	1.70	3,718,650	0.59
2001	24,351	2.45	90,600	3.24	277,385	1.70	4,147,570	0.63
2002	25,336	2.42	85,500	3.10	284,675	1.69	4,320,950	0.64
2003	24,907	2.23	92,600	3.31	296,742	1.69	4,577,973	0.65
2004	25,354	2.11	82,800	2.84	308,808	1.69	4,622,049	0.65
2005	26,146	2.02	83,300	2.69	313,972	1.63	4,690,257	0.63
2006	25,555	1.85	97,000	3.04	317,806	1.59	4,846,862	0.63
2007	25,714	1.73	68,600	2.06	317,542	1.55	5,241,589	0.66
2008	24,779	1.58	62,400	1.90	311,922	1.57	5,202,212	0.65
2009	23,219	1.49	37,500	1.27	298,013	1.60	.	.
2010	22,595	1.46	35,600	1.22	298,514	1.62	.	.

\* Added Value created by co-operatives in thousand of euros, current prices.

Source: Diaz-Fonca 2012 (using data from MEdySS and INE).

Finally, the Spanish Business Confederation of Social Economy (CEPES in Spanish) has published a Ranking of Relevant Social Economy Enterprises<sup>11</sup> since 2010, which included 3,086 companies in 2013, of which 284 were co-operative firms (which together generated €21.3

11. Ranking of Relevant Social Economy Enterprises: <http://cepes.es/Ranking>.

billion and employed 114,159 workers). This source of information is useful, not owing to the provided variables, but because it is the largest free-access catalog of social economy firms, including co-operative firms.

## Conclusions

This chapter has presented the main sources of statistical data used in Spain for the analysis of the business environment in general, and, specifically, those related to the co-operative sector. After analyzing existing data sources and the data they provide, we can observe the following limitations in the statistics on co-operatives in Spain:

1. Currently, there is no doubt about the reliability and validity of the main sources of data on co-operatives (from the Ministry of Employment and Social Security, mainly). However, there is still some room for improvement in its compilation.
2. The available data is mainly at the macro level (number of active or new co-operatives, number of employees, and value created), although regional breakdown are provided. However, there is no micro-level data available on co-operative firms to conduct generalizable studies of their internal structures.
3. To obtain micro-level data, it is necessary to go to company censuses or surveys that include the legal form of co-operative (Commercial Registry, Survey of Industrial Strategies, Promoting Production, etc.). However, these sources are biased toward large co-operative firms and the variables they present are unsuited to the reality of these organizations (this supports isomorphism with traditional companies).
4. Regional and state Registries of Co-operatives, whose tasks are to collect individualized accounting data on these organizations, do not computationally and publicly record such data nor update them annually, as they should. This means that obtaining statistics on the social economy and the co-operative sector in Spain requires a large expenditure of time and money.
5. Available statistics rarely differentiate by type of co-operative. Spanish legislation includes the legal form of co-operative in general (with a specific Tax Identification Number), but does not differentiate by

type of co-operative (worker, farming, housing, etc.).<sup>12</sup> This prevents two things: first, conducting research on specific models of co-operatives, and second, analysis of the idiosyncratic characteristics and specific behaviours that occur in a certain type of co-operative, but not the rest.

6. The most common sources of data are in the form of non-readable information using common statistical analysis software, which greatly hinders the work of scholars and researchers in this field.

However, these limitations may create room for improvement in the availability of data on co-operatives in Spain, including:

1. Full implementation of Law 5/2011 on Social Economy, Article 6 of which states that the Ministry of Employment and Social Security shall develop and maintain a catalog of the different types of constituent entities of the social economy, including co-operatives.
  2. The regular development by the government of satellite accounts of the social economy, including co-operative firms.
  3. The developing and maintaining of micro-level data on co-operative firms in Spain by representative entities of this sector (preferably through a collective effort by the Federation of Worker Co-operative Firms, the Business Confederation of Social Economy, and scientific social economy associations such as CIRIEC). The data could be elaborated through regular surveys of managers of these organizations (replicating the strategy of the Survey of Business Strategies) or information from regional and state Registries of Co-operatives.
  4. Improving public and online access to these databases to enable more micro-level research on co-operatives. Databases at the micro level are still scarce and scattered in Spain because of the difficulty of obtaining reliable and valid statistical sources.
12. The National Law on Co-operatives differentiates among fifteen types of co-operative firms (worker, consumer, housing, farmer, community land use, services, sea, transport, insurance, health, education, credit, social co-ops, mixed, and comprehensive co-ops). Worker and farmer co-operatives are the most important firms, by number and by volume of employment. Regionally, co-operative laws may include other types of co-operatives to expand this range of models.

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In 1854, the first Italian co-operative, Magazzino di Previdenza, was established in Turin (Ianes 2010), thanks to the initiative of the Società Generale degli Operai (General Workers' Association). The second half of the nineteenth century witnessed the development of consumers' co-operatives in towns and rural areas, as well as the setting up of the first financial co-operatives (end of the 1870s) and the first farmers' co-operatives (Ianes 2010).

The first years of the twentieth century (between 1903 and 1914 in particular) were characterized by the growth both of the Italian economy and of the co-operative movement. The accession to power of the Fascist regime (1919–1921) seriously inhibited — sometimes violently — democratic co-operation of socialist, Catholic, and republican inspiration and sharply interrupted the rapid development of the co-operative movement. Nonetheless, by the end of the Second World War Italy had more co-operatives in existence than at the beginning of the thirties. The policy of the Fascist regime did not cause the disappearance of the co-operative movement, but it led to a slower growth and a different evolution of the various sectors of co-operation and to an important development of farmers' co-operatives.

Data of the Census of Industry and Services managed every ten years by the Italian National Institute of Statistics (Istat) show the evolution of co-operation over the second half of the twentieth century.

The census of 1951 reported the existence of almost 11,000 co-operatives: most of them operated in the construction sector and were committed to the reconstruction of buildings destroyed during the war; employees were more than 137,000, equal to 2 percent of the total number of employees in Italy.

Between 1951 and 1971, Italy witnessed its strongest economic growth, determined mainly by the development of the manufacturing sector. According to the census results, co-operatives contributed only to a limited extent to this development, and the economic importance of co-operation remained at a standstill: in 1971 there were 10,744 co-operatives, about the same number as in 1951, but 12.1 percent fewer if compared with the number of co-operatives in 1961. Yet, dimensions of these organizations over the two decades increased considerably: the average number of employees rose from 12.8 percent in 1951 to 19.3 per-

## DATA COLLECTION ON CO-OPERATIVES: THE ITALIAN CASE

CHIARA CARINI<sup>1</sup>

## Context

**I**N ITALY, the demand for statistics on business demography has grown rapidly in recent years. Policymakers and analysts increasingly request data on the births and deaths of enterprises, their life expectancy, and their contribution to economic growth and productivity. Business data provide important information to support the Europe 2020 strategy<sup>2</sup> aimed at boosting the European Union (EU) economy with the goal of transforming the EU into “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” (Eurostat and OECD 2007). These goals can be reached through the support of entrepreneurship and entrepreneurial dynamism, among other factors, the presence of which can be revealed by the analysis of demographic statistics related to business over time. The government has recognized the importance of business statistics; following EU directives, it promotes the collection and dissemination of statistics on enterprises, including co-operatives, which represent an important part of Italy's economy since their formation in the nineteenth century.

1. European Research Institute on Cooperative and Social Enterprises (EURICSE)

2. [http://ec.europa.eu/europe2020/index\\_it.htm](http://ec.europa.eu/europe2020/index_it.htm).

cent in 1971. The growth in number of employees in co-operatives reflected the growth of the Italian economy: about 2 percent of Italian working people were employed in the co-operative sector.

The following ten years witnessed a remarkable increase in the number of active co-operatives and of employees in this sector (respectively, an increase of 69.9 percent and 165.4 percent): the growth was noticeably higher than the average growth of the Italian economy. The employment rate in co-operatives kept pace with the growth: in 1991 about 4 percent of Italian working people were employed in the co-operative sector; this figure became 5.8 percent in 2001.

According to the 2011 census data, the total number of active Italian co-operatives was 61,358 (table 1, EURICSE 2013), equal to 3.8 percent of the total number of enterprises (excluding individual entrepreneur, freelance, and self-employed).

Table 1. Number of active co-operatives, 2011

Number of active co-operatives (including social co-operatives)	61,398
Incidence on the total number of enterprises	1.4%
Incidence on the total number of enterprises (excluding individual entrepreneur, freelance, and self-employed)	3.8%
Number of active co-operatives: change over 2001–2011	+15%

Source: EURICSE based on data of the ninth General Census of Industry and Services and Census of Non Profit Institutions.

At the end of 2011, co-operatives, along with their consortia, generated more than €120 billion of turnover and invested over €114 billion.<sup>3</sup> At the end of 2011, co-operatives employed more than 1.2 million people. A large number of those employed held permanent positions, while the less structured forms of employment — in particular, those involving a project-based contract — proved to be marginal and decreasing in number.

Focusing on social co-operatives,<sup>4</sup> data show that since their intro-

3. These data do not include co-operatives that operate in the credit and insurance sectors, or shareholder companies controlled by co-operatives.

duction under Italian law, they have grown in number, increasing from 650 in 1985 to 7,400 in 2005, and to more than 11,000 organizations in 2011 (Centro Studi Legacoop 2013).

The Istat data also show a great diversification of forms of enterprises in Italy over the decade from 2001 to 2011, with co-operative enterprises, and more generally, non-profit organizations, growing at a faster rate than other types of businesses, whether public or private. Consequently, understanding the existence and characteristics of co-operative enterprises should no longer be considered of interest solely to a limited number of researchers or representative organizations of the co-operative movement. Rather, this type of research now has broader implications, and should be undertaken with renewed commitment.

The next section will present a detailed discussion of the projects currently under way in Italy relating to the collection and release of data on co-operatives, starting with those promoted by the institutions that are allowed to release official statistics, from the Istat and the Bank of Italy, and moving to those promoted by other public and private institutions.

### Analysis of the Case

Istat is a public research organization that has been the main producer of official statistics in the service of citizens and policymakers in Italy since 1926. It operates independently and engages in continuous interaction with the academic and scientific communities. In recent years, Italy's official statistics have been characterized by the reduced availability of economic resources and the increasing demand for new statistical information, determined by the need to analyze and govern the profound social and economic changes registered in the country at various

4. Social co-operatives were established by Law 81/1991 as member-owned organizations operating with the purpose of creating social value for their communities. According to this law, social co-operatives can either be involved in caring or in training activities (Thomas 2004). Caring activities — type A — refer to social, health care, educational, and cultural services, and nurseries and initiatives aimed at environmental protection; training activities — type B — provide job-placement services for disadvantaged people.

levels. This situation has prompted Istat to develop conditions and to promote actions to realize a systematic use of administrative sources for statistical purposes.

Among the various data collection activities currently carried out by Istat, there are two that need more attention — namely, the Registro Statistico delle Imprese Attive (ASIA)<sup>5</sup> and the Census of Industry and Services. These projects are interesting because they allow the comparison of data on co-operatives with those of other forms of enterprise.

The Statistical Register of Active Enterprises, established in 1996 according to EU Council Regulation no. 2186/93 on community coordination in drawing up business registers for statistical purposes, is the official source of data for the structure of the companies and their demography; these data are harmonized at the European level. In addition to providing basic information for the analysis of the evolution of the structure of Italian companies and their demographics, the ASIA database is the reference population for business surveys conducted by Istat.

The ASIA database includes all of the market-oriented legal forms of companies governed by private law (Istat 2005) derived from the Italian Civil Code, of which the following are the most common forms: sole proprietors, self-employed, partnerships, private companies, and co-operatives (including social co-operatives). The register excludes units in the central and local government sectors.

The economic activities covered by the ASIA database are *Nomenclature statistique des activités économiques dans la Communauté européenne* (NACE) Rev 2<sup>6</sup> sections B to N, excluding group 64.2 (management activities of holding companies), and sections P to S. Thus, activities relating to industry, construction, distributive trades, and services are covered, but agriculture, public administration, non-market activities of households, and extra-territorial agencies are not (Istat 2012).

The variables included in the register can be classified into three categories: identifying variables (name, address, and other variables use-

ful for the precise identification of the companies); stratification variables (economic activity classified according to the NACE classification, legal form, size in terms of employees, and independent employees and turnover); and demographic variables (date of establishment and date of termination of the company; dates of events such as spin-offs, mergers, or bankruptcy; bankruptcies, liquidations, etc.).

The ASIA database is updated annually through a process of integration of data from both administrative sources managed by public authorities or private companies (including the database managed by the Italian revenue agency,<sup>7</sup> the business registers managed by the Chambers of Commerce,<sup>8</sup> and the databases of the National Institute of Social Welfare),<sup>9</sup> and statistical sources (including the economic surveys that Istat carries out on companies, small and medium-sized enterprises, etc.).

In 2011, the ASIA database was used as a basis to reproduce the Industry and Service Census<sup>10</sup> data. The census was divided into four different sections: the statistical register of active enterprises (ASIA), the survey of non-profit institutions, the survey of public institutions, and the sample survey of businesses. The survey of businesses is based on a mixed-survey technique, comprising a sample survey of small- and medium-sized businesses (with fewer than twenty employees) and a census coverage survey of large enterprises (with twenty or more employees). The surveys of non-profit institutions and public institutions are census-coverage surveys and involve institutions and their local units.

The General Census of Industry and Services in 2011 allowed the collection of data on the companies (including co-operatives) and non-profit organizations (including social co-operatives) in order to provide a picture of the number of organizations, employment, and economic performance according to the legal form of the enterprise, and to investigate issues such as governance, networks, innovation, competitiveness, internationalization, and users.

5. Statistical Register of Active Enterprises.

6. Statistical classification of economic activities in the European Community, [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-RA-07-015/EN/KS-RA-07-015-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-07-015/EN/KS-RA-07-015-EN.PDF).

7. <http://www1.agenziaentrate.gov.it/english>

8. <http://www.registroimprese.it>

9. <http://www.inps.it>

10. <http://censimentoindustriaeservizi.istat.it>



Decennial censuses have so far made it impossible to monitor and investigate the dynamics of these aspects of periods of less than a decade. However, the process and product innovations introduced on the occasion of the 2011 census will be repeated annually, and will provide the basic structure of the so-called continuous Census of Business: in addition to the traditional ASIA variables, new information will be available in the register each year, starting from 2012, with a dedicated publication.

Both the census data and ASIA data can be freely accessed online, in aggregate form, through the data warehouse Istat.<sup>11</sup> Access to microdata is granted for the purposes of research and study of the organizations in the National Statistical System (Sistan),<sup>12</sup> with procedures issued by the Committee for Directing and Co-ordinating Statistical Information (Comstat) according to Functional Directive no. 9 titled "Criteria and Procedures Concerning the Communication of Personal Data Within the National Statistical System." This brings Sistan fully into line with the Legislation Concerning the Protection of Personal Data (Legislative Decree 196/03).

Access to microdata is also allowed to researchers and scholars through the ADELE laboratory,<sup>13</sup> a research data centre, allowing them to compute their own statistical analyses in accordance with the rules of the ADELE laboratory. Admission is subject to the submission of a research project to be approved by the president of Istat.

In addition to Istat, there are several other institutions that systematically collect, analyze, and release data on co-operatives. These include the Bank of Italy,<sup>14</sup> which releases official statistics for the banking sec-

11. <http://dati.istat.it/>

12. Sistan is the Italian network of public and private institutions that provide domestic and international bodies with official statistical information. Established by Legislative Decree no. 322 from 1989, Sistan includes the National Institute of Statistics (Istat); the agencies for public statistical information (INEA, Isfol); the statistical offices of government departments and other public agencies; local government offices; the regions and autonomous provinces; the provinces; the Chambers of Commerce; municipalities, individual or group; and the statistical offices of other public and private institutions that perform functions of public interest.

13. <http://www.istat.it/it/informazioni/per-i-ricercatori/laboratorio-adele>

tor; the Italian Union of Chambers of Commerce, Industry, Crafts and Agriculture (Unioncamere);<sup>15</sup> associations in the co-operative sector; and research institutes such as the European Research Institute on Co-operative and Social Enterprises.

Italian law mandates that the Bank of Italy, the European Council, and the European Central Bank (ECB) collect data from supervised financial intermediaries and compute and disseminate statistics on such intermediaries. That said, the Bank of Italy is the primary source of data on the number of banks and branches, as well as economic data on banks, regarding both for-profit and co-operative banks.

The dissemination of statistical data, processed according to harmonized European definitions and standards, complies with the law on statistical confidentiality. The use and distribution of information contained within the statistics section of the website are permitted under the conditions concerning the use of ECB statistics. The statistics are transmitted to the ECB, to Italian and foreign institutions, and to the intermediaries, organizations, and institutions providing the basic data. Statistics are also made available to markets and researchers through the bank's publications and publicly accessible databases (including the electronic Statistical Database [BDS]).<sup>16</sup> It is also possible to request customized processing, such as different representations of statistical data that have already been published. The statistics are published on a monthly and annual basis according to a schedule that is announced in advance in a press release, which is available on the Bank of Italy website.

Turning to the other institutions that collect and release data on co-operatives, Unioncamere releases statistical analyses on local economies with particular reference to the economic and employment size of Italian enterprises, including co-operatives. Statistics, released in aggregated form, are based on the analysis of data of the businesses register managed by the Chambers of Commerce (the same register integrated in the ASIA

14. <http://www.bancaditalia.it>

15. <http://www.unioncamere.gov.it>

16. [https://www.bancaditalia.it/statistiche/bds;internal&action=\\_setlanguage.action?LANGUAGE=it](https://www.bancaditalia.it/statistiche/bds;internal&action=_setlanguage.action?LANGUAGE=it)

database). Data on enterprise birth and death rates related to the total number of enterprises, co-operatives, and small businesses are released monthly, while in-depth analyses relative to the economic and employment size of co-operatives are released annually.

Analyses in aggregated form are issued periodically by the two main co-operatives' associations, Legacoop<sup>17</sup> and Confcooperative,<sup>18</sup> which have been promoting data collection and analysis at the national and regional level in order to monitor the economic and employment size of Italian co-operatives over several years. In this case, the data are released to the public only in the aggregate analyses.

Finally, the difficulty in accessing microdata prompted the European Research Institute on Cooperative and Social Enterprises (EURICSE) to initiate a project to collect and integrate economic and employment data on Italian co-operatives in a periodically updated data warehouse. The aim of the work is the collection and integration of data from different administrative sources and statistics that allow in-depth analysis, as well as the publication of periodic reports on the size of the co-operative sector and comparison between co-operatives and for-profit organizations.

In the current state of the work, the database on co-operation in Italy contains general data (extracted from the Aida<sup>19</sup> database and the regional registers of social co-operatives),<sup>20</sup> economic data (from Aida) and employment data (INPS registers) for more than 80,000 Italian co-operatives for the years 2008–2012.

## Conclusion

The framework outlined in the previous pages has shown that in Italy there are several data sources that provide data on the demographics of

17. <http://www.cslegacoop.coop>

18. <http://www.confcooperative.it>

19. <http://www.bvdinfo.com/Products/Company-Information/National/AIDA.aspx>

20. As already stated, Law No. 381 from 8 November 1991 introduced social co-operatives into Italian law. Article 9 of this law defers to the regions for the establishment of the regional register of social co-operatives, in which general data and data on activities carried out by co-operatives are collected.

co-operative enterprises active in the country, along with their economic and employment size. Data from official sources also make it possible to compare such data with other forms of enterprises, and since all projects are updated over time, it is also possible to monitor the evolution of the co-operative sector over time. We can therefore say that there is no problem stemming from a lack of data: policymakers and society at large can easily access the aggregated statistics made available by the producers of official statistics and by other organizations. Researchers have instead detected more difficulties related to accessing the microdata required to develop in-depth analysis; this is what prompted EURICSE to develop its own internal database. We should reflect on this point with a view to opening a channel for discussion among all stakeholders; in this way, it will be possible to engage in discussion and find a meeting point between the needs of the producers of official statistics, who have to operate within the rules of the code of ethics, and the needs of researchers, who want to use these data only for the purposes of research and study.

A second point of reflection is the need for greater integration and coordination of the projects. Istat is already moving in this direction, not only in terms of integrating different data sources — both administrative and statistical — in a unique statistical register, but also including industry experts, stakeholders, and institutional representatives in the definition of the processes of collection and integration of data. This will allow robust data to be collected that genuinely meet the information needs of policymakers, researchers, and practitioners.

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## Chapter 6

### SATELLITE ACCOUNTS: A NEW APPROACH FOR ECONOMIC EVALUATION OF THE CO-OPERATIVE SECTOR

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## Introduction

POLICYMAKERS, co-operative representatives, local authorities, and other stakeholders are increasingly interested in alternative models for locally owned businesses that will be oriented toward community needs and stimulate local economic growth. Co-operatives should be an obvious choice among those alternatives. Locally owned and controlled, with net profits distributed to members-owners, many consider co-operatives to be a perfect model for the socio-economic development of their local communities. Their structure and objectives compel them to behave differently than other community organizational structures. In addition, co-operatives play a vital and direct role in rural economic development. In this sense, there is a strong need for reliable statistical data and appropriate economic impact analysis, which policymakers and community development practitioners can rely on in

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making more informed decisions regarding the support of alternative business development options.

Since the official statistics use Gross Domestic Product (GDP) and other macroeconomic aggregates as indicators of economic activity, it is not possible to determine which part of national economic activity was created by co-operatives. In fact, because of their presence in almost every sector of economic activity, co-operatives stay statistically invisible. Satellite accounts for co-operatives, which include a set of coherent, consistent, and integrated accounts, are recommended as a primary tool to ensure visibility and measure the impact of co-operatives on the economy. Calculation methodology is based on the same definitions, concepts, classifications, and accounting rules as for GDP and national accounts compilation, which ensures their quality, reliability, and comparability. The total economic impact of co-operatives in Serbia was assessed using the satellite accounts approach, supplemented by basic employment data and other indicators of non-monetary activity.

## Methodological Basis

### *Data Sources*

According to the Law on Accounting and Auditing in Serbia, co-operatives, as well as any other enterprises, are obliged to maintain business books and prepare and submit their financial statements and business reports in line with the rules stipulated by the respective legislation. The Statistical Office of the Republic of Serbia regularly receives in electronic form the individual financial statements of all legal entities in Serbia, including co-operatives. Data required for satellite accounts compilation, but not available in the financial statements, were obtained through the Agricultural Census<sup>6</sup> (carried out from 1 October to 15 December 2012 in the Republic of Serbia) and other statistical and administrative sources.

6. Statistical Office of the Republic of Serbia, *Census of Agriculture 2012 in the Republic of Serbia — First Results* (Belgrade: Statistical Office of the Republic of Serbia, 2013).

### *Definition of the Main Macroeconomic Aggregates*

The economic activity of co-operatives is measured in such a way that enables full comparability with the central national accounting framework established by the System of National Accounts (SNA).<sup>7</sup> The System of National Accounts presents a comprehensive, unified, and harmonized set of macroeconomic accounts, balance sheets, and tables, based on internationally accepted concepts, definitions, classifications, and accounting rules. It is defined in a form that provides systematic and detailed information on the economic activity of a country, at the same time enabling international comparisons. National accounts data provide information that cover different types of economic activities and sectors of the economy, and therefore enable monitoring of significant economic categories such as production, investment in fixed assets, consumption, imports, exports, and others. They allow researchers to identify and explain the causal mechanisms that operate within the economy. National accounts data are indispensable for economic policy and decision-making processes at all levels of government and within the enterprises.

Satellite accounts<sup>8</sup> are an integral part of national accounts. Their importance is derived from the fact that they represent a consistent set of indicators that provide an accurate picture of specific segments of the economy. Many of the categories shown in satellite accounts cannot be seen in the system of national accounts because they are either indirectly used in the calculations or are an integral part of the aggregated categories.

Satellite accounts can be defined as follows:

- they are based on clear definitions given in the system of national accounts, which ensure the availability, comparability, and compilation according to international standards
- they present linked system of accounts

7. EC, IMF, OECD, UN, WB, *System of National Accounts 1993* (Brussels/Luxembourg, New York, Paris, Washington, D.C., 2013).

8. EC Enterprise and Industry DG, *Manual for Drawing up the Satellite Accounts of Companies in the Social Economy: Co-operatives and Mutual Societies* (Liège, Belgium: CIRIEC, 2006).

- they are very detailed
- they include physical indicators (quantity, pieces, etc.) and other non-monetary indicators (gender, age, occupation, etc.) in addition to monetary indicators

Considering that satellite accounts contain a lot of information, the best way for their systematic presentation is through the linked system of accounts. The system of accounts shows how production creates new, and transforms existing, goods and services, while at the same time generating income that is later distributed and redistributed. The accounts consist of a left and a right side. On the right side of the account are sources of funds or transactions that increase the economic value of the units or sectors. The left side shows the use of resources associated with the transactions that reduce the economic value of the units or sectors. Each account also includes the so-called balancing item representing the difference (the balance) between the right and the left side of the account. This item closes one and opens the next account. In this way, all accounts are linked.

The first and the most important account in a series is a production account. The production account begins with the output on the right side of the account — i.e., the sources. On the left, the side showing use, there is intermediate consumption. Output consists of goods and services that are produced within a production unit that become available for use outside that unit, plus any goods and services produced for internal use. Co-operative financial accounts do not show the output directly. For non-financial units, it can be calculated by adding up the sales of goods and services, the changes in inventories of finished goods and work-in-progress, and the trade margin. On the other side, intermediate consumption consists of the value of the goods and services consumed as inputs for a production process, excluding fixed assets, which are recorded as consumption of fixed capital. The balancing item of this account is the gross value added, calculated as a difference between output and intermediate consumption.

There is a crucial difference between the turnover, which appears in a co-operative's business account and is typically used as an indicator of economic activity,<sup>9</sup> and output (the value of production), that represents one of the principal categories in the system of national accounts.

### Production Account

Uses				Resources	
Code	Transactions and balancing items	Total	Code	Transactions and balancing items	Total
P.2	Intermediate consumption		P.1	Output	
B.1G	Value added, gross				

Source: EUROSTAT, *European System of Accounts 1995* (Luxembourg, 1996); EC, IMF, OECD, UN, WB, *System of National Accounts 1993* (Brussels/Luxembourg, New York, Paris, Washington, D.C., 1993)

Business accounting, as opposed to national accounting, does not deal with the concept of output. Its focus is on sales and the cost of goods sold in order to measure the net income of a company. Turnover represents a total value of the goods and services of a company sold to customers in a certain period. Turnover is a principal measure of success in meeting the customers' needs, and the market position of a given company. In addition, the value of turnover is in direct proportion to the level of operational profit generated, which is of utmost interest to the company owners, creditors, and tax authorities. On the other hand, the focus of national accounting is not the company's profitability, but its production capacity — i.e., its ability to create and add new value to the national wealth. Therefore, for national accounts, the main indicator of a company's economic activity is the value of production, rather than turnover. For example, a company need not produce any product during the accounting period, but it can generate turnover by selling products from the stocks accumulated during the previous accounting period. Also, the value of products produced in the same accounting period could be larger than the turnover generated, although the company has in reality produced a certain amount of products and has created a certain value added. For these reasons, to estimate the output and gross value added (GVA), the value of turnover generated has to be adjusted by the changes in inventories of the finished goods and work in progress.

9. A.F. Laidlaw, "The Cooperative Sector," presentation at the Graduate Institute of Cooperative Leadership, University of Missouri, 1974.

The next methodological issue is the difference between profit in a co-operative's profit-and-loss account and value added in national accounts. The difference between them is not only by way of estimation, but also in the concept and components of these two indicators. Value added is value that a company "adds" to the value of inputs used in the production of its products or provision of services. Those inputs are called "intermediate consumption" and include, apart from materials and raw materials, all types of industrial and non-industrial services required to run the production process, except for wages and salaries and other personnel costs that are not considered as intermediate consumption, but as part of value added. Thus, value added is what is added to those inputs by the owners of production factors engaged in the production process — employee wages, the entrepreneurial income of business owners working in their enterprise, and payments for using the capital of other persons — rent for use of land, interest on borrowed capital, and dividends paid to investors. All of these constitute value added as opposed to profit, which in its essence is a growth of own-enterprise capital. Profit as a net income of the company owner is the difference between all costs and all expenses.

National accounts have in focus not the equity of stockholders, but the production process of the national economy that creates incomes not only for the owner of the company but for owners of all inputs used in production — i.e., employees and other stakeholders, including government, in the form of taxes and social contributions. The total of all those incomes created in a national economy, which, in the terminology of national accounts are called "primary incomes," is equal to gross domestic product.

Apart from what is stated above, various sorts of non-operational and extraordinary incomes and expenditures, which are acknowledged from the point of view of taxation and accounting rules as components of profit, are considered neither part of the production value nor as intermediate consumption in the system of national accounts. In relation to this, it should be pointed out that the rents of land or premises are not treated, in terms of the estimation of value added, in the same way as in business accounting, where, together with other rental costs, they represent current expenses, which are balanced with turnover and other revenues of the company. It is further assumed that the renting of land

does not create additional output of the national economy, nor does it, on the other side, constitute an element of intermediate consumption for a user of land. Rent is, in this way, the property income of an owner of land resulting from that ownership, and, as such, it constitutes an element of value added.

Another difference between business and national accounting is the treatment of a company's tax obligations. Business accounting, being oriented toward the determination of a company's profit, treats all sorts of tax payments (except tax on profit) as regular company expenses that have to be paid from the revenues. However, the system of national accounts treats taxes in a different way and makes a clear distinction between taxes on products, taxes on production, and other taxes and levies. When calculating value added, national accounts are only concerned about those taxes that are directly linked to the production process — i.e., those that are paid according to the quantity or value of the goods and services provided (VAT, excise duties, and customs and other import duties). Other taxes, such as the tax on property, various local taxes and fees, are not directly linked to the production process, and are considered to be paid from value added. Here we talk about taxes on production. A distinction is made when it comes to tax counterparts in the system of national accounts — subsidies — which are registered in business accounting in the same way, irrespective of support that an enterprise receives from government. However, only those subsidies directly linked to the production process enter into the estimation of value added in the system of national accounts. Government support for the purchase of capital goods, for example, has a different treatment and is not considered a subsidy for products or production, as it is, instead, a capital transfer from government to a company and will appear in the system of national accounts in the capital account.

Generation of the income account is a continuation of the production account. On the source side is gross value added, which is transmitted from the production account. On the use side there are two items that show how the gross value added is used. This is the compensation employees have received as a result of engaging in production and taxes, and the subsidies on products that have been paid as a result of production. The balancing item of this account is the operating surplus, the difference between the gross value added and the sum of em-

ployee compensation, taxes on production, and imports less subsidies. The operating surplus is the surplus that remained in production before deducting interest expenses, rents, or other income from property.

#### Generation of Income Account

Uses			Resources		
Code	Transactions and balancing items	Total	Code	Transactions and balancing items	Total
D.1	Compensation of employees		B.1G	Value added, gross	
D.2	Taxes on production and imports				
D.3	Subsidies				
B.2G	Operating surplus, gross				

Source: Eurostat, *European System of Accounts 1995* (Luxembourg, 1996); EC, IMF, OECD, UN, WB, *System of National Accounts 1993* (Brussels/Luxembourg, New York, Paris, Washington, D.C., 1993)

Next in the sequence of accounts is the allocation of the primary income account. On the source side, it consists of the operating surplus transferred from the previous account, and income from property received. This income includes dividends, interests, income attributable to equity holders of insurance policies, and similar income received by the owners of financial assets, and rents on land received by owners. The use side consists of property income paid to creditors, owners, and shareholders. The balancing item is the balance of primary income, which is equal to the difference between the income received and the payable.

#### Allocation of Primary Income Account

Uses			Resources		
Code	Transactions and balancing items	Total	Code	Transactions and balancing items	Total
D.4	Property income paid		B.2G	Operating surplus, gross	
B.5G	Balance of primary incomes, gross		D.4	Property income received	

Source: Eurostat, *European System of Accounts 1995* (Luxembourg, 1996); EC, IMF, OECD, UN, WB, *System of National Accounts 1993* (Brussels/Luxembourg, New York, Paris, Washington, D.C., 1993)

The secondary distribution of the income account shows how the primary income is transformed into disposable income by paying and receiving current transfers. Transfers are transactions in which one institutional unit provides a good, a service, or an asset to another unit. Disposable income is the balancing item of this account, and it is obtained by adding net transfers to primary income.

#### Secondary Distribution of the Income Account

Uses			Resources		
Code	Transactions and balancing items	Total	Code	Transactions and balancing items	Total
D.5	Current taxes on income, wealth		B.5G	Balance of primary incomes, gross	
D.62	Social benefits		D.61	Social contributions	
D.7	Other current transfers paid		D.7	Other current transfers received	
B.6G	Disposable income, gross				

Source: Eurostat, *European System of Accounts 1995* (Luxembourg, 1996); EC, IMF, OECD, UN, WB, *System of National Accounts 1993* (Brussels/Luxembourg, New York, Paris, Washington, D.C., 1993)

The use of the income account shows how disposable income is allocated to final consumption and savings. On the right side is the balancing item of the previous account (disposable income) while the left side is composed of the adjustment for changes in the net equity of households in pension funds. Savings is the balancing item of this account. When savings are positive, the unused part of disposable income will be used for the purchase of property or debt relief. Otherwise, savings are negative when disposable income is lower than the value of goods and services consumed.

#### Use of the Income Account

Uses			Resources		
Code	Transactions and balancing items	Total	Code	Transactions and balancing items	Total
D.8	Adjustment for the change in net equity of households in pension fund reserves		B.6G	Disposable income, gross	
B.8G	Savings, gross				

Source: Eurostat, *European System of Accounts 1995* (Luxembourg, 1996); EC, IMF, OECD, UN, WB, *System of National Accounts 1993* (Brussels/Luxembourg, New York, Paris, Washington, D.C., 1993)

The capital account shows the transactions related to the acquisition of non-financial funds and capital transfers involving the redistribution of wealth. The right side is composed of the balancing item of the previous account and capital transfers receivable. On the left side there are capital transfers payable, gross fixed capital formation, changes in inventories, and the net acquisition of non-produced/non-financial assets. The balancing item is net lending or net borrowing — net lending (if it is positive)/net borrowing (if it is negative) representing the net resources that co-operatives and mutual societies place at the disposal of other economic agents in the case of lending or receive from them in the case of borrowing.

#### Capital Account

Uses			Resources		
Code	Transactions and balancing items	Total	Code	Transactions and balancing items	Total
D.9	Capital transfers payable		B.8G	Saving, gross	
P.51	Gross fixed capital formation		D.9	Capital transfers receivable	
P.52	Changes in inventories				
K.2	Acquisitions less disposals of non-produced non-financial assets				
B.9	Net lending (+) or net borrowing (-)				

Source: Eurostat, *European System of Accounts 1995* (Luxembourg, 1996); EC, IMF, OECD, UN, WB, *System of National Accounts 1993* (Brussels/Luxembourg, New York, Paris, Washington, D.C., 1993)

#### Results and Discussion

The data presented represent a good data base for policymakers, representatives of the co-operatives, researchers, and other interested parties in their decision-making process, the evaluation of economic and social policies, scientific research, and the promotion of co-operative entrepreneurship in Serbia.<sup>10</sup> This section will refer to the main economic re-

sults, as well as to other non-monetary indicators of the co-operative economy in Serbia as an illustration. Finally, as agriculture has a relatively significant share in Serbia's GDP (about 9 percent) and agricultural co-operatives have the most significant co-operative economic impact (65.4 percent of all co-operatives are agricultural in 2010), the attention will also be put on the role and potential of agricultural co-operatives in both the agricultural sector and the overall economy.<sup>11</sup> This part of the analysis is supported by the first results of the Census of Agriculture in Serbia, carried out in 2012.

#### *The Number of Co-operatives and Unions (Federations) and Distribution by Type and Size*

In the observed period, 2009–2010, the co-operative economy in Serbia shrank by 7.2 percent. In 2010, it consisted of 1,986 units (1,971 co-operatives and 15 co-operative unions) compared to the previous year, when their number was 2,140 units (2,124 co-operatives and 16 co-operative unions).

Table 1. Number of co-operatives and co-operative unions

Units	Number of units		Relative change 2009/2010, percent
	2009*	2010**	
Co-operatives	2,124	1,971	-7.2
Co-operative unions	16	15	-6.3
Total	2,140	1,986	-7.2

\* Source: *Satellite Accounts for Cooperative Economy of the Republic of Serbia*, 2009, Belgrade

\*\* Source: Serbian Business Registers Agency

Considering the type of co-operatives, agricultural co-operatives had the highest share in the total number of co-operatives, 65.4 percent.

- Statistical Office of the Republic of Serbia, *Measuring Economic Performances: The Case of Serbia* (Belgrade: Statistical Office of the Republic of Serbia, 2007).
- Statistical Office of the Republic of Serbia, *Inventory of the EAA Methodology for the Republic of Serbia*, under IPA 2009 Multi-beneficiary programme on statistical cooperation — Component 15: Agro-monetary statistics (Belgrade: Statistical Office of the Republic of Serbia, 2012).



Youth and students' co-operatives contributed with 18.6 percent, housing with 6.7 percent, craft with 4.5 percent and all others with 4.7 percent. When compared with the previous year, the number of agricultural, youth and students, and housing co-operatives fell in 2010, while the number of craft and other co-operatives increased, with the consumer co-op sector remaining stable. It should be noted that in both years there were no savings-credit co-operatives in the economy. The figures are given in table 2.

Table 2. Number of co-operatives by type, 2009–2010

Type of co-operative	Number of co-operatives		Relative frequency, percent		Relative change 2009/2010 percent
	2009*	2010**	2009	2010	
Agricultural	1,425	1,290	67.1	65.4	-9.5
Youth and students	378	367	17.8	18.6	-2.9
Housing	146	132	6.9	6.7	-9.6
Craft	87	89	4.1	4.5	2.3
Consumers	8	8	0.4	0.4	0.0
Others	80	85	3.8	4.3	6.3
TOTAL	2,124	1,971	100.0	100.0	-7.2

\* Source: *Satellite Accounts for Cooperative Economy of the Republic of Serbia*, 2009, Belgrade

\*\* Source: Serbian Business Registers Agency

The distribution of co-operatives by the type of industry was noticeably unequal in 2010: 60.3 percent of co-operatives operated within section A, agriculture, forestry, and fishing, and 17.7 percent were from section N, administrative and support service activities, covering 78 percent of the entire co-operative economy in Serbia. Another 22 percent was allocated to other industries.

The size classification of co-operatives and co-operative unions in Serbia was based on the international recommendations, taking into account the number of employees: 0–9 (micro), 10–49 (small), 50–249 (medium), 250 and over (large). As shown in table 4, according to this criterion, 90.8 percent of co-operatives and co-op unions were micro, 7.9 percent were small and 1.4 percent were medium-sized in 2010.

Table 3. Number of co-operatives and co-operative unions by type of industry, 2010

Section	Industry	Number of units	Relative frequency, percent
A	Agriculture, forestry and fishing	1,198	60.3
N	Administrative and support service activities	352	17.7
F	Construction	128	6.4
G	Wholesale and retail trade; repair of vehicles	81	4.1
C	Manufacturing	77	3.9
M	Professional, scientific and technical activities	59	3.0
S	Other service activities	50	2.5
	Rest of industries together	41	2.1
	Total number of units	1,986	100.0

Source: Serbian Business Registers Agency

Table 4. Number of co-operatives and co-operative unions by size, 2010

Size classes	Number of units	Relative frequency, percent
Micro	1,803	90.8
Small	156	7.9
Medium	27	1.4
Large	0	0.0
Total	1,986	100.0

Source: Serbian Business Registers Agency

### Employees

Table 5 illustrates the change in the total number of employees in Serbia's co-operative economy, which decreased by 7.1 percent in the observed period. In 2010, the sector employed 7,959 compared to 2009, when the number of employed was 8,563. The table also reveals that this decrease was larger for co-operative unions (decline by 7.7 percent), than co-operatives (by 7.1 percent).



Table 5. Number of employees in the co-operative economy, 2009–2010

Units	Number of employees		Relative change 2009/2010, percent
	2009*	2010**	
Co-operatives	8,524	7,923	-7.1
Co-operative unions	39	36	-7.7
Total	8,563	7,959	-7.1

\* Source: *Satellite Accounts for Cooperative Economy of the Republic of Serbia, 2009*, Belgrade

\*\* Source: Serbian Business Registers Agency

### Analysis of Macroeconomic Aggregates of the Co-operative Economy of Serbia

According to the satellite accounts compilation for Serbia, gross value added (GVA) of co-operatives and co-operative unions decreased slightly between the two years. In 2010 compared to 2009, the decrease equaled 0.42 percent. The share of GVA of the co-operative economy in the total economy was considerably low, participating with only 0.16 percent in total GVA for the country in 2010. The respective share in 2009 was 0.17 percent.

Table 6. Gross value added of co-operative economy, shares in GVA and GDP, 2009–2010

Year	GVA, mill. RSD	Growth rate, 2010/2009	Share in total GVA, percent	Share in GDP, percent
2009*	3,960.1	...	0.17	0.15
2010**	3,943.3	-0.42	0.16	0.14

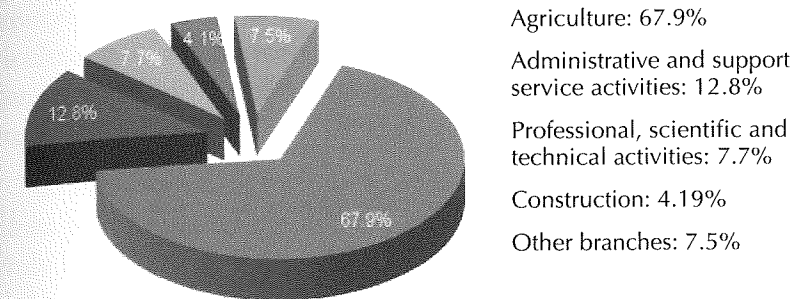
\* Source: *Satellite Accounts for Cooperative Economy of the Republic of Serbia, 2009*, Belgrade

\*\* Source: The result of the authors' estimates

When industries are considered (figure 1), the highest share in GVA of the total co-operative economy (67.9 percent) was in agriculture, at mil. RSD 2,677.9. At the same time, the co-operatives from this section participated with only 1.1 percent in total GVA of the section at the economy level. The next in size is section N, administrative and support service activities, which amounted to mil. RSD 504.2, making up 12.8

percent of the total co-operative economy GVA and only 1.2 percent GVA at the economy level. GVA of section M, professional, scientific and technical activities, amounted to mil. RSD 304.1, i.e., 7.7 percent of the co-operative economy GVA. The next was section F, which equaled mil. RSD 163.3, i.e., 4.1 percent of the co-operative economy GVA. All other industries had a very small share in the co-operative economy GVA in 2010.

Figure 1. Breakdown of the Gross Value Added of the Co-operative Economy in Serbia, percent



Source: The result of the authors' estimates

Concerning the gross operating surplus (last column of table 7) of the dominant section A, agriculture, hunting, and forestry in terms of GVA, it took a negative value, i.e., mil. RSD 386.9. A positive but very small gross operating surplus was realized in three sections: M, professional, scientific, and technical activities; G, wholesale and retail trade, repair of motor vehicles and motorcycles; and H, transportation and storage. These co-operatives are surviving, but they are barely breaking even. The GVA in these industries was sufficient to cover employee compensation and net taxes on production. On the opposite side, in all other observed industries where gross operating surplus showed negative value, GVA was not sufficient to cover the compensation of employees and net taxes on production.

Table 7. Production and generation of income account by industries, 2010, mill. RSD

Industry	Intermediate consumption		Value Added B.1G	Compensation of employees D.1	Taxes on production and imports		Subsidies D.3	Gross Operating Surplus B.2G
	Output P.1	P.2			D.2	D.3		
A	12,468.6	9,790.7	2,677.9	2,923.8	143.9	2.9	-386.9	
B	10.1	8.0	2.1	2.5	-	-	-0.4	
C	628.3	513.4	114.9	156.2	2.7	-	-44.1	
D	-	-	-	-	-	-	0.0	
E	18.0	9.7	8.3	10.3	0.1	0.3	-1.9	
F	1,889.9	1,726.6	163.3	242.7	22.3	-	-101.7	
G	200.8	102.5	98.3	42.0	5.0	-	51.3	
H	215.0	202.3	12.7	9.9	0.2	-	2.6	
I	-	-	-	-	-	-	0.0	
J	28.0	21.6	6.4	16.4	0.2	-	-10.2	
K	-	-	-	-	-	-	0.0	
L	-	-	-	-	-	-	0.0	
M	642.8	338.8	304.1	108.3	9.4	-	186.4	
N	4,313.4	3,809.2	504.2	540.7	31.4	-	-67.9	
O	-	-	-	-	-	-	0.0	
P	1.0	0.6	0.4	3.2	-	-	-2.8	
Q	-	-	-	-	-	-	0.0	
R	2.0	1.1	0.9	0.9	-	-	0.0	
S	203.0	153.3	49.7	79.5	0.7	-	-30.5	
T	-	-	-	-	-	-	0.0	
Total	20,621.2	16,677.9	3,943.3	4,136.6	216.0	3.2	-406.1	

Source: The result of the authors' estimates

Such weak economic performance of the co-operative economy in Serbia brings up the question about its prospects and how long co-operatives can survive under the circumstances.<sup>12</sup> It also brings a policy question: should co-operatives be supported, or allowed to fail? In some of these co-operatives, the core business may be well grounded; they

12. J. Birchall and R. Simmons, *Co-operatives and Poverty Reduction* (Manchester: The Co-operative College, 2009).

may just be unable to operate effectively due to external factors that are beyond their control. This may be argued as the grounds to save them and, above all, to provide them with a more supportive environment. Of course, the decision is more likely to be appropriate if made on a case-by-case basis. The distinction must be made between co-operatives with negative operating surplus due to their inefficiency and those with negative operating surplus due to unfavourable external conditions. In order to establish the cause of their poor performance, more in-depth research is required.

The picture of the co-operative economy presented does not represent the real economic capacity for the future economic development of co-operatives in Serbia. Given the contribution of agricultural co-operatives in the total co-operative economy in Serbia and the fact that agriculture participates with 9 percent in the total GDP, there is a huge potential for the revival of co-operative entrepreneurship in Serbian agriculture.<sup>13</sup>

The most significant property of Serbian agriculture is its duality of units performing agricultural production in terms of their legal status (family holdings and holdings of legal entities). Agricultural holdings and their activities are now tightly linked with other economic activities and have taken complex shape.<sup>14</sup> Together with other parts of the agribusiness sector, such as the pre-farming sector (the industry of input suppliers for agricultural production) and the post-farming sector (the food processing industry, trade, transport, services, financial industry, etc.), agriculture plays a significant role in the Serbian economy as a whole, employing a big portion of labour and contributing significantly to the overall GDP.<sup>15, 16</sup>

13. M. Sevarlic et al., *The Strategy for the Development of Agricultural Cooperatives in the Republic of Serbia* (Belgrade: Serbian Association of Agricultural Economists, 2012).

14. Z. Zakic-Vujatovic, *Cooperative Management; Basic Cooperative Principles and Contemporary Praxis* (Belgrade: Dunav Grupa, 2000).

15. Srđan Šljukic, "Agriculture and the Changes of the Social Structure: The Case of Serbia," *Sociology* 48, no. 2 (2006): 137-48.

16. Randelovic S. Viden, *Agricultural Economics and Cooperative Management* (Belgrade: Faculty of Agriculture, 2001).

On the other hand, the “agriculture-of-the-small” (AOTS) holdings employ most of the production capacities in Serbian agriculture. According to the first results of the Agricultural Census (AC) carried out between 1 October and 15 December 2012, there are 631,122 agricultural holdings, out of which 628,555 are family agricultural holdings and only 2,567 are legal entities and unincorporated enterprises. Further, nearly half of family holdings are submarginal (below 2.0 hectares), about 15 percent semi-medium (from 2.0 to 5.0 hectares); 15 percent medium (5 to 10 hectares) and 8 percent large (10.00 hectares and above). Such small units of cultivation contribute to an unfavourable utilization of human and other resources, a low marginal productivity of labour and land, indebtedness, and other negative outcomes.

### Conclusion

This chapter is an illustration of the use of satellite accounts to separate the impact of the co-operative sector on the value added in the economy. The official statistics use macroeconomic aggregates as indicators of economic activity, making it difficult to determine how much of the national economic activity is created by co-operatives. Satellite accounts for co-operatives are recommended as a primary tool to ensure visibility and measure the impact of co-operatives on the economy as they provide coherent, consistent, and integrated accounts.

As an illustration, the overall economic impact of co-operatives in Serbia was assessed using the satellite-accounts approach, supplemented with basic employment data and other indicators of non-monetary activity.

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## SECTION TWO

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Putting Co-operative Principles into Practice

THE CO-OPERATIVE SUSTAINABILITY SCORECARD<sup>1</sup>RUSS CHRISTIANSON<sup>2</sup>

THE CO-OPERATIVE SUSTAINABILITY SCORECARD (2008) was developed as a tool for co-operatives of any size in any sector to create triple-bottom-line benchmarks for their organization. The objective was to provide a “do-it-yourself” approach using existing software (Microsoft Excel) that is widely available and user friendly. A Creative Commons license was used to share the scorecard freely. A co-operative development funding organization, Carrot Cache, supported the initial research and creation of the Scorecard.

1. Russ Christianson’s Co-operative Sustainability Scorecard introduces this section of *Co-operatives for Sustainable Communities*. Developed in 2008, this Scorecard marked a significant advance in the tools available for small- and medium-sized co-operatives in Canada and has stood the test of time. The Scorecard integrates the now-standard approach of considering, in light of co-operative principles and values, the economic, social, and environmental performance of co-operatives. Furthermore, in the supporting materials available to users of the Scorecard, Christianson develops a lucid, accessible account of the rationale for considering these three dimensions to be intrinsically interrelated. Retail food co-operatives have been the main users of this Scorecard, often adapting it to their own needs and context. Chapter 8, “The Sustainability and Planning Scorecard,” presents a detailed examination of an example of an adaptation and elaboration of the Co-operative Scorecard, undertaken by a partnership of co-operatives and university-based researchers. — The Editors
2. Russ Christianson is a co-op developer, consultant, and activist who pioneered the development of the self-administered scorecard described here.

The starting point in the Scorecard’s creation was the International Co-operative Alliance (ICA) Statement on the Co-operative Identity. Secondary research was performed to determine the congruence between Co-operative Principles and Values, and recognized Sustainability Indicators. The most recent ICA review of the Co-operative Principles and Values was undertaken by the Principles Committee in 2014. Their draft document, “Guidance Notes P3, P5, P7,” reinforces the notion of sustainability and the triple bottom line embedded in the Co-operative Principles and Values:

Sustainability is present in various forms, which are not mutually exclusive but complementary. In general, priority is given to economic sustainability but social sustainability should also be taken into account. Without social sustainability, economic sustainability lacks purpose and sense from a co-operative perspective. In addition, both of them depend on environmental sustainability, which enables the other two kinds of sustainability to exist and survive. This is why the Reference Document specifically states that co-operatives “have a responsibility to constantly work for the protection of the environment of their communities.” Co-operatives have special responsibility for ensuring continuous development in their communities in economic, social, and environmental terms.

— Draft Guidance Committee 2014

The Scorecard’s sustainability measures include minimum recommended practices and metrics (actual results compared to budgeted benchmarks) in each of the key areas: economic, social and environmental. The process of moving through and discussing the Scorecard is participatory and democratic and needs to involve the membership of the co-operative.

Since being introduced in July 2008, many co-operatives have adopted the Scorecard. It was presented at the 2008 Ontario Co-operative Gala; *The Co-operative Grocer* published it in print and on their website in their January 2009 issue; and the Government of Canada’s Co-operatives Secretariat translated it into French. The Co-operative Sustainability Scorecard has been adopted and adapted by Ontario Natural Food Co-op (ONFC), Co-op Atlantic, Conseil québécois de la

coopération et de la mutualité, Bloomington Co-operative Services (Indiana), The Big Carrot, Ottawa Valley Food Co-op, and Karma Co-operative. Other food co-operatives that are members of the growing network of Local Organic Food Co-operatives (now over seventy) are in the process of introducing the Scorecard. The hope is that we will begin to aggregate the results and use these to influence government policy.

The Scorecard can be used by co-operatives of any size to begin documenting and benchmarking their triple bottom line. It provides an opportunity to take the Co-operative Principles and Values and apply them directly to a co-operative's governance and decision-making processes and its measurable financial, social, and environmental objectives.

The first time the Scorecard is filled in, the co-operative may want to adjust some of the recommended practices and metrics. As the board and management work through the Scorecard, it will spark interesting discussions and most likely identify the need for further information gathering.

The Scorecard has been designed to be practical and easy to use. In addition to the Excel spreadsheet (the Scorecard), there are three other short documents in the Scorecard Package:

1. Co-operative Sustainability — Ecology, Society, Economy
2. Co-operative Sustainability — Principles & Values
3. Resources and References

The spreadsheet is available free online at *The Co-operative Grocer* website.<sup>3</sup> This spreadsheet allows co-operatives to record basic organizational information, (e.g., type of co-op, age, and so on), as well as minimum recommended practices and additional metrics for the three aspects of co-operative sustainability: economic, social, and environmental (see table 1 below). A triple-bottom-line summary page completes the tool.

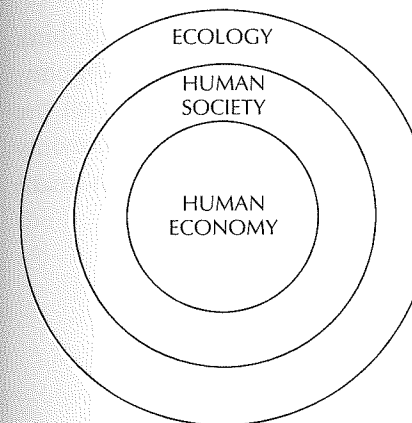
3. [Http://www.co-operativegrocer.co-op/articles/2009-01-18/co-operative-solutions-hard-times](http://www.co-operativegrocer.co-op/articles/2009-01-18/co-operative-solutions-hard-times).

Table 1: Summary of the Spreadsheet Content

Category	Minimum Recommended Practices	Additional Metrics
Environmental	14	25
Social	20	35
Economic	17	18
TOTAL	51	78

The section on Co-operative Sustainability — Ecology, Society, Economy — is rooted in the understanding that the economy and society are embedded in the natural environment and the human economy is embedded within society (see figure 1).

Figure 1. The economy embedded in society and ecology



In the words of Karl Polanyi, one of the world's most original and influential economic historians, "Man's economy is submerged in his social relationships" (Polanyi 2000). In Polanyi's view, people are not simply rational actors who are motivated to further their self-interest through the accumulation of material goods; rather, people act to safeguard their "social assets." Material assets are only of value in so far as they protect *social assets* — the mutually beneficial relationships that bind people to one another. In other words, the human economic system is run on the basis of non-economic or social motives.

This view is confirmed by scientific research in evolutionary psychology. The primary adaptation of our species is not hunting, tool-making, or language, but our ability to co-operate. While the process of evolution is often characterized in terms of dog-eat-dog competition and the "survival of the fittest," this research reveals that our species' success over the eons is due to the fact that we are among the most co-operative creatures on Earth (Allman 1994).



For the one billion people who are members of co-operatives around the world, this is not surprising. They have each determined, individually, that their needs can be more effectively fulfilled by co-operating socially and economically with others rather than competing against them.

Human society is represented by the second circle in the diagram and is embedded within the ecology — the entire natural world, or the Earth. Today, we are rediscovering what our tribal ancestors always knew: that we are only a part of nature, we are not separate from or above nature. The ancient Greeks understood this when they created the words, “ecology” and “economy.” Ecology, *oikos* or house, is our collective house (the world), as well as our individual homes. Economy, *oikonomia* or household management, is the management of our individual homes, and our collective house (the Earth).

While the business pages of our newspapers would like us to think of the economy as the “industrial, technological, or financial” economy, Wendell Berry sides with the ancient Greeks when he talks about the “Great Economy” (Daly and Cobb 1989). For Berry, the Great Economy sustains the total web of life: all the other creatures with whom humans share the world.

### Why Use the Co-operative Sustainability Scorecard?

Benefits to each individual co-operative:

- increasing understanding of opportunities and risks
- illuminating the link between financial and non-financial measures
- informing long-term strategy and policy, and business plans
- streamlining processes, reducing costs, and improving efficiency
- benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives
- being a leader in sustainability reporting
- comparing performance internally, and between organizations and sectors

Benefits to the co-operative movement and society:

- mitigating — or reversing — negative environmental, social, and governance impacts
- educating the public regarding *the co-operative advantage*
- enabling external stakeholders to understand the co-operative movement’s true value, and tangible and intangible assets

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## Chapter 8

### THE SUSTAINABILITY AND PLANNING SCORECARD: A TOOL DESIGNED FOR AND WITH LOCAL RETAIL FOOD CO-OPERATIVES

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#### Introduction

WHOLESALE AND RETAIL CO-OPERATIVES are in many respects the most important non-financial Canadian co-operative sector. In 2009, they had the largest number of members (5.8 million, 80 percent of total), the largest value of assets (\$7.7 billion, 36.6 percent), and the highest sales (\$16.3 billion, 48 percent) (Industry Canada 2013). Within this group, food stores count for 71 percent of the incorporated co-operatives in Canada (317 food stores out of 445 wholesale and retail co-operatives), and 54 percent of incorporated co-ops in Atlantic Canada. However, while many individual co-operatives are doing well, the retail food co-operative system in the Atlantic region is not thriving. The Sustainability and Planning Scorecard (the Scorecard), developed

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as part of a partnered applied research project (the Scorecard project) with Co-op Atlantic, makes a vital contribution to the repertoire of actions for local co-operatives as they individually and collectively identify and address a complex variety of opportunities and challenges.<sup>6</sup> The Scorecard also shows promise as an easily adaptable tool for retail co-operatives seeking to foreground their commitment to the seven co-operative principles and their identity as principled socially and environmentally responsible alternative businesses.

### The Changing Environment for Food Retailing

Trends in the retail food industry and in consumer expectations place external pressures on retailers in their efforts to grow and develop — or even to simply sustain their current market share. These trends affect every aspect of the retail market, the most significant of which are increased competition, changing consumer tastes, and heightened expectations related to developments in technology. While co-operatives face many of the same challenges and opportunities as the rest of the sector, they must address those using strategies that suit their local community contexts, and that build on the strengths of the co-operative model as an alternative form of business.

Competition within the food retail sector is intense (Condon, 2013) and, in Atlantic Canada, is intensifying (Auld 2013; Atchison 2014; Taylor 2014). Canada-wide, in 2012, approximately 60 percent of the retail food market share was controlled by three companies, all of which are among the top five retail companies in Canada — Weston (of which Loblaw is a part), Empire, and Metro (Statistics Canada 2012; Office of Consumer Affairs 2013, 13). US food producers and retailers are specifically targeting the Canadian market, adding to competitive pressures (USDA Foreign Agricultural Service 2014), and are joined by an increasing number of small and often specialized independents unconnected to the large corporate chains (Condon 2013; Holloway 2014).

6. Co-op Atlantic is headquartered in Moncton, New Brunswick. It is a second-tier co-operative and is owned by more than sixty co-operatively owned businesses across the Atlantic Provinces (<http://www.coopatantic.ca>). Over the past ten years, the number of retail food co-ops among Co-op Atlantic's members has declined, a matter of significant concern in the Atlantic region.

Grocery retailers use many strategies to increase competitiveness. This can include cost-cutting measures such as shifting to part-time staff, and introducing self-checkouts (Sherman 2014); and a focus on increasing profits through strategies such as expanding product range to include non-food products (such as gas, clothing, pharmaceuticals, finance). Product incursion is also practised by general merchandise retailers, who have now expanded into food sales (Avery 2013). For example, by 2013, over half the Wal-Mart stores in Canada were Supercentres, carrying the full range of food items stocked by traditional supermarkets (Condon 2013).

Another major strategy for food retailers is to identify and respond to changing consumer tastes and priorities, even shaping them where possible. Such trends include increasing demand for foods and products believed to produce health benefits (Agriculture and Agri-food Canada 2014); fresh and fresh-prepared foods (Shaw 2014; Watrous 2014); food labelling and traceability; sustainable and ethical farming and production methods (Agriculture and Agri-food Canada 2005; International Markets Bureau 2012); and sourcing food through local economies and encouraging local agriculture and value-added local food processing (Province of NS 2013; Finnamore 2008). Small independent retailers — e.g., natural food stores — often focus on niche markets such as natural food stores, while large corporate stores may address the full range of these potential markets — e.g., Loblaw's President's Choice Organics.

These factors are playing out in a context of dramatic technological changes that both respond to and influence consumer tastes and consumer expectations. Since 2010, for example, Wal-Mart, Loblaw, Sobeys, and Metro have expanded their digital shopping systems, ranging from on-line grocery shopping with pick-up or delivery options, to interactive, in-store shopper support (Fraser 2010; Sturgeon 2014).

This overview makes clear that the changing environment for food retailing presents both challenges and opportunities for growth. It has become apparent that, if co-operatives are to survive and thrive in this highly competitive sector, they need to understand the national and regional patterns that provide the context for local experiences. Co-operatives must carefully identify and choose among strategies to ensure long-term viability, and to attract members and customers to their

stores. What are the particular strengths of the co-operative model, and how can co-operatives best mobilize these strengths? For example, co-operatives may see opportunities in advice to retail stores that stress the importance of retail store offerings tailored to local consumer taste (Agriculture and Agri-food Canada 2014; Diekmeyer 2006). Co-operatives have the potential to be nimble in responding to local trends and needs, and have the added advantage of being able to ground such responsiveness in the International Co-operative Alliance's (ICA) seven principles, which embody the fundamental qualities of a member-owned, democratic, and co-operative form of business.<sup>7</sup> A number of the other consumer trends (e.g., preference for healthy foods and local foods) are both advantageous for co-operatives and consistent with the core principles of the co-operative identity — they are opportunities to be seized.

To capitalize on these opportunities, co-operatives need a deep understanding of, and relationship with, their members, employees, customers, and communities. Only then can they develop appropriate strategies for meeting local needs and enhancing the appeal of the co-operative model (not to mention market share). Co-operatives have yet another strength that is often underplayed: individual co-operatives are linked through a co-operative wholesaler, through co-operative councils, and through the movement that sustains the ICA (see the 6th principle). The co-operative movement's vision of a better world can nourish local co-operatives and their members, joining their efforts to those of other social justice movements.<sup>8</sup> Building and drawing upon this energy and

7. The International Co-operative Alliance's (ICA) seven principles are (a) voluntary and open membership; (b) democratic member control; (c) member economic participation; (d) autonomy and independence; (e) education, training, and information; (f) co-operation among co-operatives; (g) concern for the community. Further details on the ICA and co-op identity, values and principles can be found at <http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>.

8. "The International Year of Cooperatives is intended to raise public awareness of the invaluable contributions of cooperative enterprises to poverty reduction, employment generation and social integration. The Year will also highlight the strengths of the cooperative business model as an alternative means of doing business and furthering socioeconomic development" (official website of the International Year of Cooperatives (IYC) <http://social.un.org/coopsyear/>).

support is vital to the long-term success of co-operatives (Diamantopoulos 2012b; Brown and Winstanley 2008, 69).

The Scorecard project mentioned above assists retail food co-operatives as they take up social accounting and reporting in order to obtain information for continuous improvement and strategic planning. The co-operatives that use this tool are guided through a process of self-reflection and self-assessment, measuring their achievements and shortfalls in relation to co-operative principles and the co-operative's own triple-bottom-line priorities. Upon completion of the Scorecard they can use the information to inform strategic planning and, if they choose, use it as the basis of a social report to key stakeholders.

The next section of this chapter presents a review of social reporting in Canadian co-operatives and the particular ways reporting fits with the objectives of co-operatives. Section three reviews the process of developing the Scorecard, while section four describes the results of its initial implementation. To bring this to life, we are fortunate to be able to include a reflection on the process as experienced by one of the co-operatives that has been involved as a partner in this project since its inception. The summary and conclusion wraps up the chapter, situating our work within the ongoing dialogue around self-assessment and reporting by retail food co-operatives.

### Sustainability Reporting by Canadian Co-operatives

Debates about the social responsibilities of businesses date back as far as business itself (Asongu 2007), and since the end of the twentieth century the concept of sustainability reporting (often called corporate social responsibility reporting)<sup>9</sup> has been gaining in popularity. Neo-liberal

9. Corporate responsibility reports go by many different names — accountability reports; sustainability reports; corporate social responsibility (CSR) reports; sustainability development reports; corporate citizenship reports; environmental and social reports; People, Planet, Profit reports; and corporate responsibility and sustainability reports — with sustainability reports being the term used most often globally among the largest companies (KPMG 2013). The term "corporate report" is not commonly used by co-operatives, and for the sake of consistency we will use the term sustainability report throughout the remainder of this chapter.

globalization of the economy, technological advances, and the liberalization of trade (Pasquero 2005) are among the changes that have given rise to demands for greater disclosure from stakeholders and for measures to address the ethical concerns of consumers, investors, and prospective employees in their purchasing, investing, and employment choices. While still largely a voluntary commitment, the introduction of supplier codes of conduct by businesses (IISD 2011) and, since 2011, the increase in mandatory sustainability reporting by governments and stock exchanges (KPMG 2013) are among the many changes that have led to the increasingly widespread practice of sustainability reporting.

According to the 2013 KPMG study of the largest companies in 41 countries, 71 percent of the companies engaged in sustainability reporting compared with 64 percent in 2011. Among the largest 250 companies globally, the level of engagement was even higher, at 93 percent. Eighty-three percent of the 100 largest Canadian companies produce reports (KPMG 2013). At least for large companies, reporting has indeed become the norm:

Companies should no longer ask whether or not they should publish a CR report. We believe that debate is over. The high rates of CR reporting in all regions suggest it is now standard business practice worldwide. (KPMG 2013, 11)

While in large part a response to external pressures, sustainability reporting is also thought to offer benefits for the organizations that report (Carroll and Shabana 2010). Sustainability reports are a communication tool, both internal (employees) and external (owners, customers, and other stakeholders), that can enhance the organization's reputation, thereby improving employee morale, recruitment, and retention, as well as trust and relationships with external stakeholders (Robins 2011; Chang et al. 2013). Through the process of preparing sustainability reports, the organization learns from its stakeholders and becomes more aware of organizational risks and opportunities (e.g., population growth and shift to urban areas, climate change, etc.). The information derived is useful for strategic planning and prioritizing issues important to the organization's sustainability, thus improving performance and innovation (KPMG 2013; IISD 2011).

Sustainability reporting for co-operatives has become both a matter

of significant discussion and debate, and a practice increasingly engaged in by co-operatives. This is in part a response to social currents supporting this form of accountability and self-promotion, and partly because co-operative activists believe strongly that co-operatives have a very different take on sustainability than do corporations. Sustainability reporting for corporations is embedded in corporate priorities that necessarily emphasize growth, profit maximization, and shareholder value (ICA 2013, 20). Co-operatives, on the other hand, can offer a genuine alternative to dominant organizational forms and practice (Hernandez 2006; Restakis 2010; Conaty and Lewis 2012; Birchall and Ketilson 2009).

The ICA encourages sustainability reporting as one way to make visible the alternatives offered by co-operatives. For example, noting the increasing demand for accountability and openness, the *Blueprint for a Co-operative Decade* (ICA 2013, 10) argues that "participation is once again becoming one of the co-operative sector's most valuable assets":

Uniquely amongst models of enterprise, co-operatives bring economic resources under democratic control. The co-operative model is a commercially efficient and effective way of doing business that takes account of a wider range of human needs, of time horizons and of values in decision making. (ICA 2013, 2)

One of the *Blueprint's* five strategic goals<sup>10</sup> includes positioning co-operatives as builders of economic, social, and environmental sustainability; another emphasizes participation within membership and governance, while a third calls for securing the co-operative identity.<sup>11</sup> Sustainability reporting can contribute to each of these goals.

While in the past co-operatives have been described as having dual (even competing) priorities as businesses and as democratic associations, the rise of social responsibility reporting offers co-operatives one way to answer Birchall's (2000, 93) call for action:

10. (a) Elevate participation within membership and governance to a new level; (b) Position co-operatives as builders of sustainability; (c) Build the co-operative message and secure the co-operative identity; (d) Ensure supportive legal frameworks for co-operative growth; (e) Secure reliable co-operative capital while guaranteeing member control (ICA 2013, 6). Sustainability is covered on pages 14–18.
11. In discussing identity, the document explicitly rejects the more common term "brand" (ICA 2013, 21).



As globalisation and market competition intensifies, we cannot continue with the old idea that a co-operative has a dual character, as an association of members and a business, and that what the managers and board of directors have to do is somehow to live with the tension between them. If co-ops and mutuals cannot fuse together the association and the business into something new that builds on the strength of membership to gain market advantages, then they will not be able to survive.

Claims to a “co-operative difference” by co-operatives typically rest on the fundamentals of the Co-operative Identity Statement (ICA 1995). The seven co-operative principles offer evidence that democracy, accountability, and community responsibility are embedded in the very nature of co-operatives. For example, see the language used in social reports by Co-operatives Europe (2012) and Desjardins (2011), or the assertion by Buendía Martínez et al. (2006, 112) that “la responsabilité sociale est intégrée aux valeurs et aux principes spécifiques qui définissent la configuration organisationnelle des coopératives” (social responsibility is integrated into the values and principles that define the specific organizational configuration of co-operatives).

To further investigate the idea of sustainability from a co-operative perspective, in particular in relation to the seven co-operative principles, the ICA commissioned a study: *Co-operatives and Sustainability* (Dale et al. 2013). The report builds inductively to a definition of a sustainable co-operative as one that implements all seven co-operative principles, maintains or restores the ecosystem, and is a viable business (Dale et al. 2013, 23). The overall conclusion was that:

The UN is correct to place its hope in the co-operative model as an engine of sustainability... The linkages to social dimensions of sustainability are stronger than the linkages to environmental and economic dimensions, but all three are present. The results of the crowd-sourcing demonstrate that co-operatives embed sustainability into their operating model and values, but further study is required to understand definitively the degree to which co-operatives are “walking the talk.” (Dale et al. 2013, 1)

We contend that this conclusion, coupled with the report’s definition of co-operative sustainability, draws attention to two related chal-

lenges facing co-operatives: how best to conceptualize and measure co-operative performance (using criteria appropriate for co-operatives), and how to sustain the fundamental qualities of the co-operative difference in the long term.

A number of Canadian co-operatives have been early adopters of publicly available sustainability reporting, with Mountain Equipment Co-op (2005), The Co-operators (2005), and Vancity Savings Credit Union (1998) among them (Pratt 2007; Khoury et al. 1999).<sup>12</sup> As early as 1985, co-operatives had access to their own social audit manual (Social Audit Taskforce 1985), and the Canadian Co-operative Association continues to promote social auditing through its 2004 publication, “Ensuring Good Value at Co-ops and Credit Unions.” While they draw on tools developed primarily for corporations (with the Global Reporting Initiative (GRI) being the most widely-used at present),<sup>13</sup> a review of the reports indicates that they often include measures specific to co-operatives (e.g., measures of democracy and participation).

Since 2008, Canadian food retailers, whether co-operatives or not, have begun to produce sustainability reports, addressing the consumer desire for responsiveness and for access to information about retail food products and the companies that provide them. Corporations have led the way. Loblaw and Wal-Mart Canada, for example, each developed what they called “corporate social responsibility reports” in 2008 (Loblaw

12. The authors are aware of a number of co-operatives and credit unions that produced reports for their own internal purposes but without making them widely available to the general public.
13. There are many voluntary reporting guidelines and assessment tools available, and the proliferation of such tools continues. For example, Future-Fit Business Benchmark from The Natural Step and S-CORE from 3-D Investment Foundation were both released in 2014 (Bertram 2014). The most widely used tool is the Global Reporting Initiative (GRI), and it continues to increase its penetration. In May 2013, the fourth version of GRI guidelines, G4, were issued (GRI 2013) (KPMG 2013). Meanwhile, organizations such as AccountAbility and Social Accountability International develop principles-based standards and assurance practices for businesses practising social reporting, and provide training for assurance providers. Co-operatives may borrow from these initiatives, but must ensure that the measures provided truly address co-operative performance criteria as embedded in the co-operative identity.



2013; Wal-Mart 2010); Sobeys released a similar report in 2009, calling it a “sustainability report” (Sobeys 2009), while Metro’s first report was in 2012 (Metro 2014). These reports offer integrated accounts of retail food industry practices, often with a particular focus on the environment, and they are gaining attention.

For a variety of reasons, Canadian retail food co-operatives have only infrequently produced publicly available sustainability reports.<sup>14</sup> In 2013, the largest non-financial co-operative in Canada, Federated Co-operatives, released its first Social Responsibility Report (Federated Co-operatives Limited 2013). Co-op Atlantic has yet to release a sustainability report. Instead, that co-op has chosen the innovative approach of partnering with academic researchers and local co-op stores in a project to bring social reporting to the local level through the Sustainability and Planning Scorecard project. One result has been the collaborative development of the Scorecard that is a focus of the next section of this chapter.

ICA’s (2013) *Blueprint for a Co-operative Decade* raises the question of how best to sustain and privilege the fundamental qualities of the co-operative difference in the long-term. The answer to this must be multifaceted, but in the Scorecard project we emphasize (a) the self-conscious assessment of a co-operative’s performance in relation to its mission, goals, and other commitments; and (b) the value of the Scorecard as a tool for internal planning and reporting, and for communication with a wider audience.

### Sustainability and Planning Scorecard Development Process

The approach and the process through which the Scorecard was developed was presented in detail in Leclerc, Brown, and Hicks (2012). The starting point was a model proposed by Christianson (2009a, 2009b; also see chapter 7 in this volume). The Scorecard was created through a forty-eight-month participatory process that included consultations with various groups of stakeholders and external expertise: five pilot Consumers

14. We have no way of knowing how many retail food co-operatives produce internal reports for limited distribution internally, but it is important to acknowledge that this occurs.

Co-op boards, three Co-op Atlantic employees, and three researchers from two universities.

For the participating retail co-operatives, the main goals were to assess their performance on financial, social and environmental aspects of their operations; provide co-operatives with the ability to assess their adherence to their values and principles; assess performance on the co-operative difference; contribute to strategic planning and continuous improvement; and to engage member-owners and other stakeholders in assessing and improving their co-operative. For the research team, the main goals were to build a profile of retail co-operatives in Atlantic Canada; demonstrate the social, economic, and environmental contributions of the co-operative difference; and strengthen the community of sustainability and planning practice in this region.

On a conceptual basis, the Scorecard finds its origins in what Strang (2010) called the “benchmarking management technique.” For Strang, “[t]he logic of corporate benchmarking is that of learning from others: specifically, from the sources of best practice” (2010, 29). In the case of the Scorecard, it refers to the fact that participating co-operatives agree to self-assess their behaviour on a large number of issues, and then compare themselves with other co-operatives within the Co-op Atlantic network and/or a desired norm set by Co-op Atlantic. That is the source of the learning process for co-operatives, and the logic behind the strategic planning suggested by a completed Scorecard.

As it stands, the Scorecard is a web-based expert system supported by two surveys: the first designed to evaluate employee engagement and satisfaction, and the second built to study member and non-member shopper satisfaction with different aspects of their retail co-operative services.

The Scorecard is the core of the website. Accessible using a password, it is organized into seven sections:

1. a welcome page
2. a map of the website
3. three guideline documents explaining the Scorecard: introduction, the structure, and steps on how to complete it

4. the co-operative profile: a form asking for details on the co-operative such as the board profile, financial data, etc.
5. the performance measures organized into four themes: co-operative principles, economic measures, social measures, and environmental measures
6. a table on co-operative values providing a place for the co-operative to reflect on how these values have guided their decisions and actions
7. the Scorecard summary, which scores the co-operative on each of the four sections and identifies main areas for celebration or to focus on for improvement

Table 1. Scorecard terminology exemplified

	Practice	Score	Priority	Indicators Measure	Benchmark
10	<b>Practice</b> The co-op board and manager develop a strategic plan.	<input type="text"/>	<input type="text" value="1-5"/>	First step: Co-op sets its priority level	
		Last step: Co-op scores itself based on measures			
A	Yes/No			<input type="text"/>	<input type="text" value="Yes"/>
				(Co-op inserts its answer)	(Set by various sources. See endnote 15)

If priority level is set at 5 (high), Associated Practices open up. Example:

**10.1 Associated Practice**

	The co-op board makes sure that the strategic plan is updated regularly, to reflect the current situation	<input type="text"/>	<input type="text" value="1-5"/>		
A	Yes/No			<input type="text"/>	<input type="text" value="Yes"/>
B	Date that the strategic plan was last updated			<input type="text"/>	(within one year of review)

The Scorecard is a tool for the board, which may decide to work alone or together with management, a volunteer committee, and other stakeholders.

The co-operative's self-evaluation for each of the four themes is organized through Practices (identifying the desired behaviours) and Indicators (measuring the implementation of these practices). There are two types of practices: "Basic Practices," which are central to the co-operative difference; and "Associated Practices," which dig deeper into the co-op's performance in areas considered a high priority. For each Basic Practice, the first step is for the co-operative to fix a priority level from one to five, i.e., very low to very high (Associated Practices are hidden, and will only appear if a very high priority is set). The co-operative works through the various "Indicators," self-assessing their performance. Indicators are made up of the "Benchmark"<sup>15</sup> that the co-operative should be aiming for, and the "Measure," which indicates the degree to which the Benchmark has been fulfilled. The final step is to determine the "score." A co-operative would give themselves a higher score — on a scale of 1 to 5 — if a majority (or all) of the performance Indicators linked to that Practice have been met.

Table 2 (overleaf) presents the structure of the Scorecard. More than half of the Basic Practices address various aspects of the seven Co-operative Principles (29 out of 52), as do close to half of the associated practices. Social Measures are the second-largest theme. If a co-operative completes the indicators for every basic and associated practice in the Co-operative Principles theme, for example, they will have 65 different scores for that theme.

Two surveys complete the Scorecard. The employee survey, measuring employee engagement and satisfaction, contains 105 elements of information (questions, statements, and personal information). It includes 88 questions and statements on different aspects of employee work life, grouped into 19 themes (as shown in table 3, overleaf). The

15. Wherever possible, benchmarks have been set (e.g., where legally mandated, where mandated by Co-op Atlantic policy, or where there is guidance from other co-op literature). However, where none have been previously set, we plan to use collected Scorecard data to create regionally based benchmarks in the future.

Table 2. Number of Practices and Indicators for the four themes

Themes	Basic Practices*		Associated Practices **	
	Practices	Indicators***	Practices	Indicators***
Co-operative Principles	29	104	36	76
Economic Measures	5	18	11	23
Social Measures	11	51	19	59
Environmental Measures	7	36	13	32
Total	52	209	79	190

\* Identified by whole numbers in the Scorecard; \*\* Identified by decimal numbers; \*\*\* Identified by letters.

Table 3. Employee survey structure

Theme	Number of statements
1. Organizational commitment	
a. Affective commitment	3
b. Normative commitment	2
c. Continuity commitment	2
2. Overall satisfaction	1
3. Vision, governance, and co-op strategy	4
4. Relations with supervisor: people skills	5
5. Relations with supervisor: supervisory skills	2
6. Relations between and with colleagues	5
7. Organizational culture and communication	8
8. Training	5
9. Employee responsibilities and career plan	5
10. Work evaluation	9
11. Physical work environment	4
12. Salary and benefits	7
13. Autonomy on the job	2
14. Social status and personal life	2
15. Service quality	4
16. Performance assessment and management	5
17. Co-operative difference	2
18. Absenteeism	1
19. Specific questions for the Scorecard	10

last part of the survey contains two comment boxes ("What can this co-op do to increase employee satisfaction?" and "Other comments") and the respondent profile. Ten statements are directly linked to specific Indicators in the Social Measures section of the Scorecard.

The member/non-member shopper satisfaction survey contains 58 statements for members; or 37 for non-members. Both versions end with a respondent profile containing nine questions. This survey covers a range of aspects of the shopping experience: variety and quality of products and services, employee knowledge and courtesy, payment methods, hours of operation, accessibility, pricing, etc. The version for members also looks into the co-operative nature of the organization: the extent to which the co-operative educates members about environmental issues, the co-operative's reputation in the community, pride in being a member, etc.

The two surveys' results are also directly linked to some of the Indicators in the Scorecard, offering local co-operatives additional encouragement to adopt the Scorecard. Tables 4 and 5 present examples of questions that are directly associated with scorecard Indicators.

Table 4. Examples of links between Employee Survey and Scorecard Indicators

Scorecard Indicator	Examples of related Employee Survey Questions (the employee rates the degree to which they agree/disagree with the statement)
24. The co-op keeps employees informed about their co-op (Yes/No)	<ul style="list-style-type: none"> <li>I understand the long-term strategy of the co-op.</li> <li>In my present job, I am satisfied with the information I receive about this co-op's strategic orientations.</li> </ul>
a) percent of employees who feel adequately informed about their co-op	<ul style="list-style-type: none"> <li>In my present job, I am satisfied with the information available regarding the impact of changes in the organization.</li> </ul>
40. The co-op regularly assesses employee satisfaction (Yes/No)	<ul style="list-style-type: none"> <li>Overall, how satisfied are you with this co-op as an employee?</li> <li>What can this co-op do to increase your satisfaction as an employee?</li> </ul>
a) percent of employees satisfied with employment	<ul style="list-style-type: none"> <li>I would recommend employment in this co-op to a friend.</li> </ul>
42. The co-op invites employees to play an active role in the organization (Yes/No)	In my present job, I am satisfied with...
a) percent of employees who take an active role in the co-op	<ul style="list-style-type: none"> <li>The opportunities I'm offered to take part in decisions having direct impact on my job.</li> <li>Being able to help my colleagues at this co-op.</li> <li>Being able to help this co-op's members and customers.</li> </ul>

Table 5. Examples of links between Member/Non-member shopper survey and Scorecard Indicator<sup>o</sup>

Scorecard Indicator	Examples of related Membership Survey Questions (the member rates the degree to which they agree/disagree with the statement)
22A. Indicate the percent of members who feel adequately informed about their rights and opportunities as an owner-member	At my co-op, I am satisfied with... <ul style="list-style-type: none"> <li>• The information the co-op provides on the rights and opportunities of owner/members.</li> <li>• The information the co-op provides to me about its products and services.</li> <li>• The amount of member education at the co-op.</li> </ul>
30D. Indicate the percent of members satisfied with opportunities to give input/feedback	At my co-op, I am satisfied with... <ul style="list-style-type: none"> <li>• How the co-op solicits information on member satisfaction regarding the election process and the representativeness of the board.</li> <li>• The opportunities the co-op presents for me to become involved.</li> <li>• The opportunities the co-op provides for me to give input and feedback.</li> </ul>

The two surveys are administered and analyzed by the research team as part of the overall support offered to participating co-operatives. This is part of a broader support program including presentations of information about completing the Scorecard (in person, by email, Skype, or phone); a “Moodle” site (a free, open-source web application for producing modular Internet-based courses that support a modern social constructionist pedagogy)<sup>16</sup> for document transfer; a chat room for participants and the development team; and preparation of a global report based on all the information gathered with the Scorecard.

At the end of the process, a Scorecard Summary Table is produced automatically through the web-based expert system on the website. This Summary synthesizes the scores reflecting the extent to which practices are followed by theme; identifies areas to celebrate with members and other stakeholders (Annual Report, AGM, etc.); and, for strategic initiatives, identifies areas to improve. It provides information to

- demonstrate the co-op’s *contribution to its primary stakeholders* (members, employees, and community)

16. <https://moodle.org/>.

- provide individuals with *ongoing opportunities to be engaged* with their co-operative
- *help the board and the management team as they plan* for continuous improvement
- *engage employees* in assessing and improving their place of employment
- recognize and report on the co-operative’s *impact on community and the environment*
- demonstrate *transparency and accountability*
- foster greater *resilience, innovation, and sustainability*

To respect confidentiality, data access is protected by a password. Data are available only to the co-operative and the research team. It is up to each co-operative to decide how widely it will share the information from their Scorecard.

### Initial Implementation of the Scorecard

Since the research team presented the Scorecard at the June 2013 Co-op Atlantic AGM, retail co-operatives have been invited to use it to evaluate themselves. Four of them have since undertaken the self-assessment process deciding, based on their own circumstances, whether to complete all or only some of the Scorecard. The sections requiring information from the employee and member/non-member shopper surveys will be added as soon as they have been administered by the research team. Throughout the process, the team has provided support in understanding the basics of the Scorecard and the different steps of self-assessment.

The data from the Scorecards will be used in several ways. First and foremost, the information will allow the individual co-operatives to see, when evaluated against their own priorities, which areas of performance they are weak on and in which areas they are doing well. Second, once enough co-operatives have completed the Scorecard, it will be possible to provide summaries of the similarities and differences across co-operatives. A regional profile of the retail co-operatives will emerge from this work.

For the purposes of this chapter, we have to work with partial data

from only four co-operatives. Table 6 presents a compilation of the self-assessment results for all the practices (each indicator evaluated counts as one item) scored by any of the co-operatives. For each practice, the co-operative has first to indicate the level of priority for this practice on a scale of 1 – 5, with 5 being the highest priority. Second, based on their performance on the Indicators associated with each practices, the co-operative assigns itself a “Score” indicating the extent to which their co-operative fulfills the Practice (also on a scale of 1–5). In interpreting the table below, it is important to remember that, as indicated in table 2, there are different numbers of practices and indicators for each section of the scorecard.

Table 6: How co-ops have prioritized and scored Practices in different sections of the Scorecard

Section of the Scorecard	Score Options					# of Practices evaluated*
	(low) 1	2	3	4	(high) 5	
1 Co-op Principles						
Priority (percent)	4.9	7.7	13.4	14.1	59.9	142
Score (percent)	8.4	9.5	12.6	13.7	55.8	95
2 Economic Measures						
Priority (percent)	0	4.9	12.2	17.1	65.9	41
Score (percent)	11.8	5.9	11.8	14.7	55.9	34
3 Social Measures						
Priority (percent)	1.5	0	22.1	8.8	67.6	68
Score (percent)	15.4	11.5	11.5	15.4	46.2	26
4 Environmental						
Priority (percent)	6.7	20.0	31.1	13.3	28.9	45
Score (percent)	57.1	3.6	10.7	21.4	7.1	28
Global						
Priority (percent)	3.7	7.4	17.9	13.2	57.8	296
Score (percent)	17.5	8.2	12.0	15.3	47.0	183

\* As indicated above, it is practices that are scored and prioritized, so one might expect the numbers to be the same. However, it is also possible to set priorities for practices and then decide not to score them.

If we first look at the priority (percent) for each measure, and at the final column of the table, we observe that, at the global level, 57.8 percent of the 296 evaluated items received the highest priority rating of 5.

This result is not surprising if we consider that the Scorecard was built with a participatory approach. Since the practices included in the Scorecard were important to the participating co-ops when they helped design the Scorecard, they are likely to give them a high priority as they complete their self-assessments.

The results for the prioritization of practices also allow us to explore the relative importance of the four themes covered by the Scorecard. Thus far, of all the items evaluated, those related to the Social Measures and the Economic Measures received the highest priority rankings: 67.6 percent of the practices related to Social Measures and 65.9 percent of practices associated with Economic Measures. The corresponding figures for Co-op Principles and Environmental Measures are 59.9 percent and 28.9 percent, respectively.

As reported in the rows marked Score (percent), the assessments indicate that the four participating co-operatives have a generally positive perception of their work: 62.3 percent (15.3 + 47.0) of the scores are equal to or higher than 4 (with a top rating of 5). All of these Practices would therefore be noted in the “Main Areas to Celebrate” category of the Scorecard summary. As already mentioned, the indicators for many of the practices offer benchmarks, and we can analyse how well the co-operative is doing relative to those benchmarks. For example, of the indicators that were evaluated in the Economic Measures section of the Scorecard, 85.2 percent of those for which benchmarks were supplied were given scores at or better than the benchmarks.

A comparison of results by section shows that the scores for the Environmental Measures are lower than for others. This means that these indicators are more difficult to fulfill and/or were perhaps not as high a priority. If we concentrate on the last two options (4 and 5) of the “Score” columns for each section, we see that for Co-operative Principles, a total of 69.5 percent of the Practices were given scores of 4 or 5. For the Economic Measures and Social Measures sections, the total is 70.6 and 61.6 percent, respectively. In the case of Environmental Practices, the total is a low 28.5 percent.

This analysis of the results thus far clearly demonstrates how precise the Scorecard can be. Co-operatives that use the Scorecard as a self-assessment and planning tool will find that it clearly identifies main areas



to celebrate, and areas where work has to be done. It is a tool to communicate success and pinpoint areas for improvement.

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## Lessons from Morell Co-op: A Personal Perspective

Siri Jackson-Wood \*  
Morell Consumers Co-operative Store

### Using the Tool

The Morell Consumers Co-operative first became involved with the Sustainability Scorecard in June 2009, following an introductory workshop held at the Co-op Atlantic annual general meeting and an invited presentation by one of the researchers at a board meeting. The development process took the better part of a year, through that process we learned not only about the assessment Tool, but a great deal about each other and how we fit within our Co-op and ultimately within our community.

The final Scorecard is broken down into four sections, each containing questions that, when answered honestly, will give a co-op a starting point to grow from. Within each section, the co-op is asked to determine whether the information being discussed is a high priority to them. Once the priority level is established, the Tool then digs into the meat of the area and helps to uncover, through professional and personal introspection, what individuals as members, management, staff and/or directors can do to set the co-op on the path of continuous improvement. Long before completing the Scorecard, though, we experienced benefits. To cite an example, at the time we started working on the Scorecard, Morell Co-op was experiencing communication issues between management and staff concerning

\* Siri Jackson-Wood was a board member of Morell Co-op when it joined the project in the design stage for the tool; she continues in that position. She is currently on the board of Co-op Atlantic as well. A more complete reflection on Morell's experience, "Tools to Measure Your Co-op's Forward Motion," can be found at <http://www.cooperativedifference.coop/en/hub/Events-Opportunities>.

who was responsible for particular tasks. Working through the governance section of the Scorecard, a discussion arose around the routing of such communication. As a direct result, the manager developed a "Communication Tree" to be posted in the break room, giving all staff an understanding of who to approach when direction is needed, thus eliminating confusion and improving overall efficiency.

The Scorecard is not a tool to be used once and filed away. It is meant to be a continuous process, and the efforts put in will be reflected in the future results seen by the co-op. The initial use will take time. We found that it was best when broken into blocks of two to three hours at a time. Many of the questions led us to discussions, which inevitably taught us more about our co-op and its inner workings.

The first time the Scorecard is completed, the overall assessment designates the baseline. It also provides direction into which areas need more immediate attention. An example of this for us occurred while we were using the portion of the Scorecard concerned with the seven co-op principles. While answering the questions pertaining to strategic planning, it became obvious to us that we had never really had a formal strategic planning session. This led to a discussion about goals and objectives, mission and vision statements, and the importance of having an operational plan, updated regularly, for our manager to follow. It was decided that we would hire a facilitator immediately following our annual general meeting to help us develop a formal strategic plan. This end result was again directly related to our use of the Sustainability Scorecard.

We learned a great deal in the development phase of the project and, as we work to complete the second phase of using the Scorecard, the learning continues.

### Overview: Lasting Impacts and Troubleshooting

We experienced a re-occurring misconception that the Scorecard was a test, which posed some problems for us as it led to feelings of being judged or tested. Initially, this led us to give what we thought were the desirable answers, instead of the truth, which would consequently



set us up with an inaccurate baseline. I found it helpful to continually remind participants that this was an assessment and that it was OUR assessment.

Other challenges were of a more basic nature, like finding people willing and able to dedicate their time. We found that when members, staff, management, and directors were reminded that it is “their” store and that they are the owners, the desire to see and be a part of improvements came through. Sharing a meal, in our case, was also helpful; it lessened the feeling of doing “work,” improved camaraderie, and made our meetings more of a group effort to help our store and benefit the community.

Another issue for our group was finding reliable Internet connections at our chosen venues. We bypassed this by assigning one person to take notes on a hard copy of the Scorecard. The answers could then be entered into a computer at a later date.

One of our finest achievements, in my opinion, was how we learned to work together as a board. Previous to using the Sustainability Scorecard, I would have described us as a quiet board, basically putting in our time as directors but not using that time to create change. Today, we face challenges together concerning our co-op, look forward to on-going developing of our strategic plan, and anticipate the up-coming board meetings where we can hear what each director has to offer and build on those offerings. Our current president did a fantastic job facilitating the Scorecard with our board and credits that to having been a participant in the initial Scorecard development team.

Through its work with the Scorecard, Morell Consumer’s Co-operative has realized benefits specific to its membership as well as to the organization. Completion of the Scorecard is not limited to the employees and directors, and participants from the community as member/owners are encouraged to become involved. In our experience, this aspect brought our membership into the actual ownership realm of our store. Results have become a consistent agenda item for the annual general meeting, sparking discussions and new ideas about future improvements. Within the store, lines of communication between staff and management have opened up and are becoming more fre-

quent and fluid. Transparency is now noted and recognized as such. Directors have a better understanding of their role and with that came the awareness of a proper governance structure. Completing the Scorecard does take strong commitment, but so does any worthy undertaking capable of effecting change.

One additional and welcome impact has been that the Prince Edward Island Co-operative Council has offered to make itself available to provide further information or to answer questions concerning the Sustainability Scorecard. The Council brings all types of co-operatives together as a co-operative movement, and its mandate includes co-operative development, governance, and raising public awareness.

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### Summary and Conclusion

This chapter has presented a particular tool, the Sustainability and Planning Scorecard, and some preliminary results from four co-operatives that have used the tool. The Scorecard provides valuable organizational-level data that, when aggregated, can also inform regional level analyses. Grocery businesses are doing CSR reports, making claims about social responsibility; co-operatives may be seen to be losing ground if they do not also produce reports. Besides, if they are true to their nature as co-operatives, they should be able to make a strong case for themselves. Consumer preferences are changing, and reporting is one way to respond to these changes.

We noted that use of such tools is affected by context, and described the changing environment for food retailers in the region. A number of food co-operatives have closed, while others are vulnerable. Even those doing well are not taking success for granted. While they may be aware of the value of rigorous self-assessments and reporting, it is difficult for the co-operatives to take on new projects, such as the Scorecard Project, which may seem time consuming and remote from daily pressures. Further, as with other small and medium-sized enterprises, Atlantic co-operatives face challenges such as lack of time, money, and limited human resources (Hohnen and Potts 2007).

These and other challenges mean that, despite their recognition that the tool was developed through a participatory approach, it has not been easy to entice large numbers of co-operatives to the implementation phase. Those co-operatives that have participated have given leadership and extraordinary commitment to the development and use of the Scorecard. Their work is crucial for demonstrating the value of the tool, generating findings that contribute to our knowledge of retail co-operatives in the region, and encouraging others to get involved.

Our partnership is based in the premise that to be sustainable, co-operatives must draw on the strengths of their identity as co-operatives in ways that build capacity for meeting the needs and priorities of member-owners, strengthen relationships with their shoppers, and deepen their relationships with the community at large. In the task of re-invigorating their businesses and their sense of mission, taking the idea of co-operative identity seriously is one place to start. A successful co-operative has a clear sense of what it is and what it can offer its members and their communities, and it expresses these in terms that resonate in the environment it inhabits — the relationships it cultivates. The preliminary research finding, that Scorecard users prioritize both social and economic themes, is encouraging.

If the co-operatives successfully make this Scorecard project a regional effort, they may find themselves closer to reinvigorating not only their individual organizations, but the co-operative movement itself. Themes of diversity, inclusion/exclusion, identity, and social and environmental justice, are basic to public debate and to the development and sustainability of organizations in today's world. Co-operatives can be leaders in these areas, as were the Rochdale pioneers with their refusal to let differences of religion, sex, or political affiliation hamstring the efforts to provide healthy food at affordable prices to its members.

Some co-operatives address challenges by becoming defensive, developing a strong preoccupation with business development at the expense of other priorities. Others choose to address challenges by focusing on the particular alternatives that the “co-operative way” offers, and by working with like-minded constituencies that support co-operative solutions to economic and social problems.<sup>17</sup> Possible natural constituencies in the Atlantic region include those concerned about local

and sustainable food systems, food security, the environment, and the civic agriculture movement.

The Scorecard, together with its supporting surveys, contributes to a process by which co-operatives draw upon co-operative principles and values as they determine their way forward. The Scorecard can help Atlantic retail food co-operatives as they strive to be very clear about their mission, their identity as co-operatives and their place in the social and economic fabric of the communities they serve. It is a tool that tailors self-assessment measures, benchmarks and performance criteria to the specific characteristics of co-operatives, and the priorities of the co-operative using the tool. The process of completing the Scorecard and the data it provides can support the innovative leadership and governance practices that are necessary for individual and system-wide sustainability.

17. Diamantopoulos (2012a, 202) discusses this issue in more depth.

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The developers of the Co-op Index started by identifying the “ideal characteristics” of a worker co-operative — characteristics that would enable the co-operative to meet the needs and aspiration of the members in a way that gives real expression to co-operative values and principles. This goal is articulated in two of the Co-op Index’s stated purposes: to help measure the degree of adherence to co-operative principles and values, and to build and maintain the co-operative identity as a core strategy within the co-operative.

In addition to being a response to co-operative values and principles, the Co-op Index was developed within the framework of Total Participation Management (TPM) developed by Ryszard Stocki (Stocki et al. 2010). The theory of TPM assumes persons grow and develop by participation in shared action, organizations, and communities that meet their needs and aspirations. It assumes that personal growth and development are fundamentally shared goals for persons, and thus for a co-operative’s members and employees. For these shared goals to occur, TPM assumes (a) people actively participate in making sense of their environments, and this sense-making then guides their choices regarding their actions and involvement in that environment; (b) that people must be in positions in which they have the capacity (knowledge, ability, commitment) to take responsibility for actions of importance to the co-operative’s activities and results; and (c) that they share a vision of the common good toward which they are striving that also has an important component of individual and organizational success (Stocki 2008).

In summary, in articulating the “ideal characteristics” of a worker co-operative, the tool focuses on:

- the members’ sense of co-operative identity
- the formal co-operative principles that underpin the international co-operative consensus regarding the key co-operative governance and organizational features, such as one member, one vote and member economic participation
- the co-operative values of self-help, self-responsibility, democracy, equality, equity, and solidarity
- the ethical values of honesty, openness, social responsibility, and caring for others
- the key organizational dimensions that enable the worker

## “WALKING THE TALK”: PUTTING CO-OPERATIVE PRINCIPLES AND VALUES INTO PRACTICE WITH THE HELP OF THE CO-OP INDEX

PETER HOUGH<sup>1</sup>

### Introduction

THE GOAL OF THIS CHAPTER is to briefly outline the Co-op Index (Co-op Index 2014), a diagnostic tool that has been developed for use by worker co-operatives. To illustrate the nature and, hopefully, the value, of the tool within the context of this section on “Putting Co-operative Principles into Practice,” this chapter provides one illustrative example that highlights the approach of the Co-op Index to help a worker co-operative assess whether or not their co-operative embodies the Co-operative Principles and Values (International Co-operative Alliance 2014) in its day-to-day operations. The chapter includes an extended reflection on the experience of using the tool by a member of EnerGreen Builders Co-operative, one of the early adopters of the Co-op Index. This is presented as a case study at the end of the chapter.

### Co-op Index Context and Assumptions

The challenge of “walking the talk” provides the context for the use of the Co-op Index, and also informs its goals, approach, and outcomes.

1. Former financial officer, Canadian Worker Co-op Federation, and principal consultant and owner, Affinity Consulting

co-operative's members to have the knowledge, capacity and opportunities for true efficacy within their workplace

### Worker Co-operatives — Participatory Organizations

A worker co-operative is a democratically governed and owned enterprise, and potentially has all the components for producing a participatory organization, as outlined by TPM, that embodies co-operative values and principles. The members, through their collective ownership and control expressed in the co-operative's democratic governance, have the right, opportunity, and responsibility to determine the goals and the means used by the organization to achieve them. In other words, the members determine the outcomes and values that guide the organization, the practical approaches for conducting the enterprise, and the systems put in place for involvement in the collective decision making.

However, worker co-operatives, like other entities within the marketplace, make choices and decisions only within conditions that impinge upon the co-operative, setting the context within which it operates. These conditions include external ones such as environmental, social, and economic competition, and internal ones such as organizational capacities, including capitalization. The worker co-operative's choices and decisions necessarily occur in "dialogue" with these conditions. I use the term dialogue to indicate that the choices are made based on the perception, reflection, and understanding of these conditions, and the creative responses to them that are engendered by the processes of interaction among the members of the co-operative. These processes have at their core dialogues between members that take place in various forums within the organization. Because of the importance of worker-members in this process of dialogue, one could perhaps say the key internal condition for the co-operative is the capacity, self-understanding, knowledge, and commitment of the co-operative's members and employees that they bring to these dialogues. This, in many ways, is the definitive condition, for it is the members who must assess and decide the ways forward for the co-operative, who determine how the co-operative will respond to and navigate the challenges presented by the total context in which the enterprise operates.

Although a worker co-operative may embrace the vision of the

"ideal co-operative" as articulated by the Co-op Index, the worker co-operative must strive to embody this ideal in often challenging and ever-changing circumstances. In seeking to make decisions that will develop the co-operative as a real expression of the co-operative identity, the co-operative faces various options that compete for attention. These options are of necessity part of a whole complex of choices and outcomes resulting from previous decisions, as well as the co-operative's non-controllable external conditions. The crucial question for the Coop Index is: can it provide a useful assessment for the co-operative to assist it in making its way forward?

### "Walking the Talk"

In focusing on the challenges co-operatives have in ensuring that they "walk the talk" in embodying the co-operative values and principles within the day-to-day life of the organization, I posit two key issues for consideration. The first is the abstract nature of the values and some of the principles, which provide a frame or ethical guide for behaviour, but don't tell us what is the specific behaviour required in any particular circumstance to fulfill the value or principle. The second is the democratic nature of co-operative governance, in which members co-determine the vision, aspirations, and directions used to guide management, others, and themselves when in positions of responsibility. This means that there are two essential challenges for the worker co-operative: to creatively determine what goals and means will give practical expression to the particular value or principle, and to create a form of organization that ensures the members have the capacity and scope required to creatively contribute to this determination.

### Values and Content — An Illustrative Example

To highlight the issue of value or principle in the life of a co-operative organization, I will focus on just one value — equity — and one principle — democratic member control. I discuss equity in the context of determining wages within a worker co-operative, and the democracy principle as it relates to the type and level of participatory management. The value of equity, clearly embraced by co-operators, is expected to be

used in determining what people are paid within a worker co-operative. Although it is easy to say we all want a fair income policy, it is not necessarily easy to determine just what a fair policy is. People of good will and even shared values do not always agree on what they imply or require.

The way a person evaluates and frames a value depends on a broad array of elements and conditions — character, personality, family norms, personal needs such as for recognition, education, social location, peer groups, beliefs, political orientation, religion, capacity for abstract thought and reflection, etc. Needless to say, these are a complex and at times personally vexing set of conditions, of which any given person is often only moderately self-aware. What's more, our knowledge and understanding of these influences upon our interaction with one another is also moderate. Yet these influences are the frames for the members' discussion in determining the decisions made by the co-operative. Nonetheless, people within the worker co-operative must and do act as agents making choices and developing collective norms of behaviour as they interact with one another. Given the opportunity, they listen, critique, innovate, and create together as they assess the issue before them that needs a decision and an operational implementation.

Determining wages provides one concrete example of such an action, and a necessary one, that the co-operative must make as an economic enterprise. A worker co-operative makes this determination through its governance and management processes — the processes it has developed in response to the principle of “democratic member control.” These internal processes may or may not be structured to ensure adequate means for “real” member participation.

A brief reflection on a few of the members of the Canadian Worker Co-operative Federation demonstrates diverse wage policies within worker co-operatives. Worker co-operatives' wage rates are sometimes simply based on job-based market rates; others see all hours contributed by any member as of equal economic value, and hence have a single pay rate; still others will ignore the market and set rates simply based on what the co-operative can afford; and yet others have a job-based rate with a set maximum differential between the highest and the lowest pay. The examples can go on.<sup>2</sup> In all these cases, the members have the ulti-

mate authority for approving their co-operative wage policy, whether directly at a members' meeting or through their election of directors. It is fair to say that all these co-operatives (if not all their individual members) believe that through their democratic processes they have implemented a fair policy, and thus are manifesting the co-operative value of “equity.” Not unexpectedly, different worker co-operatives come to very different conclusions as to what is an equitable wage structure, and although this may not reflect all of a worker co-op's individual members' notions, it does reflect their working agreement as to how the value of equity will be manifested in the wage policy of the worker co-operative. So what roles can the Co-op Index play in helping them to assess whether or not this determination is truly reflective of this value?

### Role of the Co-op Index

The Co-op Index (Hough and Novkovic 2012; Novkovic et al. 2012; Stocki et al. 2012) has as its core a questionnaire that allows the members and employees to express their perception of various states of affairs and processes within the co-operative by rating their level of agreement or disagreement with specific statements regarding their co-operative. The rating scale for each statement is: Strongly Disagree, Disagree, Somewhat Disagree, Neutral, Somewhat Agree, Agree, and Strongly Agree. As well, the answer options include the null answers: I Don't Know, Not Relevant, and I Don't Understand. The statements act as indicators regarding the situation in the co-operative. Each question is correlated with one or more organizational dimension as well as a co-operative value or principle. The responses to the different questions are correlated with each dimension, value, or principle to provide a score/indicator of the members' and employees' perception of the co-operative's life regarding a particular dimension, value, or principle. The null answers can be particularly important in providing indicators of the lack of members' and employees' knowledge about critical situations or issues within the co-operative.

2. These examples are all taken from the author's personal knowledge gained through working with Canadian Worker Co-operatives associated with the Canadian Worker Co-operative Federation.

A key assumption underlying this approach is that the condition of the organization is reflected in the convictions and attitudes of the workers, and these may be diagnosed by questionnaires. The assumption is based on one of the three elements of TPM identified above; that is, people actively participate in making sense of their environments, and this sense-making then guides their choices regarding their actions and involvement in that environment. These choices and actions are a “reality” of the co-operative, as its processes and outcomes are an aggregate of its members’ and employees’ actions as they interact within the formal organizational and external context of the co-operative. Thus, the Co-op Index attempts to provide an assessment of the current state of the organization. This assessment becomes the common understanding and starting point to determine which areas of the co-operative’s life require interventions if the co-operative is to move closer to meeting the “ideal characteristics” of a worker co-operative.

The Co-op Index provides a broad overview of the life of a co-operative by inquiring into organizational dimensions and co-operative values and principles. The thirty organizational dimensions of the Co-op Index are organized into four broad areas:

1. The Organizational Systems include Communication Systems, Transparency, Feedback Systems, Development of co-operative members, Remuneration, Innovations, Personnel Policies, Processes, and Strategies.
2. The Organizational Climate, which indicates the general tone and mood among members and employees within the co-op. This includes the following dimensions: Mutual Respect, Leader Competence, Trust in Leadership, Trust in Co-workers, Participatory Management Style, Relations with Co-workers, and Fun.
3. The Personal Attitudes and Actions include Participatory Knowledge, Ownership, Process Improvement, and Responsibility.
4. The Outcomes — Individual, Organizational, and Social include Identification, Satisfaction, Self-realization; Independence, Viability, Products and Services; Co-operation with other Co-operatives, Care for Community, the Environment, and External Relations.

The Co-op Index has enhanced the ICA Co-op Principles by adding Concern for the Environment, Labour Control, Participatory Management, Payment Solidarity, and Social Transformation. The last four in this list are adapted from the Mondragon Co-operative,<sup>3</sup> while the Concern for the Environment is an extension of the ICA Principle, Concern for Community. These additional principles were added because the Co-op Index developers felt they represent key aspects in the life of worker co-operatives.

### Equity and Wages

By assessing organizational dimensions, values, and principles, the Co-op Index indicates whether or not the conditions necessary for member and employee participation (as identified in the characteristics of the ideal worker co-operative) are in place, and whether the compensation system of the co-operative is perceived to be equitable by the members and employees. This assessment provides commentary on the equity of the wage policy; first by determining whether the process used to arrive at the policy reflects the kind of participation one expects within a worker co-operative; and second by assessing the compensation itself as determined by the members and employees.

In order to make this assessment using the indicators from the Co-op Index analysis, a number of values, principles, and dimensions need to be reviewed. These include the co-operative values of Equity and Democracy; the co-operative principles of Democratic Member Control, Member Economic Participation, Labour Control, and Payment Solidarity; and the organizational dimensions of Transparency, Remuneration, Participatory Knowledge, and Viability. Although not all the questions in each of these aspects would be relevant, some of the questions would speak to both the members’ perception of fairness of the wage distribution and the processes and understanding upon which the policy decision was based.

Here are just a few examples of the “statement indicators” included

3. For more information on the Mondragon Corporation, see <http://www.mondragon-corporation.com/eng/>.



in one or more of these aspects that are relevant in assessing whether the wages within the co-operative can be seen as meeting the value of Equity:

- My compensation is adequate, taking into account my competencies and duties.
- Compensation is fairly calculated in the co-operative.
- Members and employees have an influence on the compensation system.
- Our co-operative ensures that hours available for work are shared fairly.
- Our co-operative cares about keeping wage differences between managers, members, and employees small.
- Co-operative members have the final say on key decisions.
- I understand the financial statements well enough to recognize their implications for the future of the co-operative.
- The training I have received gives me the confidence to fully participate in the co-operative.
- Members of the co-operative understand the requirement to make the business successful.
- Our co-operative is earning enough to cover its operations and members' needs.

Some of these indicators speak specifically to equity and remuneration, while others address the level of understanding and participation that the members experience, which affects the co-operative's dialogue when making a decision regarding its wage policy. Combined, these statement indicators provide a strong indication of the members' sense of the equity of the wage policy and the contextual understanding and co-operative processes by which it was developed.

### Conclusion — A Contribution to the Members' Co-operative Dialogue

The Co-op Index is not a magic wand. It doesn't provide simple, quantified information to which the application of basic logic will supply an obvious solution. It does not absolve members or put distance between the membership and their need and responsibility to make difficult

choices about how to express the principles and values within their co-operative. The example regarding equity and wages, however, shows that the Co-op Index can provide important information for ongoing dialogue within the co-operative regarding wages and the democratic process by which they are set. It does this by helping members know where they stand (i.e., how members and employees perceive the co-operative's current efforts), and whether or not they have put in place the approaches needed to ensure that the members and employees of the co-operative have the opportunity and capacity to understand, influence, and direct this policy choice.

Embodying the "ideal characteristics" of a worker co-operative is an ongoing process that requires a good understanding of the principles and values and the creativity to operationalize them in the specific context of the particular organization. The Co-op Index provides a useful tool to assist a co-operative in assessing its many dimensions of co-operative life, so that detailed interventions can be made to move toward its members' vision of how to best embody those ideal characteristics.



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## Case Study

### USING THE CO-OP INDEX — ENERGREEN BUILDERS CO-OPERATIVE'S EXPERIENCE

ERIC TUSZ-KING<sup>4</sup>

## Introduction

AFTER THREE YEARS of being in business, members of EnerGreen Builders Co-operative knew what to look for with respect to financial reports and administrative procedures to judge how the business was going. They also knew that there were accountants and management consultants who could help. However, when it came to assessing themselves as a worker co-operative against co-op principles and values, measuring equitable wage rates, and how to improve their collaboration, there were no tools and few professionals to assist. In 2009, EnerGreen engaged Peter Hough of the Canadian Worker Co-operative Federation using the Co-op Index (at the time called Diagnostic Tool) to help them "to come closer to the ideal worker co-operative."

The references contained in this article are cited from the report "EnerGreen Builders' Co-op, Diagnostic Tool Report" written in March 2010 by Peter Hough. The full report is confidential and the property of EnerGreen Builders Co-operative.

4. Eric Tusz-King is an owner-member of EnerGreen Builders Co-op in Sackville, New Brunswick.

## Buy In

Peter Hough, staff for the Canadian Worker Co-operative Federation (CWCF), approached EnerGreen because EnerGreen's manager had participated in the initial development of the Co-op Index, and Peter hoped the manager could help promote it with EnerGreen's members to win their participation. Peter was right, but, as with most autonomous co-operatives, just because the national federation thought it would be good did not guarantee that EnerGreen's members would accept it.

The manager recommended EnerGreen's participation to the board, which included all eight members of the co-op. The board had three concerns:

1. What would be the value of this exercise to EnerGreen?
2. How could those members who did not have a computer or feel comfortable responding by computer participate? and
3. What was it going to cost EnerGreen?

Using some illustrations of what types of issues the exercise would address, such as communication, and including all members in governance decision making, the members agreed that it would be of some value. When the logistics were arranged for some members to use printed surveys, and the CWCF agreed to subsidize part of the cost, the Board agreed and there was good participation from then on.

## Participation

Surveys were sent to all members and they responded either by email or by post. The manager also sent Peter financial information for the past three years, their revised bylaws, initial drafts of job descriptions, and any policies that EnerGreen had created since it began in 2006. Peter then interviewed the manager and a cross-section of members, some in leadership on the Board, and some not.

Unfortunately, at this stage in the Co-op Index's development as a tool, it was not available on-line. This meant that the responses had to be manually tabulated. Some members were tardy in responding, and with Peter's busy schedule, the final twenty-page report took a pro-

tracted time to prepare before it was presented back to EnerGreen. This delay was frustrating for some members who wanted to see the results. However, as noted below, the very act of asking the questions and the ensuing discussion about the questions within EnerGreen's membership had a value even before the report was presented.

## Report and Recommendations

The final report assessed EnerGreen's responses and the supporting documents using two indices.

The first index was the Organizational Maturity Index (OMI), which places the worker co-op on a maturity continuum. This measures the extent to which the co-op embodies the key features of successful worker co-ops. Hough reported:

The OMI for EnerGreen Builders' Co-op as a whole was 76.1 percent. Considering the age of the organization, it is impressive that the co-operative has put into place effective practices in so many areas of the co-op. It should also be noted that the OMI as perceived by various groups within the co-operative has a very limited range of about five points. This indicates that there is little difference in the co-op's maturity depending upon one's *position* or *tenure* with the co-op. This again is a strong result as it indicates a consistency of approaches and treatment to all members and employees in the co-operative.

The second index was the Organizational Trust Index (OTI), which provides a general assessment of the level of organizational trust within the co-op — i.e., how secure the members and employees feel within the co-op.

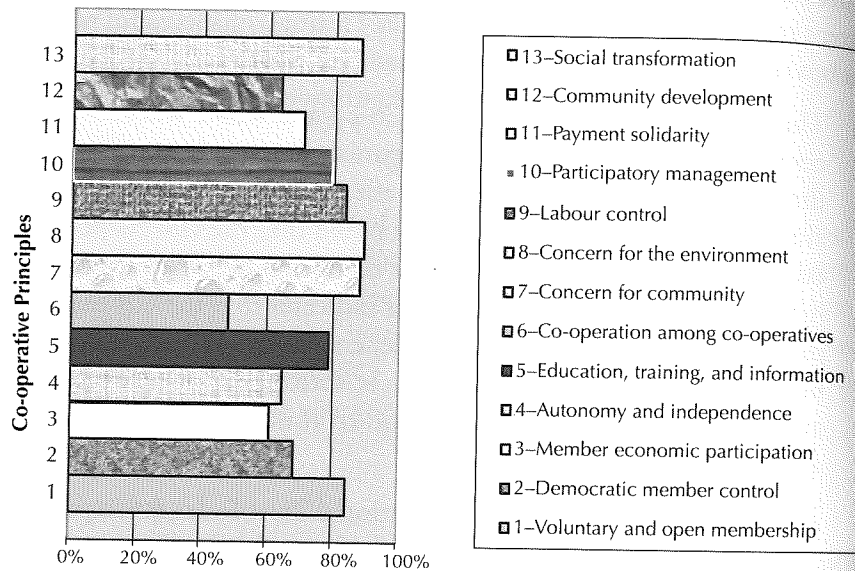
Overall the OTI for EnerGreen Builders' Co-op was 96.15 percent. This indicates a very healthy and secure environment in which members and employees feel comfortable letting others know their thoughts, feelings and positions on issues.

Hough's report also included an index of how each Co-op Principle and Value is perceived to be embodied in the life of the co-op. Lastly, the report also included an assessment of thirty different dimensions of

the co-op's life, including key information on how the dimensions are perceived by different groups within the co-op.

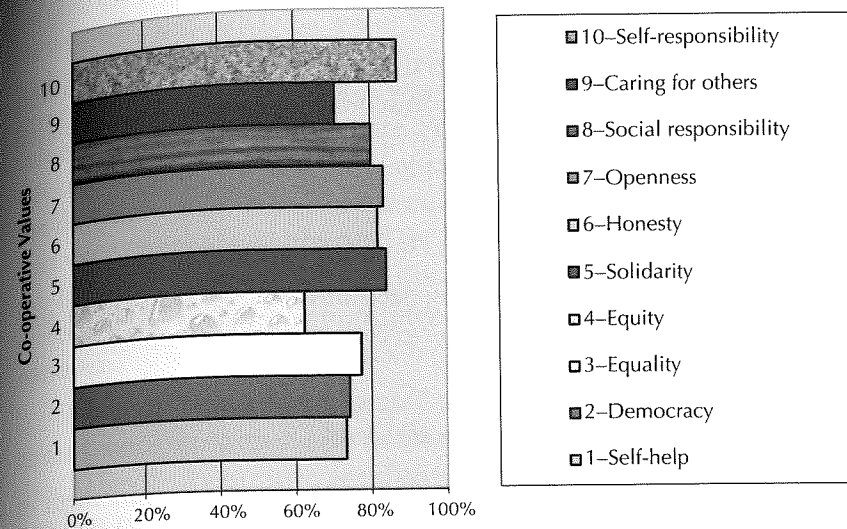
The assessment of the co-op's embodiment of the Co-op Principles was calculated in the same fashion as the OMI and OTI. In addition to the seven International Co-operative Alliance principles, six additional principles were calculated based upon principles developed for worker co-ops within the Mondragon Co-operative System in Spain.

The results of the Co-operative Principle Index are depicted on the following graph:



Note: Bars were originally in colour; they correspond top to bottom with the list on the right.

The results of the Values Index (facing page) were also depicted on a graph. The scores on the Co-op Index were very good and indicate that the co-op is experienced and strongly value driven.



Note: Bars were originally in colour; they correspond top to bottom with the list on the right.

The report had four general categories with nineteen recommendations in total. For the sake of both confidentiality and brevity, after each area, only one or two recommendations are provided to illustrate the type of issues identified:

### Organizational Systems

**Recommendation** — In chairing meetings the chair should be looking for commonalities in the positions of the members and proposing solutions that try to integrate various viewpoints, while members should recognize that their own viewpoint should contribute to a solution that encompasses other members concerns as well.

**Recommendation** — An annual strategic planning session should take place with a rolling three-to-five-year vision and goals and that the process clearly outlines the key goals and success factors that must be addressed.

*Organizational Climate*

**Recommendation** — At least several times a year, have a social event to celebrate the success of the co-op independent from any work-related meeting or activity.

*Personal Attitudes and Actions*

**Recommendation** — When making decisions at the board level, be sure to highlight the business and or co-op context for the decision.

*Outcomes: Individual, Organizational, Social*

**Recommendation** — Investigate options for providing some form of retirement provision to members. Although this will have only modest benefit to the older members, it will provide a significant benefit to the younger members and help to attract longer-term commitment from the members.

**Recommendation** — Ensure through training that all members and potential members understand the business model that is the basis of the co-op's viability.

This sampling of recommendations needs to be seen within the development cycle of EnerGreen. EnerGreen was three years old when the Co-op Index tool was used, and most members had little experience with co-operatives. The manager and the incoming president had experience with leadership in non-profits, labour organizations, and co-operatives, but some members had no experience being a member of a formal democratic organization. All the members had been working hard to make the business successful and few had taken the time to attend to the long-term sustainability of EnerGreen, or group insurance and pensions for its members.

**Immediate Benefit**

As noted above, there was a lengthy period between when the surveys were completed and when the report was presented to the board. During this interval, there was considerable talk about the questions of the

survey, why the questions asked were important, and how each other had responded. As a result of these conversations, the board initiated several things before the report was received to address the themes and values that undergird the exercise. Some of those areas were: a better articulation of the responsibilities of manager, chair, and site-supervisors; the development of better communication procedures so that all members were aware of and prepared for board meetings; and strengthening the long-term sustainability of the co-op through attracting younger members and getting commitments from older members to retain membership for five more years.

When the report was presented to the board, members were pleased to see several recommendations that matched some of their own initiatives. They had discerned for themselves some of the things the independent review had identified.

The review was much more holistic than the members could have achieved by themselves, and identified issues, opportunities, and resources that had been learned from other worker co-ops that have travelled this road before. Some examples of those recommendations were:

- Have clear performance criteria for all roles within the co-op, including governance — i.e., board of directors and members and for the operation, management, site-supervisors, workers.
- Ensure through training that all members and potential members understand the business model that is the basis of the co-op's viability.
- As part of the strategic planning process, set clear annual goals and budgets for the co-op's contribution to its community.

**Long-Term Impact**

In 2015 EnerGreen is moving into its ninth year. Two of the original members have left and the manager will be leaving this year. Five new members have joined and stayed and two members have come and gone since EnerGreen started in 2006. When the co-op used the Co-op Index tool, EnerGreen was still in its development phase, and the Co-op Index helped raise important questions for EnerGreen to consider. Some of the recommendations were easily followed up and implemented, and the co-op has benefited from its participation in using it.



However, some new members may have read the report but have never discussed it. Some of the newest members probably have never heard of the Co-op Index diagnosis. Also, there are several recommendations that were never pursued, not because of any disagreement, but merely because other concerns or events took the attention of EnerGreen, and the Co-op Index recommendations moved lower on the priority list.

In 2015, EnerGreen is in a different context than in 2009, when it initially used the Co-op Index. EnerGreen is now a more mature co-op with different needs, it has confidence in its ability to address tough situations, and there is a change in leadership. In 2015, there will be a new manager, and more of the founding members will be looking to retire. It may be beneficial for the co-op to undergo the diagnosis again.

### Advice for Other Worker Co-operatives

There is no firm set of conditions that would determine the co-operative's readiness for using the Co-op Index on one or more occasions. Co-operatives are complex, dynamic organizations. EnerGreen Builders Co-operative's experience with the Co-op Index at an early stage in co-operative development reveals it to be a valuable tool. The Co-op Index provided EnerGreen with a new set of goals to work toward, and recommended policies and practices to help achieve them. At that time, it was still early in its life, so organizational patterns and culture were still in formation, and recommendations and changes could still be relatively easily undertaken. An outside assessor provided objectivity and new energy for the exercise.

The hope in using the Co-op Index is for a co-operative to have continued improvement. It is advisable, therefore, to repeat the use of the Co-op Index as circumstances change.

## Chapter 10

### SELF-HELP AND SOCIAL RESPONSIBILITY: CREATING MEASUREMENTS FOR NON-FINANCIAL PERFORMANCE

JOHN A. MCNAMARA<sup>1</sup>

*"I came for the job; I stayed for the democracy."*

— Anonymous Union Cab member

**W**ORKER CO-OPERATIVES provide two vital functions within their workplace: the prospect of decent wages and humane working conditions. By combining capital and labour, workers have the ability to divert the value added by their labour to either wages and benefits or humane working conditions and social advancement (including the development of individuals). In addition, since each worker has an equal voice within the co-operative paradigm, workers also enjoy the benefit of being heard and being able to influence the policy and strategy of the organization. This creates a social cohesion that can offer a secondary value for members that may be as important as wages and benefits.

Creating a means to measure the co-operative difference of a worker co-operative can be challenging. While co-operatives in other sectors may see the measurement of their social benefits to their members as a marketing tool, for worker co-operatives, it is an expense without an immediate return (since they live the benefits through the quality of work life). The hiring of consultants can be a challenge for budgets designed to create safe and humane workplaces with good pay and bene-

1. Northwest Cooperative Development Center and Saint Mary's University



fits. This case study considers one means of bringing such work in-house and incorporating it with the duties of existing staff. This process may be replicable in other worker co-operatives (depending on staffing levels). It uses the concept of social auditing to create a “do-it-yourself” auditing process that helps worker co-operatives measure their ability to incorporate their mission and their co-operative identity into their workplace and policies. The case study presents a useful process for directors, managers, and members in terms of understanding the complicated definition of “success” in an organization with multiple “bottom-lines” beyond the simple income statement. The study developed from the practical experience of the author, who served on Union Cab of Madison’s Strategic Planning Committee for over ten years and helped design and implement social audits in addition to serving as the general manager and business manager.

### The Social Audit

Social auditing has been around for decades, corresponding to the rise of public demands for corporate social responsibility (Bauer and Fenn 1972). The Canadian government formally endorses social auditing as a means of sharing “information with stakeholders to gain their trust and be viewed as credible” (Industry Canada 2014). In the United States, however, the government is silent on social auditing, leaving it up to the separate leadership of corporations (Buhr and Freedman 2001). In the US, “social audits” operate under a more narrow concept of Corporate Social Responsibility (CSR) and can be highly dependent on the specific leadership within an organization based on their stockholders’ needs and wishes (Heard and Bolce 1981; Orlitzky 2013).

For co-operatives, social audits play a key role in identifying the “co-operative advantage” by making such distinctions visible in the marketplace (Spear 2000). By engaging an accounting of the social goals of a co-operative, leaders of these organizations can engage continuous improvement strategies to meet the social mission of the organization. While accounting for financial goals seems straightforward, given the quantitative nature of the subject matter, creating a means of measuring concepts found in the co-operative identity such as “solidarity” and “caring for others” may present some challenges. Part of the value of engag-

ing a social audit arises out of the construction of tools for measurement. This process helps leaders see the co-operative difference at work in their organizations as they engage quantitative and qualitative means to document the successes and areas in need of improvement for the organization.

### Case Study: Union Cab of Madison Co-operative

Union Cab of Madison (Union) developed its social audit process over several years as part of strategic planning in which the board of directors mandated that the Strategic Planning Committee (SPC) engage the membership in the development of the annual strategic plan (Union Cab 2014a). By developing a social audit organically, the co-operative created a higher level of commitment to its implementation by the members. An organically developed tool also allowed the SPC to alter the questions as different issues found resolution or new issues became relevant to the strategic vision of the co-operative.

Table 1: Union Cab Snapshot

#### Union Cab of Madison Co-operative Snapshot

2013 Revenue and Surplus	\$7,100,000 \$145,000
Number of Members	256 members as of May 2014
Vehicles	40 Toyota Prius, 7 Wheelchair Accessible Dodge Caravans, 35 Toyota Siennas, and 3 Ford 350 Vans
Vision	To serve the community in such a way that we are seen as a sustainable asset and valued resource by all
Mission	To create jobs at a living wage, or greater, in a safe, humane, and democratic environment by providing quality transportation to the greater Madison area
Member Share	\$25 for one share of Voting Class Stock (Madison 2014)
Governance	Flattened hierarchy with system of boards, commissions, and teams

Source: Union Cab of Madison Business Manager, April 2014

Union's base of operations is Madison, WI, the state capital of Wisconsin, with a population of approximately 243,000 (Bureau 2014) and home to the University of Wisconsin–Madison whose College of Agriculture has played a significant role in agriculture research and hosts the UW Center for Cooperatives. Major employers include the State of Wisconsin and Oscar Mayer Foods, Epic Systems, and American Family Insurance. Union provides transportation service to the entire County of Dane (population approximately 500,000), South-Central Wisconsin, and even to O'Hare International Airport in Chicago, IL (about 150 miles to the southeast). Madison has a rich co-operative history and hosts a number of co-operative support institutions such as the Credit Unions of North America and The Co-operative Network.

### *Union Cab of Madison*

Union Cab began operations on 29 October 1979, after close to a decade of bitter labour struggles between the drivers of Checker Cab and its owner. After the owner closed his doors in 1978 rather than negotiate with the union, the workers decided to take matters into their own hands and set about establishing their own cab company. In deference to their struggles and to express solidarity with the larger worker movement, they chose the name Union Cab and organized as a co-operative under Wisconsin State Statutes Chapter 185 (Chamberlin 1989). Unlike many taxicab co-operatives, Union owns the vehicles and equipment, and the drivers are employees of the company instead of independent contractors. In addition, all workers must join the co-operative upon passing probation. This means that, in addition to the drivers, dispatch staff, mechanics, administration staff, and management, all join the co-operative and have an equal voice in the co-operative. This structure can create conflict between the needs and desires of different internal stakeholders in terms of pay, benefits, and working conditions.

In 1995, the same year as the adoption of the Statement on the Co-operative Identity (ICA 1995), Union found a similar need to further define its identity in light of a period of growth and a new generation of leaders who came of age after the initial founding of the company. The membership adopted a set of core values (see table 2). The seventh core value was added in 2004 as part of a discussion regarding the effects of the co-operative's operations on the environment.

Table 2: Union Cab Core Values

Core Value	Key Aspects
The safety and health of our members and the public are of paramount importance.	
We are dedicated to the principles of worker rights and member responsibility.	We accept responsibility for our actions and accept the rules governing the co-operative. We respect everyone's roles as necessary for the co-operative's success, and uphold the rights of workers within our structure.
Open and honest communication and direct involvement are our rights and responsibilities as members.	We must tell the truth and keep informed. Trust is a key for open communication. We shall maintain an environment where it is safe to express ideas and respect other's opinions, even if we don't agree. We accept individual responsibility to find positive resolutions to problems.
Managing growth carefully is fundamental to creating quality in our work life and fostering a strong sense of community.	Growth is not a goal in and of itself. Decisions shall be based on performance as it effects customer service and quality of work-life.
A living wage at a forty-hour work week is a priority.	Job stability with a fiscally and socially responsible wage.
Customer satisfaction is everyone's job and critical to our success.	We take pride in what we do. We will strive to improve. We will reach for the top in the provision of public transportation. We will work to establish and meet or exceed customer expectations.
We are dedicated to operating our business in an environmentally responsible way.	

Source: Union Cab Board Minutes (30-12-1996 and 23-06-2009)

Union Cab has developed a unique management structure (see figure 1, overleaf) based on committees, teams, and councils. Committees, appointed by the board of directors, develop and review policy. Teams, appointed by the steering team, implement policy and develop pro-

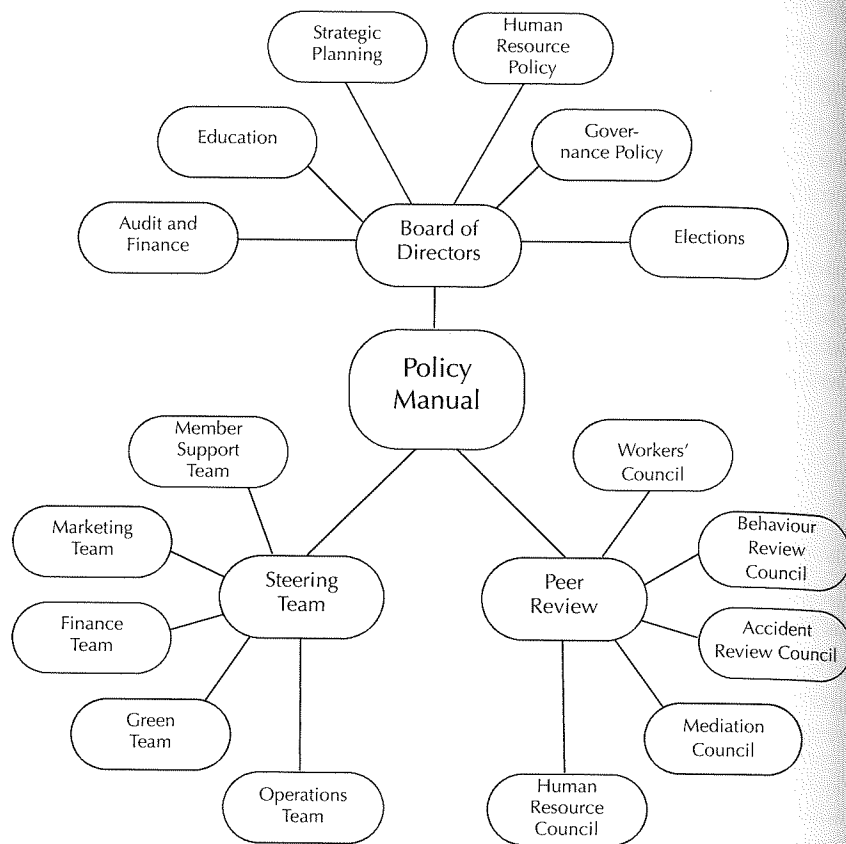


Figure 1: Union Cab Organizational Chart (Source: Union Cab of Madison Co-operative 2014)

cedures and issue directives to staff. Commissions, nominated by the steering team and approved by the board of directors, resolve conflicts among the membership. Managers and supervisors do not issue discipline. The membership elects a nine-member board of directors as well as three alternate directors. The directors set policy, approve the annual budget and strategic plan, hire a business manager, and oversee the steering team. The business manager facilitates the steering team, which coordinates the activities of the teams, managers, and key staff, and manages the operations of the co-operative. Effectively, no one individual has the power of a traditional “boss” in a hierarchical-style manage-

ment system. While the business manager is responsible to the board of directors and coordinates the steering team, the position does not have authority over other members of the team. The “Policy Code” has become the effective “boss” of Union Cab, and changes to it go through a lengthy process of discussion and decision making that give all concerned members a voice.

This structure wasn’t always the case. Prior to 2008, Union Cab operated with a traditional hierarchy, although it maintained a third-party review process for discipline issued by a general manager (Hoffman 2005). The process of measuring the co-operative against non-financial expectations and goals led to this overhaul of management.

### *Social Audit Development*

Developing a social audit of Union Cab began with consideration of a governance document entitled “The Shared Governance Policy.” This includes the values and principles listed in the International Co-operative Alliance’s Statement on the Co-operative Identity as well as Union Cab’s vision statement, mission statement, and core values. This document provides the guiding principles for directors, managers, and members while making decisions that affect the co-operative from policy decisions to customer interactions.

The Social Audit subcommittee created a matrix connecting the different aspects of the key documents (mission, core values, and co-operative identity) as a means of determining the scope of the audit. Table 3 (overleaf) shows the connection between the three documents and provides the emphasis of the audit. This essentially boils down a lot of concepts into five meta-categories that allow for an understandable audit.

Determining the methodology of measurement depended on which aspect was being measured. Quantitative data allowed the sub-committee to examine voting rates and attendance at meetings, but that did not necessarily measure an “open” or “honest” environment. Likewise, qualitative measures catalogued how members perceived issues such as a safe and humane workplace and a living wage, but required some level of quantification to understand how wage policies and disciplinary

Table 3: Social Value Matrix

Mission	Core Values	Co-operative Identity
Living Wage	Living Wage	Member Economic Participation
Safe Environment	Safety & Health; Environmental Responsibility	Social Responsibility; Caring for Others; Concern for Community; Open & Voluntary Membership
Humane Environment	Worker Rights & Member Responsibility; Managing Growth	Self-help; Self-responsibility; Solidarity; Autonomy & Independence; Co-operation among Co-ops; Open and Voluntary Membership
Democratic Environment	Worker Rights; Open and Honest Communication	Democracy; Equality; Equity; Honesty; Openness; Democratic Member Control; Education, Training, and Information
Quality Transportation	Customer Satisfaction	Caring for Others; Social Responsibility

Source: Union Cab Social Audit

actions engaged those perceptions. The result was a mixed methodological process in which members completed scaled surveys with room for commentary and the sub-committee data mined information on wages (compared to the industry standards), worker compensation claims, complaints, retention rates, collision rates, demographic information (compared to the larger community of Madison), and discipline to develop a broad picture of the social environment within the co-operative. In addition to the scaled questions, members were asked a series of open-ended questions that included standard questions such as, "Why did you choose to work at Union Cab?" and "Why do you continue to work at Union Cab?" with other questions that were based on the previous social audit results and on issues that members of the sub-committee heard discussed among the membership. Statistical analysis of the quantitative data and narrative analysis of the qualitative data provided a snapshot of the social state of the co-operative equivalent to the fiscal snapshot provided by the audited financial statements. Like the fiscal audit, the snapshots could be compared from year-to-year to understand trend lines and develop plans for moving forward in accordance with the Shared Governance Policy.

The process was not scientific as much as an attempt to provide in-

formation to the organization related to its social goals. As a result, the validity of the measurements may be questioned from a scientific point of view. This represents one of the drawbacks of a "do-it-yourself" strategy. In developing the survey, the committee considered other tools available such as the Co-op Index, WorldBlu Democratic, and SA8000. By working from existing tools, the survey was able to capture language allowing the committee to measure the organization to the point that leadership could make decisions.

The process generally took the three-person committee approximately fifty hours (including bi-weekly meetings) over twelve weeks. Most of the quantitative data (aside from the survey) came from standard reports that managers maintained as part of their normal duties. The committee provided the role of pulling that data together and placing the results into context with the qualitative data and survey results, drafting the report and making the recommendations. The resulting audits, over a number of years, provided an organic method that has the support of the membership. This helped the board and managers address issues that may have been less meaningful with a more external focus.

### *Results of the Audit*

The process of the social audit fed into a larger strategic planning process, while the social audit provided important information regarding the key stakeholder group for the organization (worker-owners in the case of worker co-operatives). In some cases, this led to major changes within Union Cab's structure, such as the addition of a seventh core value regarding environmental responsibility, a commitment to the transition to alternative-fuel vehicles, and a wholesale change in the manner in which discipline and accountability were conducted, which, in turn, helped lead to a flattened hierarchy.

The 2010 Social Audit was conducted during a year in which the committee enjoyed the presence of a skilled statistician who was working at the co-operative between academic assignments. This allowed a more thorough analysis of the questions and the data. The first step was to narrow the number of survey questions by examining the level of sig-



nificant correlation between scales, and eliminating those questions that effectively asked the same question. By lowering the number of scales, the committee saw an increase in participation to almost 70 percent of the membership. Further, the committee gained the ability to statistically analyze the results and found a set of questions (see table 4) whose variance from the previous year met the threshold of statistical significance ( $p = 0.05$ ). This allowed a greater focus on these specific areas and provided the means for the co-operative to begin a membership-wide discussion.

Table 4: Social Audit Survey Results

Questions	2009	2010	2011
I am proud to be a member of Union Cab	4.602	4.364	4.512
I am encouraged to work ethically	4.508	4.305	4.504
The equipment that I use to do my work is properly maintained	4.500	4.239	4.475
My work makes sense	4.240	4.063	4.225
I feel like an owner	4.376	4.028	4.195
The atmosphere at Union Cab is friendly	4.117	3.979	4.158
Systems appropriately reward collective efforts	3.738	3.511	3.696

Source: Union Cab Social Audits, 2009–2011

The primary result of the 2010 audit provided support for addressing the disciplinary system. While work addressing how to change accountability in the co-operative had already begun, this documentation provided by the audit added strength to those arguing for a more significant overhaul. It lent credence to efforts that ended up recreating an accountability structure organically consisting of a system of commissions to review collisions and behaviour, as well as provide mediation services for members. In removing discipline from the role of managers, the co-operative raised the question of what managers actually manage in a worker co-operative.

While the fundamental change in how the co-operative managed accountability is a major result from using a social audit, the process provides a number of benefits, such as helping communication between

the elected and appointed leaders of the co-operative and a membership that is dispersed by time and space. It meets the principal of education and information for co-operatives by providing an in-depth report to the membership on how their co-operative functions beyond the income statement and balance sheet. This, in turn, helps to create social cohesion and productivity.

### The Pros and Cons of Working Alone

While the concept of a financial audit (and the cost associated with it) has become generally accepted by businesses (and is often a legal requirement of stock corporations), the same cannot be said for social audits. Creating the support to develop and execute measurements of the social goals of an organization can be difficult, and may be a key reason that many co-operatives do not engage in this practice. By using a “do-it-yourself” method as presented in this case study, co-operative leaders who champion measurement of the social goals as equally important as the financial goals can develop the infrastructure for measurement in a manner that is cost-effective. This process, in turn, can educate the membership and leaders on the economic value of measuring and improving social aspects of the organization through greater efficiency and marketing. This builds “managerial competencies and contributes to organizational knowledge” (Orlitzky et al. 2003) which, in turn, promotes the goals of worker co-operation while also presenting a marketing advantage. Social auditing provides a simple way to measure the co-operative and hold it accountable to its mission and identity. In addition, it can become an integral part of strategic planning that includes the voices of the members in the development of the plan (and with it, a greater level of “buy-in” of the adopted plan).

Going alone, without the aid of skilled development consultants, also presents challenges. The social audit requires some level of internal infrastructure among the staff charged with conducting the audit. This includes knowledge of question modelling to ascertain the reliability and validity of the questions posed to the membership. A basic level of statistical analysis can also be helpful to understand the correlation of questions and the level of significance of the responses. Most importantly, the staff will need time to engage in the process, and committed



persons will need to encourage the members to participate in surveys. Larger co-operatives will have an easier time of finding the staff and committee members to create and implement the process. Smaller co-operatives may consider the relative value of conducting an in-house process or seeking a co-operative support organization such as Co-op-Zone in Canada or the Democracy at Work Network in the United States. Further, co-operatives might find that there is little need to re-invent the wheel, as this book presents a number of ready-made tools that might make a do-it-yourself strategy less necessary.

### Conclusion

Co-operatives in general, and worker co-operatives in particular, exist for reasons that go beyond the bottom line. Worker co-operatives exist to provide jobs with decent pay and benefits along with democratic control of the organization and an expression of the values, ethics, and principles of co-operation to create a quality of work that leads their industry. As a result, developing a means of measuring the non-financial goals of worker co-operatives plays a key role in their success and acts as a bulwark against isomorphism within their industry. While a number of tools exist to assist worker co-operatives, especially the Co-op Index, social auditing also offers a means of creating a co-operative-specific tool that encompasses the co-operative identity along with the co-operative's sense of core values and identity. Social auditing may provide an entry point toward building a culture of measurement, and support the organization as it develops its maturity in expression of the co-operative principles that allow it to create a workplace known for its ability to meet the basic demands of workers (good pay) while also helping them develop their humanity.

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## SECTION THREE

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### Community Impact

## UNDERSTANDING AND MEASURING THE BENEFITS AND IMPACTS OF CO-OPERATIVES<sup>1</sup>

JESSICA GORDON NEMBHARD<sup>2</sup>

CO-OPERATIVES HAVE BEEN FOUND to provide many benefits to communities, and to have a significant positive impact on the economy. Co-operative survival rates are longer than conventional small businesses. They enable their members to stabilize and increase their incomes, and to accumulate assets. Many co-operatives create jobs, improve working conditions, and provide superior employment benefits. As local businesses, co-operatives increase community economic development and sustainability, and recirculate resources. Co-operatives provide economic benefits, but also social and health benefits. Co-operative ownership enables affordable housing and worker ownership; enhances community relationships (community-business partnerships), well-being, leadership development, and women's and youth development.

Co-operative businesses are community-owned private enterprises

1. This is a slightly revised version of Jessica Gordon Nembhard, "Benefits and Impacts of Cooperatives: White Paper," 2014. Available digitally through the Center on Race and Wealth, Howard University, <http://www.coas.howard.edu/centeronraceandwealth/reports&publications/0213-benefits-and-impacts-of-cooperatives.pdf>. Thanks to funding from the Center on Race and Wealth, Department of Economics, Howard University (and Ford Foundation). Many thanks to Charlotte Otabor for research assistance.
2. John Jay College, City University of New York, and Centre for the Study of Co-operatives, University of Saskatchewan

that combine consumers with owners, and buyers with sellers in a democratic governance structure.<sup>3</sup> This solves the general economic problem of overproduction and business uncertainty, eliminating the middle man and reducing costs (Warbasse 1918). Co-operatives address market failure and fill gaps that other private businesses and the public sector ignore: provision of rural electricity or other utilities in sparsely populated areas, provision of affordable healthy and organic foods, access to credit and banking services, affordable housing, quality affordable child or elder care, and markets for culturally sensitive goods and arts, for example.

A co-operative's purpose is to meet member needs, not just earn a return on investment (which is the main purpose of a traditional investor-oriented corporation). Profits, or what co-operatives call surplus, are distributed to members in proportion to use, compared with corporations where profits are distributed according to stock ownership — i.e., in proportion to investment. According to the University of Wisconsin Center for Co-operatives (2012), tax liability in the US is also different, but co-operatives still contribute to local, state, and federal tax revenues. According to US law, members pay income tax on "qualified profit distributions based on patronage," and the co-operative pays taxes on unallocated surplus and nonqualified profits (University of Wisconsin Center for Co-operatives 2012). Under worker co-operative ownership structures, the board of directors is voted on by the employee-owners, and often consists of all employee-owners. Workers (members of the local community) decide the company's policies, compensation, and the distribution of the surplus. In worker co-operatives, "the relationship between the worker and the firm is membership" (Ellerman 1990, 206), not the labour contract *per se*.<sup>4</sup>

3. Co-operatives are autonomous internationally recognized enterprises owned democratically by their members, the people who created the co-operative to satisfy a common economic, social, or cultural need or fill a gap left by market failure. They operate according to the values of self-help, self-responsibility, democracy, equality, equity, and solidarity; and seven guiding principles: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for community. See <http://ica.coop/en/what-co-op/co-operative-identity-values-principles>; and Gordon Nembhard, 2008b.

Co-operatives have enabled low-income residents, women, immigrants, and others (who often are without any avenue to gain income or assets) to provide affordable, quality goods and services, generate jobs and income, stabilize their communities, and accumulate some assets, and at the same time be family and community friendly (Gordon Nembhard 2002, 2004b, 2008a, 2014; Fairbairn et al. 1991; Logue and Yates 2005; WAGES nd; *Yes!* Magazine 2013). They are effective with middle-income residents who have adequate resources to contribute to establishing an enterprise that satisfies an expressed need. Co-operative businesses stabilize communities because they are community-based business anchors that distribute, recycle, and multiply local expertise and capital within a community. They pool limited resources to achieve a critical mass. Co-ops and their members pay taxes, and are good citizens by giving donations to their communities, paying their employees fairly, and using sustainable practices (Gordon Nembhard 2013; Iowa Association of Electrical Co-ops 2011). Collectively and co-operatively owned enterprises often provide not only economic stability, but develop many types of human and social capital. Members acquire a variety of general business and industry-specific skills. They also develop leadership skills and team building by participating in “joint action by a social group sharing a collective identity” (Borzaga and Galera 2012, 11; also see Gordon Nembhard 2014). Co-operative development therefore provides an alternative model of development based on recognizing and developing internal (to the individual and to the community) capacities. This creates mechanisms that distribute, recycle, and multiply local expertise and capital within a community, creating a solidarity

4. For more details, see Gordon Nembhard, 2014 (*Collective Courage*); and Artz and Younjun 2011.

5. The term “solidarity economy” is becoming increasingly popular since the first World Social Forum in Brazil. The US Solidarity Economic Network ([www.usсен.org](http://www.usсен.org)) describes a solidarity economy as an alternative economic framework grounded in shared values, solidarity, and co-operation that promotes social and economic democracy, equity in all dimensions (e.g., race, class, gender ...), and sustainability. It is pluralist and organic in its approach, allowing for different non-hierarchical forms and strategies in different contexts, always building from the grassroots up. The term economic solidarity refers to economic activities whose purpose is to support, promote and develop a particular group, using shared values, trust, and loyalty (see Gherardi and Masiero 1990).

economy;<sup>5</sup> and economic independence from the mainstream society if necessary (Gordon Nembhard 2004a, 2014).

“Co-operatives are oriented to solving local problems by organizing local people into stable organizations ... and [they] have an explicit mission to keep funding, distribution of benefits, and responsibility and accountability in local users’ hands” (Zeuli et al. 2003a, 1). Fulton and Hammond Ketilson (1992, 16) note that both the diversity as well as the success of co-operatives suggest that co-operatives hold “characteristics that have enabled them to address problems” in their communities and among their members. Similarly, Borzaga and Galera (2012, 7) find that co-operatives tend to address the needs of communities and “should be regarded as collective problem solvers.” Fulton and Hammond Ketilson find that “co-operatives play a critical role ensuring the continued economic existence of most of the smaller communities” in Saskatchewan (1992, 36). In a survey performed by Bhuyan et al. (1998), of 162 non-agricultural co-operatives, 44 percent of the respondents said they could not have opened their business had it not been organized as a co-operative.

Co-operatives “aggregate people, resources, and capital into economic units that overcome the historic barriers to development” (Ziewacz 1994, 189). According to Zeuli, Freshwater et al. (2003a), since most co-operatives are owned and controlled by local residents, this model has a vested interest in and is more likely to promote community growth than an investor-oriented firm (IOF) controlled by non-local investors. Co-operatives are more likely to ensure that their objectives within the community are met, and are interested in promoting community economic development. Many co-operatives are created to serve a local need and/or to help people gain control over their local economies (Fulton and Hammond Ketilson 1992; see also Fairbairn et al. 1991). The objectives set by their members therefore may not include profit maximization at the firm level. The objectives are usually needs-oriented; therefore, co-operatives may be more likely to stay in the community, unlike investor-owned firms that may be under pressure by investors to grow as fast as possible, which may lead the business to outgrow the community and relocate to a place where the supply of labour is larger and other inputs can be more easily and efficiently obtained (Zeuli et al. 2003a).

Gordon Nembhard (1999, 2006a, 2006b, 2008, 2011, 2013), Haynes and Gordon Nembhard (1999), and Fairbairn et al. (1991) suggest that co-operative development is an important community economic development strategy. In particular, these scholars propose that co-operative enterprises can contribute to revitalizing inner cities and redeveloping areas (such as New Orleans and the Gulf Coast after disasters; Gordon Nembhard 2006b). Borzaga and Galera (2012, 7) argue that “Historical evidence shows that co-operatives not only survive crises better than other types of enterprises, but also more successfully address the effects of crises.” Similarly, credit unions are important asset-building enterprises that are an alternative to payday lenders and subprime lending (Gordon Nembhard 2013).

This paper summarizes the literature in this area and provides more details on the above ways that co-operatives benefit and positively affect their communities.

### Longevity

Co-operatives stay in business longer than for-profit, investor-oriented firms. They have a long history, exist in almost every society, and adapt to changing conditions and to new economic and social concerns (Borzaga and Galera 2012). Williams (2007) cites World Council of Credit Unions data that demonstrate that only about 10 percent of co-operatives fail after the first year, compared to 60 to 80 percent failure of traditional corporations after the first year of startup.<sup>6</sup> This counters conventional wisdom that assumes that co-operatives have a higher failure rate. Smith and Rothbaum (2014) confirm similar findings for some Canadian provinces (most notably Quebec), as well as throughout Latin America.

Williams reports further that “The initial success of a co-operative most likely arises from the fact that starting a co-operative requires a great deal of support from the community” (2007, 9). Because many people are involved in startup and are needed to file for incorporation or limited liability, the first year for most co-operatives is successful, ac-

6. From the World Council of Credit Unions, 2003, *Statistical Data: United States Credit Union Statistics 1939–2002*; www.woccu.org; in Williams 2007, 9–10.

ording to Williams. For African Americans, the first years are often precarious, because the enterprise is underfunded and competition is fierce from hostile white businessmen and financiers, yet the support from members and their immediate community keeps them going (Gordon Nembhard 2014). In addition, after five years, while only three to five percent of traditional businesses are still operating, more than 90 percent of co-operatives are still in business (Williams 2007, 9–10). Business success is actually an important accomplishment of co-operative enterprises, and an important contributor to community stability — as a business anchor in a local economy, in an increasingly global economy (see, for example, Williamson et al. 2003; and Gordon Nembhard 2004a). Co-operatives also have a long-term perspective (Borzaga and Galera 2012) that contributes to their longevity and the stability they provide to their members and communities.

### Asset Accumulation

Some studies find that successful co-operative businesses create wealth and help their members accumulate wealth and/or assets (Gordon Nembhard 2002a, 2008a, 2013; Franklin 2014; Logue and Yates 2005; Williamson et al. 2003; Ownership Associates 2003; and Scharf 2001). Co-operatives are a form of communal, joint, and democratic ownership of a business whose equity is an asset that can contribute to an individual member’s wealth portfolio. Members of co-operatives put equity into a co-operative enterprise. A successful enterprise gives a return on that investment. In the case of co-operatives, the return is sometimes annual dividends or patronage refunds (often distributed on exit from membership); and sometimes the return takes the form of job security and living wages and benefits, or reduced costs of products and services. Individual co-operatives decide democratically how much of the surplus should be allocated to members and how much unallocated or retained in the business. Because of the democratic nature of co-operatives, distribution occurs in an equitable fashion, which places the wealth generated from the business into the hands of the owner-members (and sometimes other stakeholders). This means that co-operatives as a business are also a democratic mechanism for wealth creation.<sup>7</sup>

7. Much of this comes from Gordon Nembhard, 2008a; also see Gordon Nembhard 2013 and 2014.



Co-operative enterprises and employee-owned businesses provide dividends and financial returns to members. Examples of co-op member investment and return include the equity share (which earns income and may be paid back after a certain number of years or upon termination of membership) and the patronage refund (at least some of which is usually paid annually in a profitable year). US agricultural co-ops have higher average payout rates to members than shareholder dividends from public agribusiness corporations. US dairy co-operatives, for example, paid 14.3 percent of equity in total member patronage dividends in 1997 — better than the long-term rate of return on publicly traded equities in the US (Logue and Yates 2005).

Worker co-operatives and other employee-owned enterprises generally pay wages that are competitive or better than local prevailing wages (with profit sharing, bonuses and dividends), and tend to offer better fringe benefits than conventional companies in their field (Logue and Yates 2005). For example, some co-operatives such as Co-operative Home Care Associates (New York City) provide retirement accounts and encourage their members to be banked and to have a savings account, in addition to paying bonuses and dividends, and living wages (Schneider 2009). Other co-operatives offer retirement accounts for their worker-owners, and in some industries are actually more likely to provide retirement accounts and higher-valued retirement plans.<sup>8</sup> In addition, Childspace (Philadelphia) provides an IDA (Individual Development Account) program (Clamp 2002), linked to the federal program that matches the savings of low-income people for education and business development. Another example is Mandela Food Co-op, which plans to partner with People's Federal Credit Union in Oakland, CA, to donate some of the co-operative's surplus earnings toward matching credit union members' savings (in Individual Development Accounts). The Atlanta Cooperative Development Corporation received a waiver in order to create an IDA program that allows participants to use their savings to contribute their equity share in a cooperative business not just a sole proprietor business or investor-owned firm.

8. See Scharf 2001.

### Credit Unions

Credit unions, like all co-operatives, address market failure, market insufficiency, and asymmetric information. Credit unions are democratically owned, community-based, not-for-profit (in the USA) financial institutions whose purpose is to provide affordable, high quality financial services to their members. Community Development Credit Unions (CDCUs) are credit unions that serve underserved communities, and are part of a larger group of community development financial institutions (CDFIs) whose purpose is to provide accessible financial services and to open capital markets to low-income communities. Credit union data and the findings from the interviews reported in Gordon Nembhard (2013) suggest that community development credit unions in particular are important community-based institutions that provide fair, low-cost credit and financial services to the under-banked and the un-banked, and to low-wealth communities. Specifically, they provide lower-cost, stable loans and services; higher rates on deposits (savings) and overall stability of rates leading to economic stability (especially for those on fixed incomes, such as retirees). Credit unions tend to focus on their members, provide convenient branch locations, invest within the community, reinvest in the community, tailor services for members, and practice relatively conservative lending (see Gordon Nembhard 2013 and 2014).

Credit unions provide financial options, loans, and education. They are also good employers, providing stable jobs with decent wages and benefits, and good neighbours, giving donations (financial and in kind), sharing meeting space, and supporting community development projects and affordable housing. Credit unions provide decent jobs for employees. This is part of their commitment to provide quality services and to be good neighbours. A recent study I conducted of ways that credit unions, particularly community development credit unions (CDCUs), benefit their members and their communities (Gordon Nembhard 2013), concludes that most CDCUs are deeply involved in their communities, and the larger ones actually provide donations, encourage their employees to volunteer in the community, and are generous employers. Most credit unions provide salaried jobs with benefits, and often with job ladder opportunities.

Gordon Nembhard and Hammond Ketilson (chapter 12 in this volume) find that Canadian credit unions are active in their communities, provide access to comprehensive financial services, personalize and sometimes customize the services, and are good employers. Respondents believe that credit unions help their members build assets because they make many financial products available to members. Hammond Ketilson, Gordon Nembhard, and Hewitt (chapter 13 in this volume) highlight Affinity Credit Union in Saskatchewan, and find that it enables members to feel more empowered, to access services they would not obtain from other financial institutions, and to move toward achievement of their financial goals. In addition, as it has grown larger and merged with other credit unions, Affinity has developed a governance structure committed to maintaining representation at the local level. This model is highly decentralized to retain contact with the various communities that make up the membership of the credit union. It allows “the needs and the identity of the local communities around the province” to be “well represented in the decision making of the Board and the credit union itself.”

### Improved Working Conditions and Compensation

Co-ops are often able to provide meaningful work, and a good work atmosphere for their members and/or employees. Levine and Tyson (1990) find that co-operatives provide superior working conditions, and that both participation and ownership have a positive effect on productivity. Logue and Yates (2005, 56) report that “Co-operatives facilitate people in pooling their greatest asset, their labour, along with small amounts of cash (perhaps all the cash they have), to create a larger enterprise from which they will receive a benefit and return.” More than what they could do on their own, “employee ownership of the means of production and farmer and small business ownership of purchasing and marketing co-operatives increase income and wealth for employee owners, farmer and small business owners” (Logue and Yates 2005, 57).

Many worker-owned co-operatives, in particular, increase industry standards in wages and benefits, as well as provide self-management or team work between management and “labour,” job ladder opportunities, skill development and capacity building, job security, and general

control over income and work rules (for example, Co-operative Home Care Associates, Childspace, Workers’ Own Sewing Company, APR Masonry Arts, Colors Restaurant) (see Gordon Nembhard 2004b, 2014; Artz and Younjun 2011; and Franklin 2014). Women-owned catering and house-cleaning co-operatives provide women with control over their hours of work, work rules, health and safety, benefits, and income generation that allow them to balance home, family, and work lives and own their own business (for example, Emma’s Echo Clean and the other co-operatives developed by WAGES, and the co-operatives developed by Co-operative Economics for Women in the 1990s). Co-operative music production companies (such as the emerging Rhythm Collective in New Orleans), similarly bring musicians together with social entrepreneurs to create their own company so that musicians can control their own production, distribution, and profits, and remain local. There are many other such examples (see Gordon Nembhard 2014, and other references at the end of this paper).

Co-operatives also provide more stable employment levels than investor-owned firms: “conventional firms tend to adjust employment levels, while worker co-operatives adjust pay, thus safeguarding employment” (Borzaga and Galera 2012, 9).

### Community Economic Development, Stability, Sustainability, and Recirculation

In many neighbourhoods, particularly communities of colour, the unemployment rates and poverty rates are disproportionately higher than in the rest of the nation. Money and other resources go outside the community because most of the businesses in the community are owned by people who don’t live there. Many underserved areas do not have needed and/or quality goods, services, or jobs. The dollar often does not recirculate within local communities. Co-operatives are a strategy to address these problems (see Fairbairn et al. 1991, for example). Self-sustaining businesses, where the goal is not to increase bottom-line profits but to sustain and create jobs with livable wages, address the challenges of low-wage jobs and unemployment (see Franklin 2014). Because the emphasis is not on maximizing profits, and there are no huge payouts and bonuses to top managers, that money goes to creating more jobs for workers,

and producing goods and/or services with low or uncertain profitability, that neither the private nor the public sector are interested in or able to supply. Co-operatives solve problems that would otherwise be the responsibility of the public sector (Borzaga and Galera 2012, 12). “Since co-operatives are created to meet the needs of their members and are not conceived to accumulate profits, they tend to redistribute their resources either to workers by increasing wages or employment or to consumers by charging lower prices” (10).

In addition, when co-operatives reduce market failures, they improve “the functioning of the economic system and the well-being of large groups of people”; and improve market competitiveness. “The co-existence of a plurality of enterprises that have diverse ownership structures and pursue different goals contributes to improving market competitiveness, which in turn provides more choices to consumers, helps prevent the formation of monopolies, lowers retail prices, provides opportunities for innovation, and limits information asymmetry” (Borzaga and Galera 2012, 9–10). Because of their flexible structure and democratic governance, co-operatives respond to a variety of community challenges.

Food co-operatives in the US, for example, spend more revenues locally (38 percent compared with 24 percent spent by conventional grocers), buy more products locally (20 percent versus 6 percent), buy more organic produce (82 percent versus 12 percent), recycle more plastic (81 percent versus 29 percent), and create more jobs than conventional grocers (for every \$1 million in sales, 9.3 jobs are created versus 5.8 by conventional US grocers) (*Yes!* Magazine 2013, 23). For every \$1,000 spent at a US food co-op, \$1,606 goes to the local economy — translating to 17 percent more money recirculating in the immediate community (*Yes!* Magazine 2013, 23). Credit unions approved more mortgages for low-to moderate-income households, had lower denial rates for all non-whites, and had lower loan delinquencies, while doing more lending, than commercial banks during the great recession (*Yes!* Magazine 2013). The establishment of a co-operative helps to provide needed services and products in the community while creating sustainable jobs, and even savings for member-owners. They provide competitive prices and services that might not otherwise be provided (Fulton and Hammond Ketilson 1992, 36). Similarly, co-operatives have been found to be a vi-

able business model for new immigrants (see Bransburg 2011). WAGES (nd), for example, raises the income of its immigrant women members in addition to providing less toxic job conditions and social benefits.

Many areas suffer from under-utilized resources, and are host to multiple abandoned properties. Community-owned and co-operative businesses might utilize properties that would not be viewed as viable by traditional corporations, and/or locate in communities overlooked by corporations, because the member- or worker-owners would be from that community, with an interest in producing in the community, reinvigorating the community, and working where they live. These properties may also be cheaper for them to rent or purchase. Apex Cab in Milwaukee in the 1970s, for example, served neighbourhoods that other taxi companies would not enter (Gordon Nembhard 2014). In addition, a co-operative formed to meet a need in the community, also helps to develop the community by hiring local residents, providing livable wages, and utilizing local resources. This stabilizes the economy, which in turn renders the community more viable for other opportunities, and more attractive to current and new residents and businesses.

Mather and Preston (1980) found that the benefits to farmers of agricultural co-operatives include ownership and democratic control of business enterprises for procuring supplies, services and marketing their products. Being in a co-operative also led to an increase in farmers’ income by a rise in the general price level for products marketed or lowering the level for supplies purchased, or by branching out into new markets that farmers otherwise would not reach. The indirect benefits came through their effects on local prices, supplies and services. Co-operatives are known to improve economic competition by providing services at cost to members, which leads to pricing adjustments by other organizations. Co-operatives can also provide services not available or improve existing services like rural electric co-operatives. For the rural community as a whole, co-operatives present added community income since most of the income received by the farmers is then spent on goods and services within the community. Stronger rural communities are also built with local co-operatives that have hundreds of members using their services frequently. These co-operatives can help bring new patrons to other local businesses that would otherwise have gone elsewhere. Participation in co-operatives has also been known to encourage involvement in state and local government affairs.

As for the consumers, their benefits include higher quality products as well as more varieties of goods and services available to them. Also lower production and marketing costs brought about by co-operatives correspondingly leads to lower food cost for the consumers. In addition to benefits to members, for example, Mather and Preston (1980) find that consumers are also impacted by the existence of farm co-ops: higher quality products as well as more varieties of goods and services are made available to consumers; lower production and marketing costs from the co-operatives means lower food cost for the consumers. Altogether, there is a general improvement in the welfare of members of the communities, co-operatives and consumers (Mather and Preston 1980). Other literatures on co-operatives show that the economic impact of the model can be quantified in terms of annual sales and employment and qualified in terms of environmental concerns, access to goods, changes in communication, education and building leadership capacity. Zippert (2014), Folsom (2003), and Gordon Nembhard (2004b and 2014) also mention the importance of intangible impacts from co-operative activity and membership in a co-operative.

Isolation is increasingly a problem in modern societies, and many communities are disconnected and unsafe because crime and disaffection grow from feelings of isolation. Community-owned businesses tend not to be vandalized because the residents are aware that community members own them, and are respectful and supportive (see Gordon Nembhard 2006a). Members of co-operatives also form a stronger connection to the community because now they own a business in the community and so are invested in the community. The co-operative connects people because they need to attend co-op meetings and participate in group activities initiated by the co-op. They need to trust each other in order to make joint financial decisions. Co-op members learn leadership skills and develop other human and social capital, which helps them become more self-assured, more connected to each other, and more involved in their communities (Gordon Nembhard and Blasingame 2006; Mather and Preston 1980; Fulton and Hammond Ketilson 1992; Borzaga and Galera 2012). Co-operatives, especially in smaller communities, play a “significant” social role by requiring teamwork, and providing mechanisms that enable the pursuit of community interests above individual interests (Fulton and Hammond Ketilson

1992, 36). Community organization and social connections are strengthened, as people learn how to work together and get used to working in teams. Borzaga and Galera (2012, 11) emphasize that “co-operative solutions are more inclusive and more oriented to promoting general-interest goals with a beneficial impact on well-being.”

This also increases the level of safety in the community where natural partnerships are formed with other civic organizations and local schools. The co-operative might provide internships and training, and/or give donations. In addition, school-based co-operatives allow students to own their own company and connect with others to the formal economy (see below). Human and social capital are developed, as well as a job and an asset. Altogether, there is a general improvement in the welfare of members of the communities, co-operatives and consumers.

### Affordable Housing

In housing, because the purpose of the co-operative is not for profit but to be self-sustainable and affordable, housing costs are reduced. Also with a housing co-operative, the co-operative business is the entity that owns the property. The co-operative combines members’ equity with outside loans. Obtaining a mortgage is not dependent on individuals who may have a poor credit history and/or who cannot raise the deposit. Resources are pooled and lenders look at the whole, not the individual. Home ownership is therefore more possible and viable for a greater number of low-income people. In addition, owning a house or a housing complex together builds a sense of community, and keeps people more invested in the community because they own property and are a part of a group. Housing ownership also reduces community turnover. Co-operative housing gives people a reason to stay, and the ability to stay in their community — as well as to own an asset.

Housing co-operatives are concentrated in ten states in the US. Because states report property values in different ways, it is difficult to calculate national statistics about co-operative housing (Deller et al. 2009). Several narrow local studies of housing co-ops (reported by Deller et al., 32) find that co-operative ownership of housing is associated posi-



tively with improved safety and security, building quality, more pro-social norms (social contact, life satisfaction, etc.), longer residency, and reduced operating costs.

### Youth Development and Women's Leadership Development

Engaging young people and students in co-operatively owned businesses motivates and excites them, and often encourages them to further their education. Experience in democratic decision making and group learning using real-world experiences helps to develop their social capital and leadership skills (Gordon Nembhard 2008c). Gordon Nembhard (2004b, 2008c) notes gains in confidence, general and technical skills, motivation to learn, and incentive to go on to college for students who engage in entrepreneurial projects, especially co-operative businesses. Toxic Soil Busters co-operative in Worcester, MA, is a good example.<sup>9</sup> Student-owners of co-operative businesses learn math, research, communication, and business skills “on the job.” They also have opportunities to apply problem solving, team work, and facilitation skills. Moreover, they develop or operationalize concern for community, and engage in community building strategies (Gordon Nembhard and Pang 2003; and Pang et al. 2006). Gordon Nembhard (2008c) concludes that “schools can facilitate experiences that develop good learning habits and creative, flexible thinking by teaching co-operative economics and providing co-operative entrepreneurship experiences.”

In addition to supporting youth development, connecting young people more to their communities and social justice activities, motivating them to stay in school and helping them to apply knowledge, co-operatives have the ability to empower women who have been historically left behind in the workplace. Co-operatives enable women to create enterprises that provide control over work rules and income, and dignified work. Co-ops also offer women economic security and balance between work and home responsibilities. Co-ops, particularly worker co-operatives, offer the flexibility needed to meet family needs while at the same time deepening women's ties to their community (see

9. See Toxic Soil Busters and Worcester Roots website: <http://www.worcesterroots.org/projects-and-programs/toxic-soil-busters-co-op/>.

Conn 2001). Women-owned co-operatives such as Freedom Quilting Bee, Childspace, Co-operative Home Care Associations, Ujamaa Collective, and Opportunity Threads provide meaningful work with decent jobs, and opportunities to problem solve in their communities. Like young people, women co-op member-owners develop leadership skills in addition to entrepreneurship skills, and self-confidence (see Weiss and Clamp 1992, for example, and Gordon Nembhard 2011 and 2014).

### Measuring the Impact of Co-operatives

Identifying benefits and measuring impacts are slightly different. Above we mainly discussed benefits and gave examples of ways in which co-operatives in general, and specific co-operatives, benefit their members and their communities. Efforts have also begun to measure economic and other impacts on communities from having a co-operative enterprise in its area. Impacts — significant or major effects or consequences from the contact or relationship — are more difficult to measure. Inter-co-operation and interconnections between co-operatives produce multiplier effects (resources/money re-circulate within the community and enable other economic activity). Co-operative businesses often help create other co-operatives by donating money to co-op revolving loan funds, and/or investing in co-operative development. They also might pass resolutions to only use services and buy supplies from other co-ops. Residents can develop additional co-operatives that trade with and support each other, creating interlocking businesses and services, and thus increasing the benefits to the community. Consumers who want to support such community-ownership and revitalization would buy from and utilize the co-operative. This would attract more businesses, social entrepreneurs and social investors. The growing Fair Trade movement,<sup>10</sup> and Community Supported Agriculture,<sup>11</sup> are examples of alliances between conscientious consumers and grassroots producers that create win-win relationships between them, and viable businesses.

Folsom (2003, 5) finds that “co-operatives, by nature of their being locally owned and having benefits accrue to the local member-owners,

10. See cooperatives such as Equal Exchange: <http://www.equalexchange.coop/>.

11. See <http://www.localharvest.org/csa/>.



result in a higher level of impact than businesses such as a corporations where benefits (dividends) are mainly distributed outside the community and local ownership is missing." Zeuli et al. (2003a, 3) list the following impacts:

- **Community interest:** since most co-operatives are owned and controlled by local residents, this model has a vested interest in and is more likely to promote community growth than an investor-oriented firm (IOF) controlled by non-local investors. Co-operatives are more likely to ensure their objectives within the community are met and are interested in promoting community economic development.
- **Flexible profit objectives:** many non-agricultural co-operatives are created to serve a local need so that profit maximization at the firm level may not be a major objective. The objectives are usually more needs oriented so co-operatives may be more likely to stay in the community, unlike IOFs, which can be under considerable pressure by investors to grow as fast as possible, which may lead businesses to outgrow the community and relocate to a place where the supply of labour is larger and other inputs can be more easily and efficiently obtained.
- **Financial advantages:** co-operatives can have a low start-up cost due to the fact that they are eligible to apply for loans and grants from a number of federal and state agencies designed to support co-op development. There are also other "non-governmental financial institutions like co-operative banks that provide relatively low cost loans to co-operatives either because they are chartered to do so by the federal government or because they have been established to assist co-operatives and non-profit firms" (4). There are also the tax advantages that co-operatives have as well that make the model attractive.

There have been some efforts to quantify such and other impacts of co-operatives on communities, states, and nationally, using input-output models and standard economic analysis. In the United States, Deller et al. (2009) report on 30,000 co-operatives operating in 73,000 locations with total assets over \$2 trillion. They estimate (by calculating direct, indirect and induced effects) that these co-operatives contribute

\$154 billion to the nation's total income. These co-operatives have also helped to create over 2.1 million jobs, with an impact on wages and salaries estimated at almost \$75 billion. Total revenues are almost \$653 billion. In Canada, close to 7,000 co-operatives report around \$300 billion in assets, provide 565,961 jobs (direct and indirect employment) and over \$50 billion in revenue (Karaphillis and Lake 2014). Karaphillis and Lake (2014) also calculate that in 2009 the cooperative sector in Canada paid more than \$10.7 billion in all types of taxes.

A number of studies in the US (Folsom 2003; Zeuli et al. 2003) and in Canada (Karaphillis and Lake 2014) use input-output analysis models to measure the economic impacts of co-operative businesses on their local economies. The input-output analysis model measures the flows of economic transactions for a defined area, and shows how the interactions and behaviours can be measured in that specific economic region on a sector basis (Folsom 2003). The model basically "predicts the effect a given change in output will have on final demand within the economy" (3). Economic impact analysis uses regional modelling methods to identify such linkages between various economic sectors using revenue, wage and salary, and tax data. The various linkages and effects from a change in outcome may be direct, indirect, or induced. The combined effects (direct and indirect, or all three) are expressed as a multiplier. Zeuli et al. (2003, 4) also measure the multiplier effect, which "refers to the multiple layers of economic activity linked to an industry." This is where a dollar spent in a co-operative recirculates several times over in a community because of local connections between the buyers and sellers within the co-op, among co-ops and other businesses, and within a community.

### Measurement Issues

The above studies show that co-operatives provide many benefits to their members and communities, and have many positive impacts on the economy as well as on the lives of their members. Places that have stronger laws in support of co-operatives, and that have more co-operatives, experience more of the benefits from co-operatives. The studies shared in this chapter list the following as challenges to co-operatives living up to their potential: the model is not well known and is often

denigrated (which reduces people's exposure to the model and precludes potential services and supports from agencies that help small businesses); capitalization and access to capital are limited; and laws are not equivalent across states/provinces and countries; and often preclude the licensing of certain kinds of co-operatives.

Borzaga and Galera (2012, 15) explain the lack of supports because of the "low esteem in which co-operatives are generally held." Zeuli et al. (2003a, 3) also blame the lack of public education about the co-operative model. Similarly, Franklin (2014, 34) notes that "while the benefits of worker co-operatives are clear, they are widely unknown and underutilized in the ongoing and ever present fight against poverty and unemployment." This lack of recognition of and knowledge about co-operatives means that entrepreneurs, business incubators, community developers, workers and community members often have little or no idea that a viable co-operative ownership alternative exists, or dismiss this model without full information.

"Co-operatives normally benefit from public policies that have been designed to support the start-up and consolidation of business initiatives" (Borzaga and Galera 2012, 15). Folsom (2003, 11) finds that "supporting infrastructure that helps to develop and grow locally owned businesses" is needed. Strong regulations and supports for co-operatives would also address the challenges and limitations to advancing the co-operative model discussed in this section: need for more information about them, more uniform laws, and capitalization strategies. The Quebec government provides a good example of ways a government supports co-op development (Tusz-King 2013; Mendell 2008; Labelle 2000–01; Franklin 2014). Access to capital is important at start-up and for expansion and growth. Also, tax incentives or credits for local investors to make local investments in co-operatives would help to support co-operative financing and development. Enabling laws and support for co-operative development make a difference.

Mather and Preston (1980, 1) find that the benefits of co-operatives are sometimes difficult to measure as "some are tangible or direct as in the case of net margins or savings," while others are "intangible or indirect such as co-operatives' effect on market price levels, quality, and service." There are of course difficulties in measuring the full benefits

of co-operatives in dollar terms. Folsom (2003) reiterates: "Because the relationship between co-operatives and their communities is so important, co-operatives face the challenge of clearly documenting and describing the benefits they create, not just for their members but also for the broader community."<sup>12</sup>

Hammond Ketilson and Gordon Nembhard's project to measure the impact of credit unions, for example, continues to struggle with measuring and articulating the Credit Union Value Added particularly in terms of asset building and community development. Are asset building access and opportunities provided by credit unions the same as those of other financial institutions, and if not, what is different, for example? We continue to search for better ways for our research and findings to help credit unions and their members and other stakeholders recognize and articulate their impacts and advantages.

Statistics about co-operatives and measurement of co-operative impacts are difficult to obtain or calculate for a number of reasons. First, in countries like the United States, no government agency collects specific data about co-operatives or compares co-operatives and investor-owned firms. Second, co-operatives have indirect and induced impacts as well as direct effects on members, communities, and the economy. And third, co-operatives are social as well as economic organizations, so that even when co-op data are collected, no one type of measure captures all the impacts and benefits.

Economic and financial analyses do not capture or reflect the myriad market and non-market benefits and impacts of co-operatives. Deller et al. (2009, 2), for example, explain that "Co-operative firms are fundamentally different from other forms of business organizations. Assessment of economic impact solely in terms of the magnitude of business activity provides an incomplete perspective on the total impact of co-operatives." Gordon Nembhard (2004b) notes the difficulty in measuring the full panoply of co-op benefits and impacts, as well as the advantages of expanding the kinds of indicators and measures we use. We

12. Folsom 2003, 3, quoting David Trechter, Robert King, et al., "The Impact of New Generation Cooperatives on Their Communities" (Washington: USDA Rural Business-Cooperative Service Research Report 177, 2001).

need multidisciplinary and interdisciplinary analyses. We want to understand social capital, leadership development, and several levels of individual and community well-being. Including qualitative analysis is desirable but difficult. Qualitative studies are complex, and require both effective instruments (questions and measures) and the willingness and ability of co-ops to participate. Therefore, even as we learn more and more about the impacts of co-operatives and how to measure them, challenges remain.

The chapters in this section report on efforts to identify and solve some of these measurement challenges.

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## IDENTIFYING THE APPROPRIATE INDICATORS TO MEASURE THE IMPACT OF CREDIT UNIONS AND OTHER CO-OPERATIVES ON THEIR COMMUNITIES<sup>1</sup>

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### Introduction

INDIVIDUAL ASSET BUILDING and wealth accumulation are assumed to be outcomes from co-operative ownership. This is in addition to individual and community benefits such as job creation, education and training, income generation, affordable quality products, social capital development, and economic stability (Gordon Nembhard 2002, 2004). Many co-operative studies scholars and co-op practitioners believe that successful co-operative businesses create wealth and help

1. This chapter relies heavily on the 2014 published version ("Measuring the Impact of Credit Unions on Wealth Building in Communities: Identifying the Appropriate Indicators," in *Cooperatives' Power of Innovation: Texts Selected from the International Call for Papers*, ed. L. Hammond Ketilson and M-P. Robichaud Villettaz (Quebec City: Quebec 2014 International Summit of Cooperatives) of a 2013 working paper, except for the sections on multipliers added for this chapter. Both articles are based on an earlier working paper with Patricia Thomas, "Measuring the Impact of Credit Unions on Wealth Building in Communities: Identifying the Appropriate Indicators" (Centre for the Study of Co-operatives, University of Saskatchewan).
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their members accumulate wealth and/or assets. In this article we apply this notion to credit unions and explore whether credit unions provide unique measurable benefits to all stakeholders. We report on our exploration into identifying and testing a set of indicators that would increase our understanding of the economic impacts of credit unions on their local economy, including impacts that circulate multiple times within a community.

The question remains: how best to identify and measure outcomes, impacts, and benefits from co-operative ownership. This study aims to better understand the precise benefits that credit unions provide their members and communities, and the specific ways that credit unions help their members create wealth, financial stability, wellbeing, and leadership skills.

### The Research Problem

How do we measure impacts, wellbeing, and wealth through co-operative ownership? There is not a strong body of scholarly data or analysis on wealth accumulation from co-op business ownership in general (Gordon Nembhard 2008). Most co-operatives retain the co-ops' wealth within the enterprise, rather than distribute it; they often do not distribute dividends; and do not trade publicly or even trade stock. This makes it difficult to use traditional indicators (such as value of stock) to measure the investment value of, or business equity in, a co-operative (Gordon Nembhard 2002, 2008). We can gather existing evidence anecdotally, from isolated examples in case studies of specific co-operatives that report equity values, refunds, patronage refunds, or reduced costs of goods and services, and employee benefits. Moreover, co-operatives often face what appear to be conflicting goals of affordability and capital appreciation (Gordon Nembhard 2002, 2008). Many members have ambivalent feelings about whether they should be in the business of appreciating assets. If wealth creation is not the primary goal of a co-operative enterprise, how do members "legitimately" accumulate it and benefit from it? (Gordon Nembhard 2008). There is a need to clarify conceptually and empirically the elements by which, and mechanisms through which, co-operative businesses contribute to wealth building (help their members build assets and create wealth for stakeholders and the community).

To address some of the data limitations, as well as tensions around wealth accumulation goals in co-op enterprise missions, here we focus on credit unions whose purpose is to provide its members with access to savings and investment instruments, and opportunities for asset accumulation. The problem in studying asset-building through credit unions is that members do not always recognize their use of financial services as an asset-building strategy, and do not always recognize their credit union as a co-operative, or democratic organization. Below, we delineate the processes we have gone through to identify appropriate indicators of asset accumulation, and other economic as well as non-market benefits from engagement in credit union services, programs, and activities.

The following are the research questions we applied to this study: How do credit unions benefit their members and surrounding communities? Do and how do credit unions create wealth, develop assets, and/or help their members (and their families, employees, and communities) build assets, accumulate wealth, and increase the quality of life? What benefits do credit unions provide, and how do they contribute to enhancing the wealth of their members and their communities? What mechanisms and structures do credit unions use to facilitate asset building and wealth accumulation among their members? Do and how do credit unions contribute to wealth accumulation and the democratization of capital for under-served and marginalized populations?

Previous research (summarized by Gordon Nembhard 2004, 2008, and Thomas 2009; also see Lyon et al. 2002 and Garoyan and Mohn 1984) suggests identifying various relevant indicators to measure a wide variety of kinds of impacts; the importance of using multiple measures and multiple methods (being interdisciplinary); and integrating without relying on accounting methods. We therefore focus on developing methods and identifying indicators to measure traditional and non-traditional, market and non-market, economic and social impacts of the social economy on members, employees, their families, and their communities. In the process of finalizing our indicators, we examined existing data and the range of annual statistics already collected, particularly by credit unions. We postulated that the examination of various reporting methods (social accounting, environmental impact, social responsibility) would assist us in providing a comprehensive un-

derstanding of credit unions' impacts as socially mandated enterprises on community, social, and economic life. In addition, we hypothesized that the examination of both the assets credit union members hold, and the ways credit union borrowers use their loans, would contribute to understanding how assets are built through use and ownership of a co-operative financial institution. We use participatory community-based research to involve co-op members, co-op leaders, and co-op developers in articulating social, cultural, and political as well as economic impacts. We are working specifically with credit union managers, directors, and members.

Understanding and documenting the variety of co-operative outcomes requires an "expanded notion" of impacts and outcome measurement, and "the creative use of interdisciplinary and possibly newly designed tools" (Gordon Nembhard 2004). In this study we focus on impacts. Unlike most other investigations, such as social audits, social accounting, and performance evaluations of co-operatives and social enterprises, this study is most concerned with measuring credit unions' impacts on communities and their role in asset building. Therefore, while performance and business viability are important, as are their environmental practices, we also focus on credit union services, programs, and activities, and how the ways they conduct themselves affect their stakeholders and the communities in which they function. We want to ask questions about how the treatment of employees, benefits to employees, and the education and training of members and employees, as well as the public education that many co-operatives provide, affect the members and the community(s). We examine the effects of economic interrelationships, leveraging, and business spillovers on local economies and communities.

### Proposed Indicators

We thus chose the following set of indicators, or categories of possible indicators, and measures of impacts, and benefits of credit unions. Interestingly, as we developed these indicators from our own research and a thorough research of the literature, we found the Lyon et al. (2002) study. We borrowed their format for our table of potential indicators (Appendix 1). They divide the effort into identifying types of impact,

types of indicators, specific indicators, and the particular questions that address the specific indicators. While their findings of impacts and indicators are similar to ours, many other of our references in the literature also indicate the importance of using many of the same measures (see also Gordon Nembhard 2004 and 2008; Gordon Nembhard and Blasingame 2002; Bouchard et al. 2006; Garoyan and Mohn 1984; Fairbairn et al. 1991; Deller et al. 2009; Foundation Centre 2003; Quarter et al. 2002). In addition, we added categories from Credit Union Central of Canada's Social Responsibility Index (Credit Union Central 2007). Credit Union Central of Canada has continued to ask Canadian credit unions to report on corporate social responsibility (CRS) to demonstrate ways that credit unions balance social, economic, and environmental factors with business decisions to improve services and increase benefits to stakeholders. They include the following categories of credit union practices: governance, ethics, and management systems; environment; community involvement; employee relations; member (customer) relations; products and services; supplier and business partner relations; human rights, Aboriginal relations, and communications (Canadian Credit Union Social Responsibility Index; also see Strandberg 2010; Desjardins 2010; Corporate Knights 2006). See Appendix 1 for a delineation of our instruments and examples of how we framed specific questions to identify impacts. Below, we briefly explain the terminology and elements we included as indicators: economic activity, quality of employment, enterprise level asset ownership, financial transparency, accessibility and affordability of goods and services, profit sharing, individual/member asset building, economic linkages, direct donations, cultural development, policy advocacy, education and training, and social capital.

### *Economic Activity and Viability*

We use economic activity and viability, scope and scale of business, to gauge the credit union's impact on the local economy. There is significance in how effective the enterprise is, how big it is, if it can grow, which all reflect on how much it can impact the community. Types of transactions — monetary, local currency, volunteer, barter, in-kind transactions — help to gauge what kind of exchanges, how much of

each kind, and if the enterprise is engaging in community-friendly or community-engaged forms of exchange. Access to capital signals health, stability, and ability to grow, which are important for the enterprise's viability (also see Bouchard et al. 2006; Lyon et al. 2002; Desjardins 2010).

Standard employment data about how many people are employed by an enterprise and general conditions in terms of how much they are paid — if paid living wages, etc. — also provide information on the credit union's impact on the community and contribution to community stability and quality of life. Also, some employees may be members of the credit union. Job creation and steady jobs with good wages are important impacts on communities. Job ladder opportunities retain and develop the best employees, and increase stability. Many credit unions pride themselves on being good employers. Allowing their employees to volunteer in the community provides another kind of community asset. In addition, good benefits to employees provide a safety net and asset accumulation — which help to stabilize a community if the employees are from the local community, which most credit union employees are. If job turnover is high, grievances are high, and job safety low, these indicate that the jobs are low quality: employment is not helping the community, and employment is not stable. If many, or even most, employees are members of the neighbourhood or community, then the enterprise is creating or stabilizing employment and strengthening a community with good jobs. Also, wages and salaries re-circulate throughout the community and create a multiplier effect (see Fairbairn et al. 1991; Gordon Nembhard 2008; Lyon et al. 2002; NCBA 1998).

### *Asset Ownership*

In investigating enterprise-level asset ownership, we explore if the credit union owns real estate, its own office building and equipment; and therefore has assets and invests in the community. This indicates enterprise impact in terms of stability and income generation. If the credit union owns its own property and other real estate, it is more stable and has supporting income, but also contributes to the tax base and to its community more broadly. Many credit unions also use their real estate to support community economic development projects, and allow community organizations to utilize or rent space.



Dividends, patronage refunds, profit sharing formulas: all help to show how members and/or employees may benefit from a surplus, and how profits are distributed in the enterprise. As part of understanding individual asset building, the wealth of the enterprise, and the democratization of capital, the ways that credit unions distribute savings and surplus to members and use surplus in the community are important (see Gordon Nembhard 2002, 2008, and Chesnick 2000, for example).

At the member/employee/stakeholder level, individual asset building can be measured by the value of the member's equity share, savings, and investment accounts, and/or opportunities to invest in and own financial assets. Does access to a loan for a vehicle, house, real estate, or business ownership increase the credit union member's asset holdings and net worth? Does access to credit union services and programs increase financial stability? (Gordon Nembhard 2008.)

### *Financial Transparency*

Financial transparency signals community-friendliness and helps all stakeholders better understand the enterprise, its viability, and potential impact on the community. Open-book accounting policies may also train stakeholders in financial literacy, which is a community benefit and could spill over into increased civic participation (credit union members now expect transparency in other enterprises and transactions). (See Strandberg 2010, Desjardins 2010, and Gordon Nembhard and Blasingame 2002, about transparency, for example.)

### *Accessibility and Affordability*

The accessibility and affordability of goods and services (or at least accessibility to competitively priced goods and services) are an important benefit, by reducing costs and increasing quality of life. How to measure affordability and accessibility is the challenge. A researcher can compare the enterprise's products/services and others accessible by the same people, the "mark-up" policy/procedure, even the offering of stable prices and/or member/employee discounts, or special access (see Gordon Nembhard 2004, 2008; NCBA 1998.)

Direct donations and contributions to community organizations, projects, and activities tell a lot about what a "good neighbour" the enterprise is, and extent of its involvement in the community. What kind of neighbourhood projects the credit union supports provides information about how embedded in the community the credit union is, and how much the local community is impacted by the credit union. Staff, board, and member volunteer hours contribute to community building. Giving employees time to volunteer; encouraging employees, boards, and members to be active in the surrounding community — all are substantial contributions that indicate a measure of benefit to a community (see Lyon et al. 2002; Gordon Nembhard 2004; Credit Union Central 2007; Desjardins 2010; Quarter et al. 2002).

### *Cultural Development*

Cultural development and support in the form of buying art, displaying art, supporting cultural activities, and promoting cultural development also directly affects and supports communities, particularly different racial, ethnic groups and nationalities, and women. This can be a direct financial help if the credit union buys art from local artists, but also can be more symbolic and cultural support (Gordon Nembhard 2004).

### *Policy Advocacy*

Policy Advocacy is another nontraditional indicator. Do members/staff of the credit union play an active role in developing and/or lobbying for certain policies to support efforts or constituents — to promote the allocation of public funds and/or to devise, uphold, or change regulations? This usually supports the mission of the organization in a more proactive and public way. In addition, the activity and education around policy development and policy advocacy, as well as the policy itself, affect the community (see Gordon Nembhard 2004; Gordon Nembhard and Blasingame 2002).

### *Education, Training*

Education and training includes: human capital development; member and employee orientation, training programs, and opportunities



(frequency, content, products such as an employee or member manual); board training; public education: informational brochures and flyers, information boards, website (and number of hits), public presentations and programs; leadership development among members, staff/employees, board; social capital development and conscious leadership development; quality circles, team or committee management; women and youth development; even expenditure on employee training (see Cooper 2004, 97; see also Gordon Nembhard 2004 and 2008; Garoyan and Mohn 1984).

### *Social Capital*

People who participate in democratic organizations and education and training opportunities develop social capital or expertise and comfort with inter-personal interactions, social networking, leadership development, concern for community, and human development activities (see Shipp 2000 and Gordon Nembhard 2004 and 2008). Staff and members develop the capacity to work well in teams, to utilize cultural attributes in a positive way, to bring people together and/or to strengthen the enterprise. Participation builds trust and solidarity among members and staff. Leadership development also occurs. Leadership development among staff, board, and members strengthens families and increases civic participation, as well as strengthens the enterprise (Gordon Nembhard 2004; Gordon Nembhard and Blasingame 2002). Members and staff often increase their effectiveness in the enterprise and in community, and go on to participate in other community organizations and run for political office, etc. (Gordon Nembhard 2004; see also Lyon et al. 2002).

### *Economic Linkages*

Economic linkages of the enterprise help to gauge how connected the enterprise is to the local economy. Does the credit union buy supplies and procure inputs from and/or sell supplies and goods and service to local enterprises? If so, how many, how often? How connected is the credit union to the community economically, and does its presence have an economic impact on the community? This information will help

with developing a multiplier and measuring re-circulation of resources locally. Additional positive side effects that may be unintended from the way the credit union does business with local businesses and organizations, and how it treats its employees, are also relevant. Buying locally can support and stimulate other social enterprises and other business activity. New business can develop or existing businesses may expand because of the business from the credit union, or because of the business atmosphere or economic stabilization provided by the credit union — or because of a loan from the credit union. In addition, a credit union may use its own resources (monetary donation, equipment, use of office space or administrative services, volunteer time) to leverage other resources for its stakeholders and the community. Some will help a community to raise money for a special project, beyond the specific amount an enterprise donates (see Lyon et al. 2002; Gordon Nembhard 2008; Fairbairn et al. 1991; Desjardins 2010).

### *Economic Multipliers*

Multipliers measure the effect \$1 of spending has on some aspect of the economy (GDP, jobs, labour income, etc.). There are direct, indirect, and induced effects. If a credit union (or any other kind of co-operative or enterprise) hires ten employees, then that sector gains ten employees. The multiplier is calculated based on how many jobs are created with the money the credit union spent on employment and then weighted back to the \$1 scale. The multiplier can also measure the effect of the wages or salary of the ten employees on wages in the industry, employee benefits, etc. Those measures are considered direct within-industry effects or multipliers. If the credit union lends money to a local business, and that business hires employees, we can calculate an indirect, inter-industry effect on job creation (wages, etc.). Simple multipliers calculate combined direct and indirect effects. Total multipliers also add induced effects on household spending or local spending. If a credit union hires ten employees, those employees spend at least some of their money buying goods and services from local vendors, such as grocery stores. If the credit union lends money to a local business, that business may buy supplies and services locally, and their employees may buy goods and services locally. The total multiplier will calculate an estimate of the im-

pact of \$1 of spending in each of these areas on a local economy (community level), or province wide, or nationally.

To calculate the effects for a specific credit union (co-operative or enterprise):

- a. Suppose the credit union loans \$100 to small businesses, and donates \$10 to charity.
- b. Those small businesses then spend \$90 locally, and the charities spend \$10 locally.
- c. The credit union has therefore added its initial loans and donations (\$110) PLUS the small businesses' and charities' spending (\$100) to the local economy, for a total of \$210.
- d. Thus the credit union's simple multiplier is  $\$210/\$110 = 2.1$ . (Every \$1 loaned/donated adds \$2.10 to the local economy.)

There are three ways to gather the data needed to actually calculate these measures:

1. Statistics Canada's methodology (Leung and Secrieru 2011 and Statistics Canada 2014) gives industry and province-wide multipliers, but not multipliers for local communities. Based on the multipliers calculated by Statistics Canada, we would use the credit union's financial statements and employment data to calculate provincial multipliers.
2. For more precise multipliers at the community level we would combine the information from a credit union with in-depth information on users, using the credit union's financial statements and data, and supplement that information with surveys and/or interviews of the credit union's members, businesses that have received loans, charities, and programs that have received donations or grants. This database methodology includes examining customers' bank statements to determine how much was spent locally. Then, we would randomly survey the credit union's customers and partners for further information (local cash payments, number of employees hired, etc.). This requires personal financial records from members/customers and is the most intrusive, yet the most accurate, method. Since it may not be pos-

sible to be that intrusive, we are exploring a compromise survey method with random sampling.

3. The random sampling survey method would randomly sample several local communities served by the credit union. In each of these communities, we would survey customers on basic spending habits, asking simple questions such as "Where do you buy most of your staples?"; "How much of your income do you spend locally?"; etc. Since many people do not calculate that, we may need to conduct interviews, and help the respondents think it through and estimate that kind of spending, and what percentage of their total spending, it represents. We would use the insights and calculations from these surveys/interviews to estimate local spending from credit union members and clients. We would calculate local multipliers from the credit union information and from compiling the answers to our surveys. We would survey a representative sample of the credit union's branches (urban, rural, Aboriginal, etc.). We would need to survey at least 40 people from each branch (debtors, depositors, employees, charities), in order to gain meaningful information. We would then impute a local spending multiplier from this information.

We are also interested in calculating a leadership and civic engagement multiplier. Here we would use:

- Staff volunteer hours — multiply total hours by minimum wage (or comparable wage) and add to total dollar donations to the community.
- Member participation — if members participate in the credit union's governance, and/or other programs or activities sponsored by the credit union, we would multiply the number of credit union members times the number involved in credit union governance and the number involved on other credit union committees, etc.
- Civic Engagement — how many credit union members are active members in other organizations, or participate in other organizational leadership in the community? We would multiply the number of credit union members times the number

holding positions in other organizations. We would also investigate what kinds of civic engagement credit union members and employees are involved in.

### Results from the First Pilot Study: Advantage Credit Union

Responses from the first pilot interviews are best summarized in the answers to three questions: What do credit unions do best? What are the most important services your credit union provides? How do credit unions help build assets?

What credit unions do best, according to our respondents, is to be involved with schools; provide useful, understandable information to members about their accounts; provide personalized service; and in general be involved with their surrounding community. In addition, most respondents agreed that credit unions “do a really good job of knowing our members.”

The services respondents felt were most important were simply being in the community and donating to the community; and providing regular service to all members, regardless of location. Also providing financial services that are sensitive to the life cycle stages (which change as you go through life) — the credit union has services for each stage and provides personalized information to members. Providing fairly priced (competitive) financial services was also considered important.

Respondents believe that credit unions help in asset building because they make many financial products available to all members (even in small communities). Moreover, some financial products are not available anywhere else. They also note that a credit union’s provision of financial literacy and access to credit are important to asset building, especially among the low-income and under-served.

### Discussion

Unlike most other investigations such as social audits, social accounting, and performance evaluations of co-operatives and social enterprises, this study is most concerned with measuring social enterprise and co-operative business impacts on communities. Therefore, while performance and business viability are important, as are their environmental practices, we mostly focus on the ways in which what social enterprises do

and how they conduct themselves affects their stakeholders and the communities in which they are located and function. We ask questions about how the credit unions’ treatment of employees, benefits to employees, and the education and training of members and employees impact communities. We examine the variety of services, programs, and activities in which credit unions engage.

Most respondents in the pilot study answered that asset building would occur regardless of whether they were using a credit union. The task for researchers and our project, then, is to determine if asset-building access and opportunities are the same at other financial institutions, and if not, what is different? What is the Credit Union value added in terms of asset building and community development? Also, how will our research and findings help credit unions and their members and other stakeholders recognize and articulate these impacts and potential advantages?

From our interviews and focus group discussions, we began to get answers about what credit unions do well and what are their most important services. The credit union provides access to comprehensive financial services, personalizes the services, and sometimes customizes services, and is active in the community. Participants were not able, however, to articulate how what the credit union does well differs significantly from other financial institutions or businesses. Therefore, the credit union value proposition needs strengthening. In addition, the questions failed to elicit detailed answers about the actual impact of credit union activities on members and the community. For example, respondents listed what their credit union did in the community, but few gave specific examples of the impact of those activities. The fundamental challenge of the study remains, to discover: what difference does the credit union make in its community? The next phase of the study will attempt to get closer to that answer, with the use of more in-depth interviews and by calculating multipliers as discussed above.

### Lessons Learned So Far

We have learned that when asked, credit union staff and members can delineate significant services and programs. However, they have more

difficulty answering questions about outcomes, and articulating the impact and significance of those services and programs on individuals and the community. It is important to ask directed questions about how a service or program helps someone, and what would be different if the credit union did not engage in a particular activity.

We have begun to explore what kinds of questions might get at the distinction between services, economic relationships, and impacts. We began to revise some of the questions. One new question we have added is to name the credit union activity in the community and then ask specifically how it benefits the community. For example: your credit union participates in the "Relay for Life." How does this event help the community? Do you know anyone who has personally benefited from the money raised through this or other events? Another revision asks specifically about impacts rather than what events staff participate in: the staff participate in many local events. How would the community be affected if they reduced the number of volunteer hours?

In addition, we are moving toward measuring multiplier effects (direct, indirect, and induced), and figuring out how to design and collect the appropriate data in order to calculate local multipliers. Multipliers provide us with a method to monetize multilevel economic and social capital relationships and interactions, which will provide additional and alternative ways to measure and understand impact on communities.

Understanding and documenting the full panoply of credit union impacts on community and wealth accumulation requires an expanded notion of impacts and outcome measurement, and the creative use of interdisciplinary and possibly newly designed tools. This is a process that takes years and successive trials, so it is not a short-term, single-survey endeavour. On the other hand, asking credit union staff and members difficult questions provides important and unique information, and often increases the insights of both the interviewee and the interviewer. In addition, designing and calculating multiplier effects helps us to better understand impacts and how they reverberate throughout the economy and the community. We are able to measure not only the direct effects, but also indirect and possible induced effects, which gives us a more detailed picture of the effects on communities, and deeper understanding of community impacts.

### Appendix 1: List of Potential Indicators

Types of Impact	Types of indicators	Specific indicators	Questions	Informant*
Community Involvement	Investments Donations In kind donations Sponsorships	<ul style="list-style-type: none"> <li>Amount of in-kind /donations</li> <li>Recipients:                             <ul style="list-style-type: none"> <li>cultural groups</li> <li>sports groups</li> <li>other local clubs, organizations</li> </ul> </li> </ul>	How much does the CU donate as a percentage of profits?	M
			Please list all the community activities the CU was involved with or donated to in the past 6 months? Is this typical for a six-month period?	M
			How many organizations have benefited from donations from the CU over the past year?	M
			What types of organizations have received donations?	M
			What about sponsorships?	M
	Scholarships/ Bursaries	<ul style="list-style-type: none"> <li>Amount of Scholarships /Bursaries</li> <li>Types of scholarships. I.e. do they focus on:                             <ul style="list-style-type: none"> <li>On marginalized groups?</li> <li>Different educational institutions</li> </ul> </li> </ul>	How many scholarships or bursaries does the CU award each year? What is the amount of these scholarships?	M
			Do you award these to specific groups of people (low income, residence of community)?	M,S
			Are members of branches eligible for these awards?	M,S
	Student Placements	<ul style="list-style-type: none"> <li>Number of summer students</li> <li>Positions for young employees</li> </ul>	Do you offer summer positions at the CU?	M
			Do you have graduate recruitment programs?	M,S
Promoting the community as a good place to live	Advertising/promotional material	Describe how your credit union promotes the community	M,S,C	
Improving the image of the community and/or branch communities	Campaigns	Describe how the CU works to improve the image of the community.	M,S,C	



Types of impact	Types of indicators	Specific indicators	Questions	Informant*
	Volunteerism	<ul style="list-style-type: none"> <li>Volunteer hours within work hour</li> <li>Volunteer hours outside work</li> </ul>	<ul style="list-style-type: none"> <li>Do you or do you know of CU staff that volunteer in community activities?</li> <li>Does the CU allow for employees to volunteer during work hours? How many hours can they volunteer as part of work?</li> </ul>	M,S
	Participation in groups/clubs	<ul style="list-style-type: none"> <li>Number of staff that participate on local boards or committees</li> <li>Number of staff that provide financial and management expertise to local clubs or organizations</li> </ul>	<ul style="list-style-type: none"> <li>Do you know of any CU employees that sit on other boards or committees in the community</li> <li>Do you or other employees offer your expertise to clubs or organizations?</li> </ul>	M,S
	Fundraising activities	<ul style="list-style-type: none"> <li>Number of fundraising activities in the past year</li> </ul>	<ul style="list-style-type: none"> <li>Does the CU participate in fundraising activities? If so, what were they for? What was the extend of the CU's involvement?</li> </ul>	M,S
	Policy advocacy	<ul style="list-style-type: none"> <li>Specific policies or legislation supported/ promoted by CU</li> </ul>	<ul style="list-style-type: none"> <li>Has your credit union been involved in policy advocacy – supporting financial policies or regulations or other legislation (prov. or fed.) that would help your members or the community?</li> </ul>	M,S
	Culture	<ul style="list-style-type: none"> <li>Purchasing / displaying local art</li> <li>Support or offer cultural programs – painting, music, photography, second language, etc.</li> </ul>	<ul style="list-style-type: none"> <li>How does your CU express cultural appreciation? Does it buy and/or display local art?</li> </ul>	M,S
			<ul style="list-style-type: none"> <li>Does it hire local talent for events/activities (e.g. local bands, musicians, etc )?</li> </ul>	M,S
<ul style="list-style-type: none"> <li>Does your CU support or offer cultural programs in the community?</li> </ul>			M,S,C	
Community Economic Development	Encouraging people to start or grow a business	<ul style="list-style-type: none"> <li>Number of business start-up in community through CU loans</li> </ul>	<ul style="list-style-type: none"> <li>How many business start-ups has your CU been involved with over the past year?</li> </ul>	M,S
		<p><b>Multipliers:</b></p> <ul style="list-style-type: none"> <li>Number of employees at new business</li> </ul>	<ul style="list-style-type: none"> <li>How many employees does the new business have?</li> </ul>	M,S

Types of impact	Types of indicators	Specific indicators	Questions	Informant*
	Sustaining businesses	<ul style="list-style-type: none"> <li>Number of failed businesses in community over past year</li> <li>Continuing education programs for staff/owners of established businesses</li> </ul>	<ul style="list-style-type: none"> <li>Do you know how many businesses were closed in the past year?</li> </ul>	M,S,C
			<ul style="list-style-type: none"> <li>What does the CU do to help keep businesses viable in the community?</li> </ul>	M,S,C
	Financial services to community	<ul style="list-style-type: none"> <li>Lower interest rates on loans</li> <li>Higher interest rates on deposits</li> <li>Waived service fees for organizations</li> </ul>	<ul style="list-style-type: none"> <li>How does the rates of CU compare to rates of competitors (interest rates for loans and deposits)</li> <li>Does the CU waive or reduce service fees for organizations in the community? How often does this occur</li> </ul>	M,S
	Specific community development programs	<ul style="list-style-type: none"> <li>Affordable housing programs</li> <li>Grants to local organizations for specific development projects</li> <li>Programs for disadvantaged /underserved members (disabled, visible minorities, elderly, remote)</li> <li>Training programs</li> <li>Small business micro-lending</li> <li>Special financing for non-profit organizations</li> <li>Mentoring programs</li> <li>New immigrant programs</li> </ul>	<ul style="list-style-type: none"> <li>Does your CU offer any special programs for the community (affordable housing programs, special grants, etc)?</li> <li>Are these offered at all the branches?</li> </ul>	M,S,C
	<p><b>Multipliers:</b></p> <ul style="list-style-type: none"> <li>Number of disadvantaged that have found employment</li> <li>Number of new living spaces in community</li> </ul>			M,S,C



Types of impact	Types of indicators	Specific indicators	Questions	Informant*	
	Economic linkages	<ul style="list-style-type: none"> <li>Amount spent on supplies purchased from local businesses</li> <li>Use of local services</li> </ul>	<ul style="list-style-type: none"> <li>Where do you buy your supplies? Are there local companies that you try to deal with?</li> </ul>	M,S	
			<ul style="list-style-type: none"> <li>What other services do you use that are local (cleaning company, catering, marketing, publishing, etc)?</li> </ul>	M,S	
		<b>Multiplier:</b> <ul style="list-style-type: none"> <li>Recirculation of dollar spent by CU</li> </ul>	<ul style="list-style-type: none"> <li>Think about how your CU buys local products and uses local services and estimate how many times a dollar spent by the CU recirculates around the community before leaving. Do the dollars also return to the CU?</li> </ul>	M,S	
		Examples of helping local businesses	<ul style="list-style-type: none"> <li>Can you give examples of how the CU helped out a local business?</li> </ul>	M,S	
Service provision	Types / quality of services	<ul style="list-style-type: none"> <li>Savings and investment instruments</li> <li>Quality of services</li> </ul>	<ul style="list-style-type: none"> <li>Please list all the savings and investment products your CU offers.</li> <li>Do these products help your members build assets?</li> </ul>	M,S,C	
			<ul style="list-style-type: none"> <li>What do you think are the most important services your CU provides to its members / community?</li> </ul>	M,S,C	
			<ul style="list-style-type: none"> <li>What does your CU do best? What could it do better?</li> </ul>	M,S	
	Number of communities served Number of new members	<ul style="list-style-type: none"> <li>Number of branches</li> <li>Percentage of community served by CU</li> <li>Increase/decrease in membership</li> </ul>	<ul style="list-style-type: none"> <li>How many members do you have?</li> </ul>	M,S	
	Public perception			<ul style="list-style-type: none"> <li>What do people say about the CU?</li> </ul>	M,S,C
				<ul style="list-style-type: none"> <li>What makes the CU different than a bank?</li> </ul>	M,S,C

Types of impact	Types of indicators	Specific indicators	Questions	Informant*	
	Personalized service	<ul style="list-style-type: none"> <li>Face-to-face interactions</li> </ul>	<ul style="list-style-type: none"> <li>Is it important to you to talk directly to a person? Do you prefer to use the internet?</li> </ul>	C	
			<ul style="list-style-type: none"> <li>Can you give examples of the CU giving personalized service to its members?</li> </ul>	M,S	
	Professionalism	<ul style="list-style-type: none"> <li>Number of complaints from members</li> </ul>	<ul style="list-style-type: none"> <li>How does your CU handle member complaints?</li> <li>How many complaints have you received in the last week or month? What is the average? Are there typical complaints?</li> </ul>	M,S	
	Unbanked communities	<ul style="list-style-type: none"> <li>Number of surrounding communities without a financial institution</li> </ul>	<ul style="list-style-type: none"> <li>What does the CU try to do for people in communities without a financial institution</li> </ul>	M,S	
	Branches	<ul style="list-style-type: none"> <li>Percentage of members at branch locations</li> <li>Percentage of branches where CU is only financial institution</li> <li>Number of branch closures</li> </ul>	<ul style="list-style-type: none"> <li>How many branches do you have? How many of these are the only financial institution in the community?</li> <li>Has the CU ever closed a branch?</li> </ul>	M	
	Skills and leadership development	Participation on board Participation at annual meeting Training programs	<ul style="list-style-type: none"> <li>Number of participants in the programs over last 5 years / over last year</li> </ul>	<ul style="list-style-type: none"> <li>Do you participate in the annual meeting, elections for board members</li> </ul>	M,S,C
				<ul style="list-style-type: none"> <li>Have you ever sat on the board or been a committee member? Why or why not?</li> </ul>	C
<ul style="list-style-type: none"> <li>What skills have you developed due to your involvement with the coop?</li> </ul>				C	
		<b>Multiplier:</b> <ul style="list-style-type: none"> <li>Participation in other organizations because of involvement in CU</li> </ul>	<ul style="list-style-type: none"> <li>Have you been involved in other organizations (board member, politics, etc.) because of your involvement with the CU?</li> </ul>	C	
Environment	Environmental programs: <ul style="list-style-type: none"> <li>Carbon</li> </ul>	<ul style="list-style-type: none"> <li>Number of green initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Does your CU have any environmental programs (reduce reuse, recycle)?</li> </ul>	M,S	

Types of impact	Types of indicators	Specific indicators	Questions	Informant*
	neutral programs • Green buildings • Recycling	• Amount of paper saved/ recycled • Conservation policies (water, energy) • Participation in community events	• Has the CU introduced any carbon neutral programs (planting trees to offset carbon emissions) • Has the CU ever measured its environmental footprint (total impact on environment) ? • What other activities does the CU do related to the environment?	M,S M,S M,S
Employment	Salaries Retirement programs Hiring practices Employee support (childcare, health and dental insurance)	• Number of jobs/ number of full-time jobs • How many of these are from the local community? • Number of jobs at branches/ number of full-time employees • Salaries compared to competitors • Benefits • Executive/employee salary ratio • Proportion of visible minorities and women on staff • Proportion of different age groups	• Is the CU a good place to work? • Has it received any awards or recognition for being a good employer? • How does it compare to other places you have worked?	M,S
		<b>Multiplier:</b> • Change in quality of life	• How does working for the CU benefit you in other ways (quality of life, confidence, self-esteem, etc)	M,S,C

\*M – management; S – staff; C – customer/member; BM – board member

Source: Adapted by the authors with Dwayne Pattison (research assistant), from Lyon, F. Bertotti, M. Evans, M., Smallbone, D. Potts, G. and Ramsden, P., 2002; and Credit Union Central of Canada, 2007.

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## Chapter 13

### ASSESSING THE IMPACT OF CREDIT UNIONS ON THEIR COMMUNITIES: A PRE-TEST OF POSSIBLE INDICATORS

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#### Introduction

THE PURPOSE OF THIS CHAPTER is to share the results of one phase of a larger, and still ongoing, research project.<sup>4</sup> The larger project explores the many ways that credit unions benefit their members and their communities, with the objective of documenting and measuring the impacts of their programs and services on members' well-being, financial stability, wealth building, skill development, civic engagement, and overall community economic development (see chapter 12 in this volume).

This chapter focuses specifically on the design and results of a survey of Affinity Credit Union members that asked respondents about their participation in, and evaluation of, the various programs offered by Affinity.

1. Centre for the Study of Co-operatives, University of Saskatchewan
2. John Jay College, City University of New York
3. Affinity Credit Union
4. The larger project is titled, "Measuring the Impact of Credit Unions on Wealth Building in Communities." It is one of two projects in the Prairie Cluster, and part of the Measuring the Co-operative Difference Research Network <http://www.co-operativedifference.coop>.



## Setting the Context

The massive public bail-out of private, investor-owned banks in 2008–09 has underlined — and revealed to many for the first time — the virtues of a customer-owned co-operative banking system that is more risk-averse and less driven by the need to make profits for investors and bonuses for managers. In the year following the economic crisis of 2008, credit unions and co-operative banks all over the world reported that they were still financially sound. They had experienced improvements in almost every facet of their business, including membership growth, an increase in assets and deposits, an increased volume of lending, a better rate of interest, and greater stability (Birchall and Hammond Ketilson 2009).

As we moved into 2012, the International Year of Co-operatives, the majority of co-operative banks and credit unions were still in an unusually strong position around the world. They reported that they had not been damaged as much by the banking crisis and were growing strongly as customers switched their business away from the discredited investor-owned banks to what they saw as a more risk-averse and trustworthy sector.

As noted by the Co-operative Bank Panel addressing the United Nations General Assembly in New York during the official launch of the International Year of Co-operatives,<sup>5</sup> co-operatives as institutions are generally an underestimated and overlooked opportunity. In particular, ordinary citizens see banks as responsible for many of the world's economic difficulties, whereas they are more likely to trust co-operative

5. United Nations Launch of 2012 International Year of Co-operatives, 31 October 2011, New York. See [http://www.canada2012.coop/en/about\\_IYC\\_2012/United-Nations-IYC-launch](http://www.canada2012.coop/en/about_IYC_2012/United-Nations-IYC-launch).

6. Richard Stringham and Celia Lee found that the three-year survival rate for co-ops incorporated in Alberta between 2005 and 2008 was 81.5 percent, compared to 48 percent for conventional businesses. *Co-op Survival Rates in Alberta* (Port Alberni, BC: BC-Alberta Social Economy Research Alliance, and Alberta Community and Co-operative Association, 2011), 10–12. This publication references earlier, five-year survival studies in Québec and British Columbia that showed similar, if less spectacular, results — 64 percent (in Québec) and 65.8 percent (in British Columbia) for co-operatives, compared to a survival rate of 35 percent and 39 percent, respectively, among conventional businesses.

banks and credit unions. Successive Canadian studies have demonstrated that co-operatives have a higher survival rate than traditional businesses.<sup>6</sup> And with these characteristics, co-operatives are capable of addressing tremendous need in remote and underserved communities (Hammond Ketilson and Brown 2009).

Across Canada today there is a trend toward consolidation in the credit union and *caisse populaire* sector. But while the total number of credit unions and *caisses populaires* is decreasing, the average asset size of credit unions and *caisses populaires* continues to grow. The combined assets of credit unions and *caisses populaires* in Canada increased from \$131 billion in 2001 to over \$380 billion in 2014. As well, total membership in credit unions and *caisses populaires* continues to grow steadily, while the number of credit union and *caisse populaire* locations has decreased only slightly. Seven hundred and twenty-one credit unions and *caisses populaires* serve over 11 million members in 2,610 service locations across Canada (Credit Union Central of Canada (CUCC) 2015, 1; Desjardins 2015).

Type of ownership and methods of capitalization are two of the key factors that brought financial co-operatives through the economic crisis in better shape than the banks. Because credit unions are *member owned*, they tend to be more risk-averse compared to other financial institutions (Birchall and Hammond Ketilson 2009).

With a broader set of objectives, credit unions are not driven solely by profits or shareholder interests, so they did not feel compelled to force people into inappropriate loans (McDougall 2008). As a result, credit unions stayed away from offering the riskier sub-prime loans. At the local level, co-operative banks and credit unions are not reliant upon the capital markets for funding, but are funded through member deposits.<sup>7</sup> They are strong in retail banking, which is characterized by stable returns and comparatively good access to savings and deposits.

The different governance structure, where local credit unions and co-operative banks scrutinize the decisions of the central institutions, cause them to be more aware of the fact that the loan they offer to their

7. John Radebaugh from the North Carolina Credit Unions League (NCCCUL): *Credit Unions in Good Shape*, 2008.



members is another member's money. The direct link of savings and loans, which may not be as apparent in some banks, acts as a moral constraint, and keeps the focus of decision makers on strengthening the "real" economy.

### How Should Credit Union Performance and Impact be Measured?

It is important to measure and report on these behaviours in a way consistent with what co-operatives are trying to achieve in keeping with co-operative principles. In addition to measures of business growth and stability, it is critical to measure the outcome of the relationship between the social and economic objectives of the co-operative. The seventh co-operative principle, for instance, motivates co-operatives to demonstrate a commitment to community.

Within the Desjardins system, this commitment is reflected in the goal to bring long-term prosperity to small business and society. The view is that a financial co-operative must be responsive to ordinary people, and support and contribute to the real economy. Monique Leroux, president and CEO of Desjardins, in her comments to the Co-operative Bank Panel, indicated that the motivation of co-operatives is different — "The motivation is not to provide earnings and profit every quarter but to bring a prospective that is long term, not a quarterly approach."<sup>8</sup>

Within the credit union system in Canada, this commitment is reflected in a number of ways. The easiest to measure is the amount invested through donations and sponsorships, scholarships and bursaries, charitable fundraising and contributions to community economic development. In 2010, credit unions donated \$37.6 million to support communities across Canada, an amount equal to 4.0 percent of their pre-tax net income and almost four times the average pre-tax contribution of the big six banks of 1.1 percent (CUCC 2011). In 2013, the amount equaled \$49.3 million. In a similar vein, the Desjardins Financial Group returned \$79.6 million to the community through sponsorships, donations, and bursaries (CUCC 2014, 1; Desjardins 2015).

Commitment to community is demonstrated in other ways. Despite

8. See [http://www.canada2012.coop/en/about\\_IYC\\_2012/United-Nations-IYC-launch](http://www.canada2012.coop/en/about_IYC_2012/United-Nations-IYC-launch).

the strong trend toward mergers within Canadian credit unions, the system as a whole has maintained service delivery points, even in less-profitable rural areas. For example, in 2000 and 2001, credit unions purchased a total of seventy-two bank branches. While the pace has slowed, this trend continues (CUCC 2014, 1; Desjardins 2015).

Further evidence of differential behaviour is reflected in the number of communities where credit unions and caisses populaires are the only financial institutions in the community. CUCC estimates there are 380 outlying Canadian communities where credit unions are the only bricks-and-mortar-based financial services. In the provinces of Saskatchewan and Manitoba, more than 55 percent of communities are served only by credit unions; in Nova Scotia, PEI, and Newfoundland, the number ranges between 40–47 percent (CUCC 2014, 1; Desjardins 2015).

Credit unions have also built a strong relationship with small and medium-sized enterprise markets. Connection to community enables credit unions to assess credit risk on factors other than dollars and cents (Hammond Ketilson and Brown 2009). Nationally, credit unions affiliated with Credit Union Central of Canada are responsible for more than 11 percent of commercial loans with SMEs. In Saskatchewan and Manitoba, credit unions are the leading provider of loans to SMEs (CUCC 2015, 4).

### The Challenge to Researchers

How do we measure the true impact of these statistics? What does it mean to a community that the credit union or caisse populaire is the only service provider in town? One way is to measure the impact of credit unions and caisses populaires in terms of wealth creation through asset building (see also chapter 12 in this volume).

Co-operatives are a democratic mechanism for wealth creation. Members of co-operatives put equity into the enterprise, and a successful co-operative enterprise gives a return on that investment. Sometimes the return takes the form of patronage refunds, and sometimes the return is in the form of job security and living wages and benefits, or reduced costs of products and services. Individual co-operatives decide democratically how much of the surplus should be allocated to members

and how much unallocated or retained in the business. Because of the democratic nature of co-operatives, distribution occurs in an equitable fashion, which places the wealth generated from the business into the hands of the member-owners. In this research we are concerned with how to identify the benefits and the nature of the wealth created, and how to measure and account for the assets and wealth that are not allocated to individual members but accumulate to the collective, and spill over into the community.

### Our Approach

The study explores the many ways that credit unions benefit their members and their communities by documenting the kinds of products, programs, and services credit unions provide and sponsor; and by measuring the impacts of these programs and services on members' well-being, financial stability, asset/wealth building, and skill development.

This study also focuses on the impact of credit unions on community economic development and civic engagement. The research aims to better understand the benefits credit unions provide their members and their communities, and the ways that credit unions help their members build wealth.

The research focus is on credit unions whose purpose is to provide its members with access to savings and investment instruments, and opportunities for asset accumulation. In keeping with previous research,<sup>9</sup> we have focused on identifying indicators to measure traditional and nontraditional, market and nonmarket, economic and social impacts of financial co-operatives on members, employees, their families, and their communities. We have concluded that an examination of both the assets that credit union members hold, and the ways credit union borrowers use their loans will contribute to understanding how assets are built through use and ownership of a co-operative financial institution. Finally, we have made the assumption that the various benefits credit unions provide to their communities can be considered community assets.

This analysis has led us to use a participatory, community-based model of research, which involves members and leaders in articulating

9. Gordon Nembhard 2004, 2008, and Thomas 2009; also see Garoyan and Mohn 1984.

social, cultural, and political as well as economic impacts — in this case, to work specifically with credit union managers, directors, and members. While performance and business viability are important, as are their environmental practices, we focus on credit union services, programs, and activities, and how the ways they operate affect their stakeholders and the communities in which they locate and function.

Most credit unions and caisses populaires record in detail their activity in terms of commitment to community, assuming that the members see value in these activities. The focus of our work has been to develop an instrument that will assess a member's level of awareness regarding specific activities, their perception of the importance of these activities, and the outcomes for the member. Ideally, a credit union will be able to track changes in performance on these indicators over time. Our partner in this work is Affinity Credit Union.

### Affinity Credit Union

Affinity Credit Union today is one of the largest credit unions in Canada. It has \$5.3 billion in assets under management, with 916 employees (Affinity Credit Union 2013, 2). A product of eighty years of partnerships with fellow credit unions across Saskatchewan, Affinity Credit Union has emerged as a province-wide credit union with seventy-seven branches in sixty-nine communities.<sup>10</sup>

The current organization is the result of many amalgamations of smaller credit unions, urban and rural. With each successive merger, the boards of these smaller credit unions were absorbed into the larger entity. Despite its increasing size, Affinity leadership is committed to maintaining representation at a local level. It has developed a highly decentralized model of representation whose goal is to retain contact with the communities from which the larger entity has emerged, and to ensure that the needs and the identity of the local communities around the province are well represented in the decision making of the board and the credit union itself.

10. <https://www.affinitycu.ca/YourCreditUnion/About/Pages/How-we-started.aspx>, accessed 15 February 2015.

*District Council Model: A Unique Governance Model*

Affinity's branches across the province are grouped into twelve districts, typically comprised of clusters of branches in a given geographical area. This structure includes one province-wide district specifically for First Nations representation. The First Nations District is unique, and was developed to provide improved access to financial services for First Nations individuals, families, and to support new business and economic growth. It has the same powers and responsibilities as all the other districts and represents the voice of the First Nations people of Saskatchewan.

Each district is governed by a council elected by member owners from each of Affinity's communities. The delegates play an important role in the governance of the credit union. Their locally based knowledge and decision making ensures the voice of the members is heard, responded to, and becomes part of Affinity's strategic direction. They also provide leadership in allocating community investment funds to reflect the needs and wishes of the region. Delegates are elected for three-year renewable terms. In return, they are offered professional development opportunities, including training on governance, financial management, and leadership.

Each district elects a director to the Affinity board of directors based upon the number of members within their district. The board consists of twenty-three directors, with one-third of the director positions up for election each year.<sup>11</sup>

The District Council model enables Affinity's leadership and management to maintain close contact with all communities, and facilitates information sharing in both directions. Regular strategic planning sessions at the district level provide direct input into product and service decisions. This structure maintains a sense of ownership in communities of all size and provides a mechanism through the district councils to replace boards and control at the local level.

11. <https://www.affinitycu.ca/YourCreditUnion/About/GovernStruct/Pages/default.aspx>, accessed 15 February 2015.

*Commitment to Community*

In addition to the unique governance structure focused on maintaining a connection with its many communities, Affinity Credit Union has a strong commitment to investing in community economic development initiatives. In 2012, this distinguishing focus secured it a spot, along with only two other Canadian financial institutions, as a member of the Global Alliance for Banking on Values (GABV). GABV is comprised of twenty-five of the leading sustainable banks from around the world, including Asia, Latin America, the US, Canada, and Europe.<sup>12</sup>

Affinity follows a strategic investment model with a specific focus on community economic development. It is a leader in the financial industry in terms of employing dedicated staff to seek out and support community development initiatives.

Their focus includes four specific areas:<sup>13</sup>

1. *Economic opportunities to enhance financial and social well-being*  
This is accomplished through investing in initiatives that improve educational outcomes for at-risk youth; create employment skills and/or job opportunities for vulnerable populations; build financial assets, literacy skills, and knowledge; and create the conditions to reduce and prevent poverty and social exclusion.
2. *Building community assets, facilities, and infrastructure*  
Support is provided to enhance the capacity of communities to develop, maintain, and increase access to the physical assets and facilities vital to community well-being. Examples include affordable and appropriate housing, from below-market rental to affordable home ownership and seniors' housing; community-owned facilities, and buildings that meet community needs.
3. *Facilitating sustainable community economic development*  
Affinity believes that its success depends on the strength of the local economy and local businesses. They use community invest-

12. <https://www.affinitycu.ca/YourCreditUnion/WhyChooseAffinity/Pages/Values-you-can-bank-on.aspx>, accessed 15 February 2015.

13. <https://www.affinitycu.ca/Community/Investing/Pages/Where-we-focus.aspx>, accessed 15 February 2015.

ment tools, funding, and loan capital, to support the creation and retention of small business, including co-operatives and social enterprises, that create jobs and deliver needed goods and services in communities; local economic development planning and revitalization programs.

#### 4. *Enhancing and promoting environmental sustainability*

Affinity promotes environmental sustainability through investing in initiatives such as green building and energy efficiency initiatives; sustainable energy and transportation; local/sustainable purchasing; and ecosystem and habitat preservation and restoration, sustainable agriculture and resource management.<sup>14</sup>

#### *Measuring Impact*

Affinity Credit Union has developed a sophisticated Scorecard that measures and reports annually where and how member deposits are being used to strengthen the surrounding communities. At the close of 2014, member deposits totaled \$3.93 billion, with 90 percent of these deposits invested in more than 49,000 loans. An average of 75 percent of those loans stay in the same region, supporting local residents, businesses, and organizations. This includes over \$50 million in loans to individuals and organizations that face challenges in accessing credit. This capital was invested in \$3.55 billion in loans to 51,077 members, meaning that more than 100 percent of ACU's existing loans are funded by their members. ACU invested \$2.1 million in its communities through District Council funding, corporate sponsorships, scholarship programs, and so on, representing 8.1 percent of 2014 pre-tax profits.<sup>15</sup>

In partnership with the City of Saskatoon, Affinity provided twenty-eight mortgages and \$7 million in financing to low-to-moderate income families who were able to move from rental accommodation to home ownership. ACU also partners with Westcap Management Ltd. and other Saskatchewan credit unions in the delivery of the HeadStart on a

14. Ibid.

15. <https://www.affinitycu.ca/Community/Impact/Pages/Impact-At-A-Glance.aspx>, accessed 15 February 2015.

Home® program, which leverages funding made available from the Government of Saskatchewan to build entry-level homes in the province. Since August 2011, the HeadStart program has approved more than \$370 million in financing to builders and developers. In turn, 2,040 new entry-level homes have been built or are under construction to ease entry-level housing demands.

But while these indicators are one way of thinking about measuring impact, they are primarily a measure of input or activity, as opposed to a measure of the impact that these investments have on the communities in which Affinity is located.

The goal of this research is to move beyond measures of input or activity, to attempt to assess the difference that these activities make in the lives of individuals or the community as a whole. The following section describes one phase of our research whose objective was to achieve this goal.

#### **Pre-Testing the Indicators**

We developed a survey instrument containing scale items designed to measure the impact of credit union activity within its surrounding community. The items were identified through in-depth interviews with senior management, board members, and general members of one of our partner credit unions. The items were then modified to reflect the specific activities of another partner, Affinity Credit Union. In the summer of 2012 we had the opportunity to include a subset of these scale items in a province-wide survey of credit unions. The results presented in subsequent sections are specific to Affinity Credit Union.<sup>16</sup>

16. Acknowledgement and gratitude is given to Sigma Analytics for conducting the interviews and compiling the data included in this article. This data was collected as part of the PMR survey, a province-wide survey sponsored by Credit Union Central of Saskatchewan. This survey of credit union members around the province was designed to gather information about public opinion and market data as it related to banking and banking needs. The section assessing the impact of credit union presence was included as part of the Measuring the Impact of Credit Unions in Saskatchewan research project, a partnership between Affinity Credit Union and the Centre for the Study of Co-operatives.



### Methodology

A random sample of 400 telephone interviews were conducted over a seven-week period with Affinity Credit Union members in Saskatchewan aged nineteen or older from the end of June 2012 to mid-August 2012. To supplement the sample, all respondents from the Provincial Market Research (PMR) survey who indicated using Affinity Credit Union as a financial institution were included. The sample totaled to 478, yielding a margin of error of  $\pm 4.5$  percent at the 95 percent confidence level.

**Demographics** — Of the 478 respondents, there were slightly more women (58 percent) than men. The mean age was fifty-two years of age and ranged from nineteen to ninety-seven years of age. The majority of respondents (64 percent) were fifty years of age or older. Most of the respondents (70 percent) had post-secondary education. More respondents (60 percent) were from a rural area than urban area. Incomes generally ranged between \$25,000 and \$149,999, with more than 40 percent of the sample having an income of \$25,000 to \$75,000. The majority of respondents (54 percent) reported a net worth of between \$250,000 to more than \$500,000. These latter two demographics were heavily influenced by age, with the older respondents indicating higher net worth, while the younger (thirty to forty-nine years of age) respondents had higher incomes. Participants generally were not overly active within their credit union. Six percent identified as having participated as an elected board or committee member; 18 percent had attended an annual general meeting, and 20 percent had participated in credit union elections. There was more involvement in member appreciation days (42 percent), but 40 percent of respondents said they did not participate in their credit union in any way other than financial transactions.

Where applicable, respondents were asked to provide their responses on a five-point numeric scale where 1 is very negative, 5 is very positive and 3 is a neutral response. Mean scores above 3.00 reflect overall positive response, and those below 3.00 reflect an overall negative tendency.

**Importance and Use of Affinity Credit Union Programs** — Respondents were asked to evaluate the importance of various programs offered by Affinity Credit Union. The programs included financial literacy, mi-

croloans for businesses, affordable housing, specialized products for youth and seniors, and community loans. While most respondents had not used the programs offered by the credit union, respondents generally agreed that the programs were important (mean score 3.8 to 4.2; see Appendix A, figure 1).

**Perceived Value of Specific Policies and Practices in the Community** — Respondents were asked to assess the value to the community of a number of Affinity policies and practices. Each was assessed as being of very high value (all mean scores over 4.1) to the community, with the exception of paying staff for time spent volunteering in the community (3.4). These results reflect a high level of support for Affinity's emphasis on poverty reduction, leadership development, use of local services, profit sharing, and reinvesting in the community (see figure 2).

Although support was still expressed, there were statistically significant differences in mean responses between income level, with those in the highest and lowest income brackets having a tendency to provide higher ratings than those in the middle income brackets. The most marked differences were for the following practices: share profits, help reduce poverty, and improve literacy (see figure 3).

**Credit Union Membership** — To assess individual motivation for joining Affinity, respondents were asked to agree or disagree with a series of statements regarding the benefits of membership. Although response was positive toward each benefit (mean response of 3.1 to a high of 3.9), the highest agreement was with benefits to the entire community: *ensured a strong local business economy, helped community organizations provide services that would not be available otherwise, and enhanced the quality of life of others in the community*. As an aggregate, respondents were neutral on their membership *helping them consolidate debt or access services not provided by other financial institutions*, but showed higher agreement with items reflecting the ability to participate in credit union decision making and to achieve greater control of their financial situation (see figure 4).

There were, however, statistically significant differences across income brackets and net worth. Those in the lower income brackets tended to provide higher ratings of the value of their membership than those in the higher income brackets (see figure 5).



Those with the lowest level of net worth (negative or less than \$50,000) agreed strongly with statements regarding benefits for the entire community: *ensured a strong local business economy, helped community organizations provide services that would not be available otherwise, and enhanced the quality of life of others in the community.* They also agreed that their membership gave them *access to services they would not obtain from other financial institutions, as well as a voice in managing the credit union.* Respondents whose net worth was negative, however, did not agree that their membership enabled them to *consolidate debt, acquire assets or reach their financial goals* (see figure 6).

**Investment in Community** — Respondents were asked how active they felt Affinity Credit Union was in terms of giving back to the community. Most of the respondents (73 percent) believed that Affinity was active to very active (mean responses of 4 on a 5-point scale). There was, however, a statistically significant difference between income brackets on this question, with those in the higher-income brackets having a tendency to provide lower assessments of activity than those in the lower-income brackets.

There was also statistically significant difference between income brackets on the question, *do you feel Affinity Credit Union should give more?* with those in the higher-income brackets were more likely to indicate that Affinity should give more (see figure 7).

**Relative Importance of Specific Community Development Programs** — Respondents were asked how important it was for Affinity Credit Union to support a number of different initiatives or programs within the community. Respondents indicated the strongest support (mean of 4–4.3) for school programs or scholarships, affordable housing initiatives, health causes, agriculture programs such as 4-H, and financial literacy programs. Environmental, sport and fitness, arts and culture initiatives and community celebrations were rated as relatively important (3.6–3.9), and respondents were least supportive of naming rights (see figure 8).

There was a statistically significant difference between income levels. Those in the lowest and highest income brackets had a tendency to indicate that the programs were more important than their counterparts.

Significant differences were found only on some items (e.g., statistically significant differences on agricultural programs but not on affordable housing; see figure 9).

## Discussion

### *What Can Affinity Credit Union Conclude from These Results?*

It is clear from the survey results that there is a perception among the membership that Affinity's community economic development initiatives are valuable, and that they are having a positive impact on the communities within which the credit unions are located. Members with higher levels of income were very supportive of the types of programs that Affinity was supporting or delivering, but also felt that their credit union should be doing more to support community well-being.

The programs targeted at lower income and/or vulnerable members of the community are enabling those members to feel more empowered, to access services they would not obtain from other financial institutions, and to move toward achievement of their financial goals. This same group of respondents saw greater value in their membership overall.

Affinity's leadership can feel confident that these outcomes are consistent with the goals identified within the strategic investment model: creating economic opportunities and improving the well-being of vulnerable populations; building community assets, facilities and infrastructure; facilitating sustainable economic development; and enhancing and promoting environmental sustainability. As an organization, they have been able to successfully position themselves within the financial industry according to these values.

### *What Can the Researchers Conclude from These Results?*

As described earlier, the focus of our work has been to develop an instrument able to assess a member's level of awareness regarding specific activities, their perception of the importance of these activities, and the outcomes for the member. The survey instrument has succeeded partially, in that it has captured the perceived importance of Affinity's com-

community economic development policies and programs. It has also provided an assessment of the impact on individual members in terms of the benefits they have received as a result of their membership. We have not, however, been able to capture information regarding asset building or wealth creation with the questions contained in this survey.

### Limitations and Further Research

While we had an opportunity to pre-test some of the scale items designed to measure impact across a number of indicators, we were not able to test our entire instrument. The Provincial Market Survey was quite lengthy prior to the addition of our questions, so we were constrained in the number we could use. In addition, we were asked to modify the wording of the questions such that they were more consistent with the tone of the overall survey. Finally, the questions designed to capture information regarding asset building or wealth creation, were not included.

Discussion with the leaders in our partner credit union has led us to the conclusion that it is also necessary to conduct in-depth interviews with recipients of community development funding, such as the affordable housing program, community loans, and district council funds. Such interviews would enable us to explore the difference that receiving the loan has made in the life of the individual or the organization. This aspect of the research is ongoing.

## Appendix A

Figure 1: Importance and Use of Programs

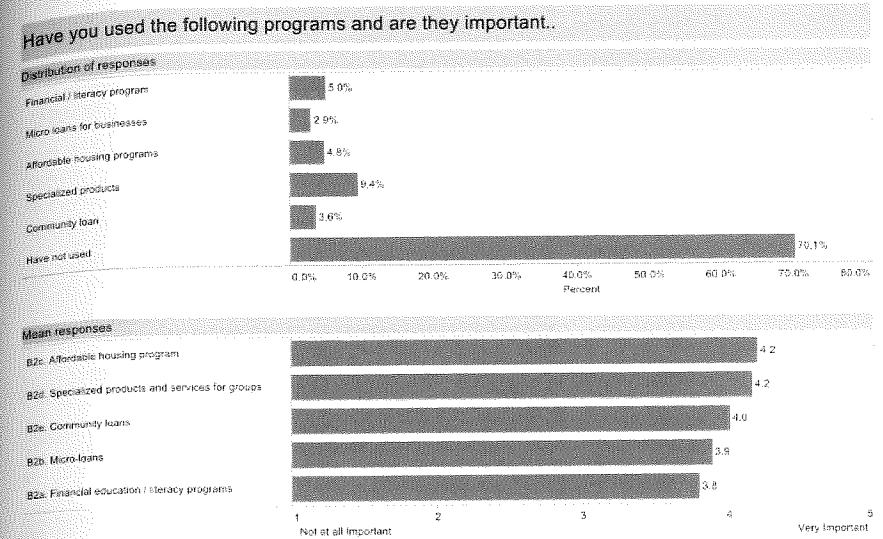


Figure 2: Perceived Value of Specific Policies and Practices in the Community

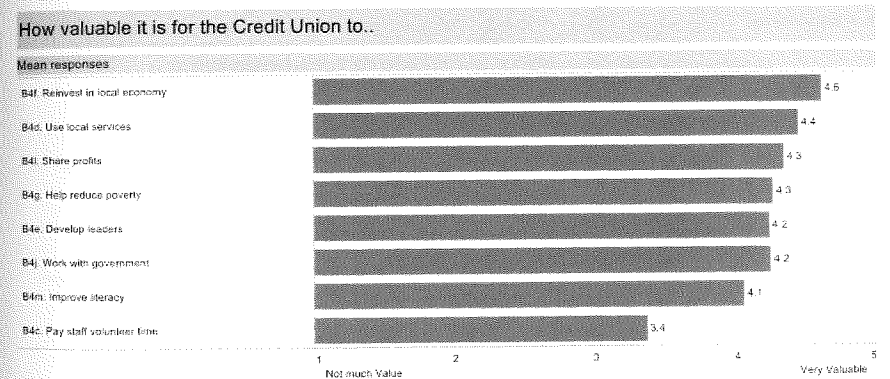


Figure 3: Perceived Value of Specific Policies and Practices in the Community, Mean Response by Income

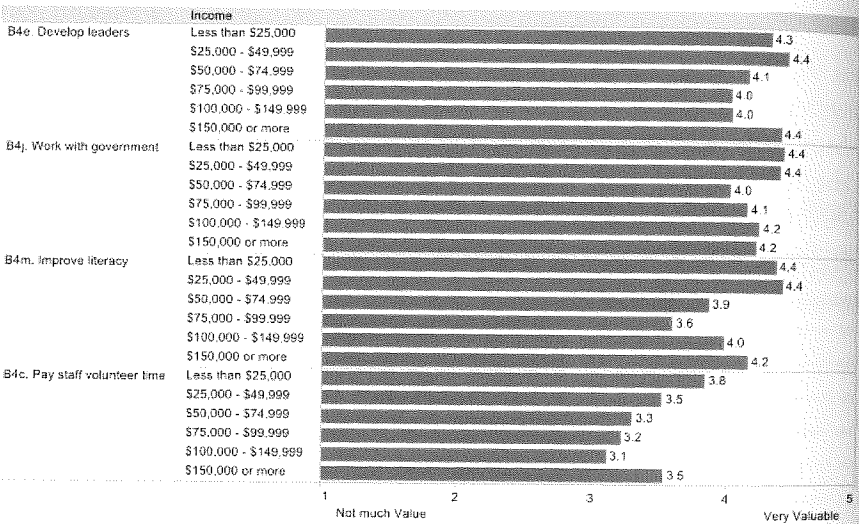
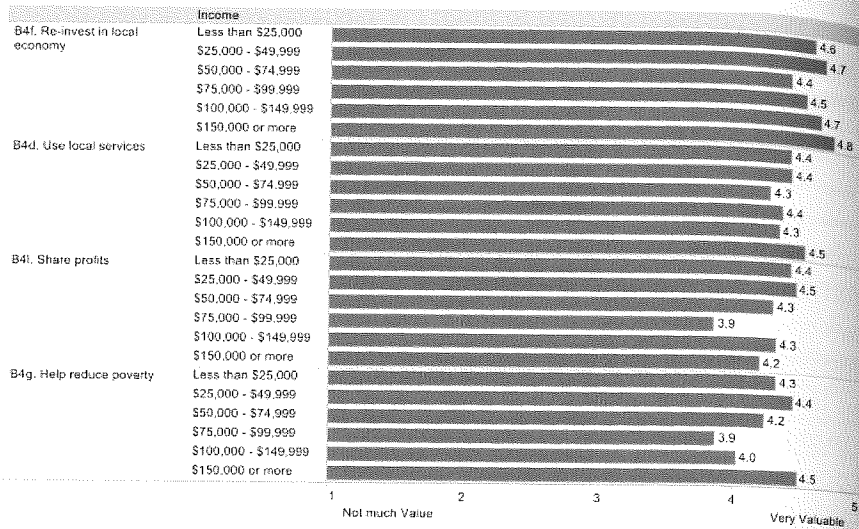


Figure 4: Credit Union Membership

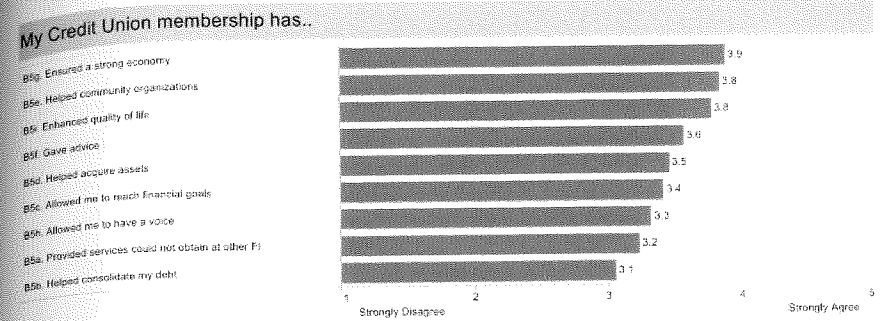


Figure 5: Credit Union Membership: Mean Response by Income

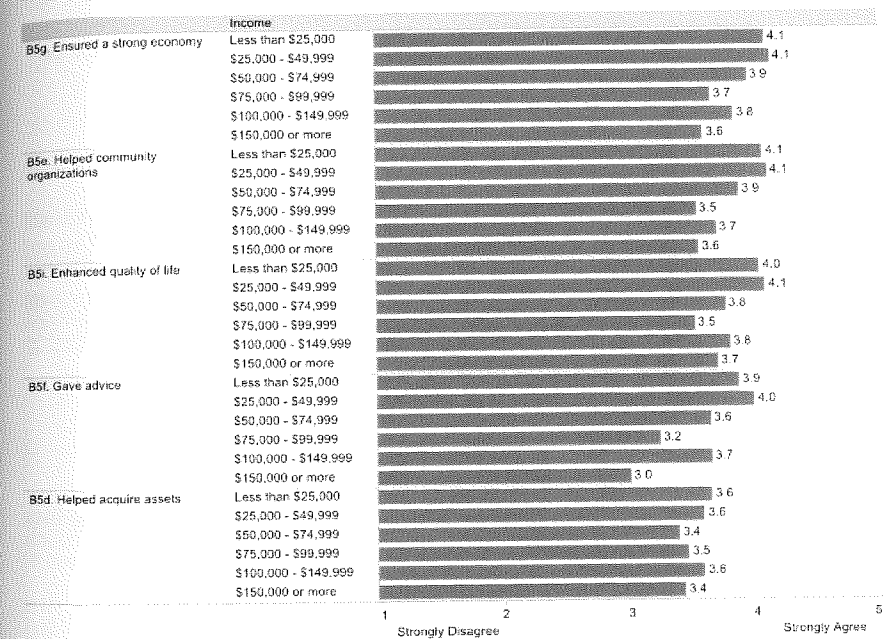




Figure 5 (cont): Credit Union Membership: Mean Response by Income

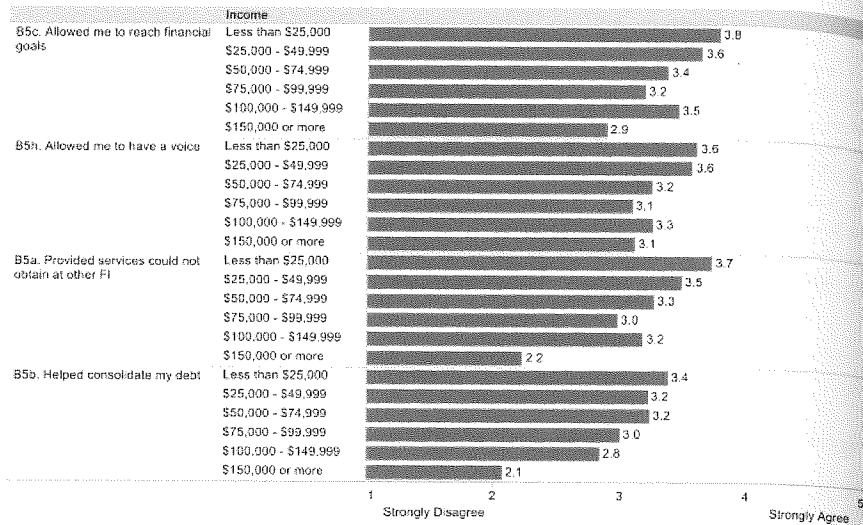


Figure 6: Credit Union Membership: Mean Response by Net Worth

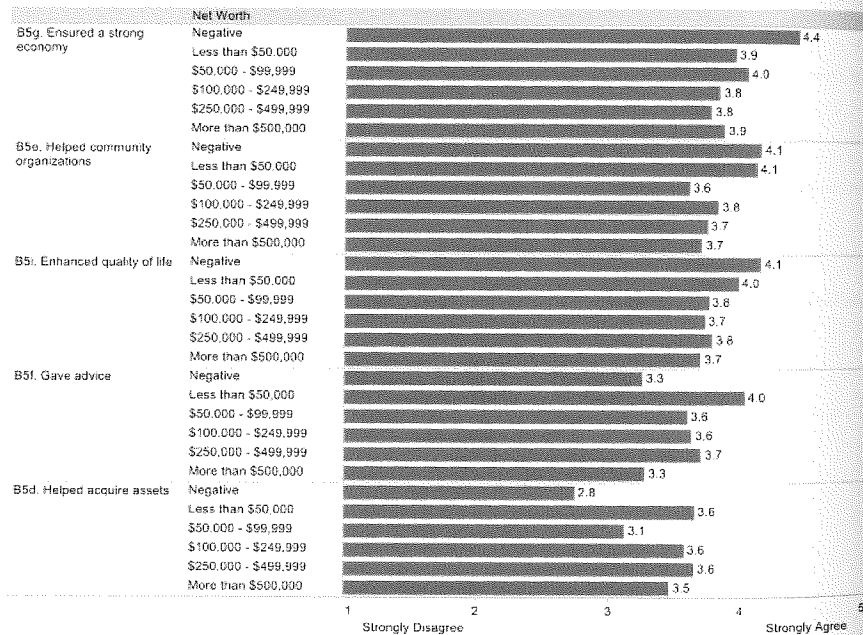


Figure 6 (cont): Credit Union Membership: Mean Response by Net Worth

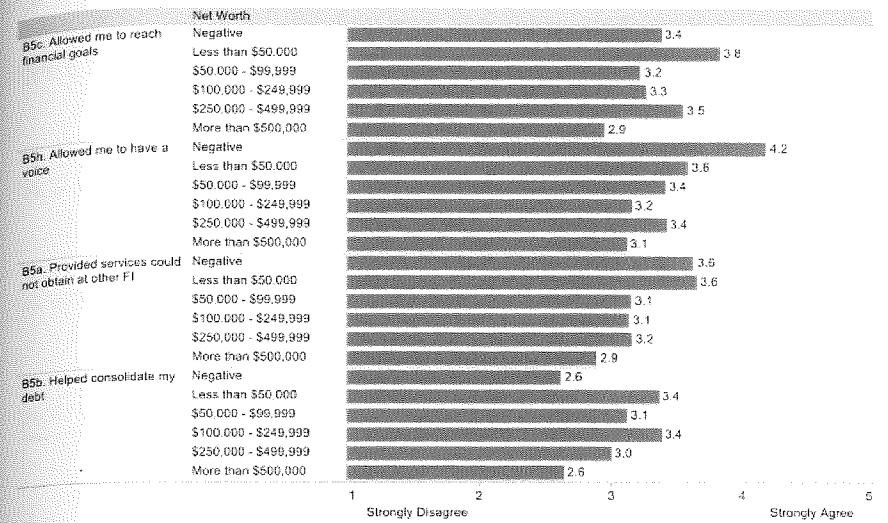


Figure 7: Assessment of Affinity's Investment in Community, Mean Response by Income

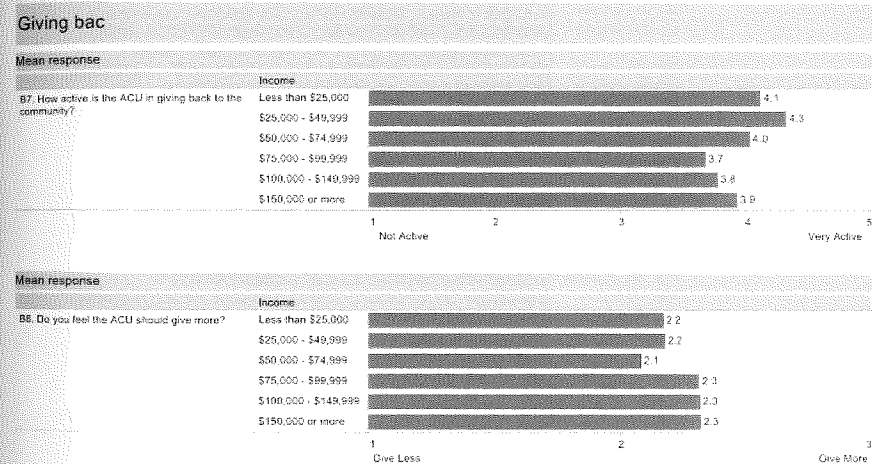


Figure 8: Relative Importance of Specific Community Development Programs

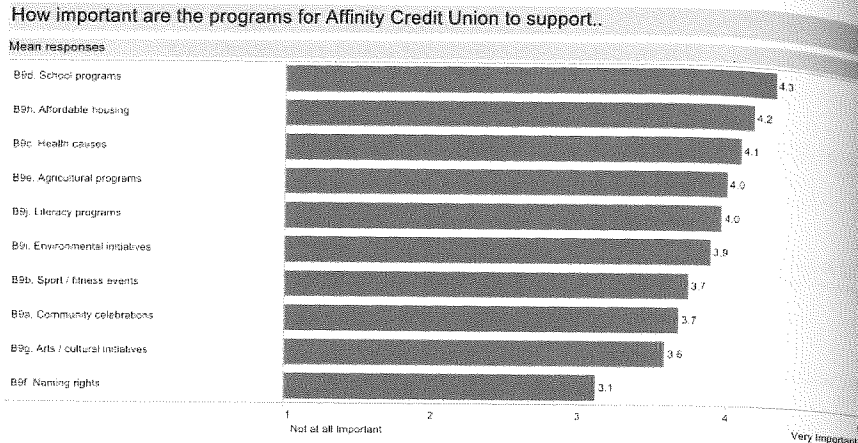


Figure 9: Relative Importance of Specific Community Development Programs: Statistical Difference by Income

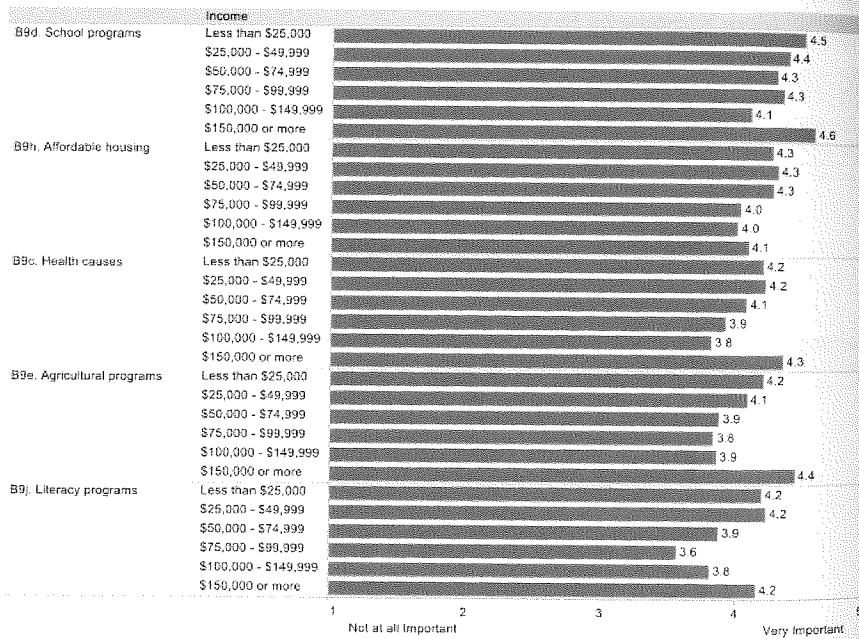
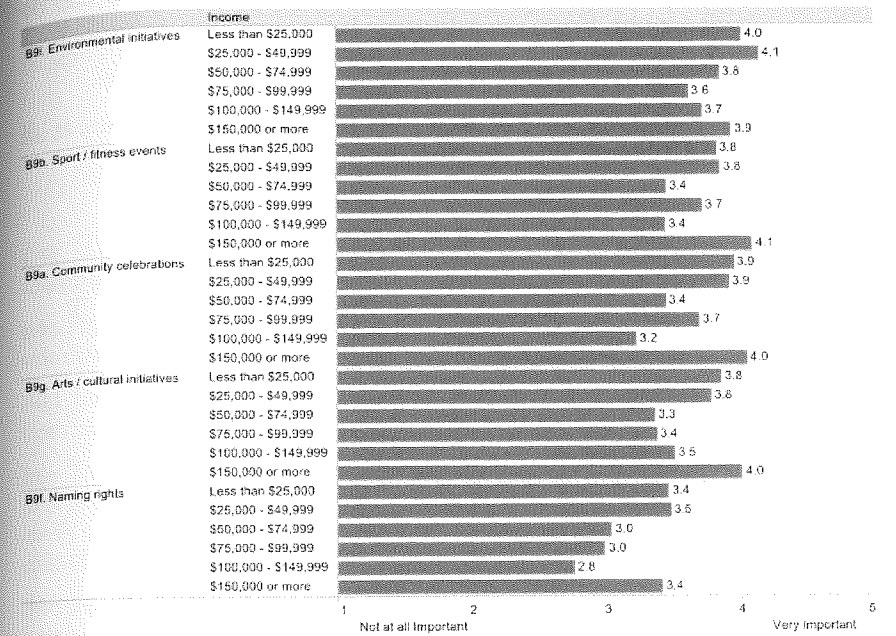


Figure 9 (con't): Relative Importance of Specific Community Development Programs: Statistical Difference by Income





**Appendix B: The Survey Instrument**

B2. The following are questions about the social programs offered by Affinity Credit Union. From the following list of activities, indicate how *important* is it to you that your credit union offer the following:

Please indicate your answer on a scale of 1 to 5, 1 being "Not at all Important" and 5 being "Very Important"

	Not at all				Very	Don't know	Refuse
	01	02	03	04	05		
B2a. Financial education / literacy programs							
B2b. Micro loans for start-up businesses							
B2c. Affordable housing programs							
B2d. Specialized products and services for groups such as youth and seniors.							
B2e. Community loans							
 B3. Have you used any of the following programs? Read and check all that apply							
Financial education / literacy programs							01
Micro loans for start-up businesses							02
Affordable housing programs							03
Specialized products and services for groups such as youth and seniors							04
Community loans							05
Have not used programs							06
Don't know							98
Refuse							99

B4. In terms of policies and practices by your local credit union, how valuable do you feel it is for your credit union to do the following in your community? Please indicate your opinion from 1 to 5, 1 being "Not much Value" to 5 being "Very Valuable"

	Not much				Very	Don't know	Refuse
	01	02	03	04	05		
B4b. Hire local residents							
B4c. Pay staff for volunteer time							
B4d. Use services from local businesses							
B4e. Develop leaders to participate on the credit union board / council							
B4f. Reinvest dollars into local economy							
B4g. Help reduce poverty							
B4i. Share profits with a rebate of fees/service charges							
B4j. Work with government on financial legislation and regulation changes							
B4m. Improve literacy							

Any other valuable contribution you would like to identify?

Type in box	01
Don't know/Refuse	99

B5. To what extent do you agree with the following statements about your credit union membership? Please indicate your response on a scale from 1 to 5, 1 being "Strongly Disagree" and 5 being "Strongly Agree."

**My Credit Union Membership:**

	Strongly Agree				Strongly Disagree	Don't know	Refuse
	01	02	03	04	05		
B5a. Provided me services or benefits I could not obtain at another financial institution							
B5b. Helped me consolidate my debt							
B5c. Allowed me to reach my financial goals							
B5d. Helped me acquire assets to improve my net worth							
B5e. Helped community organizations provide services that would not be available otherwise							
B5f. Gave me advice to allow me more control over my financial future							
B5g. Ensured a strong local business economy in my community							
B5h. Allowed me to have a voice in managing the credit union							
B5i. Enhanced the quality of life of others in the community							

B6. From the following list, please indicate which credit-union-related activities you have participated in. Read and check all that apply.

Annual general meeting	01
Credit Union elections	02
Board of directors or committees	03
Member appreciation days	04
Information meetings	05
Other; specify	06
Did not participate in activities	07
Don't know	98
Refuse	99

B7. How active do you feel Affinity Credit Union is in "giving back" in your community? Please rate your response on a scale of 1 to 5 with 1 being "Not Active" and 5 being "Very Active."

01 Not Active	01
02	02
03 Neutral	03
04	04
05 Very Active	05
Don't know	98
Refuse	99

B8. In your opinion, do you feel Affinity Credit Union should give more, less, or is giving the right amount to your community?

Give less	01
Gives the right amount	02
Give more	03
Don't know	98
Refuse	99

Q9. How important are the following programs for Affinity Credit Union to support? Please rate your response on a scale of 1 to 5, with 1 being "Not at all Important" and 5 being "Very Important"

	Not at all 01	02	Neutral 03	04	Very 05	Don't know	Refuse
Q9a. Community celebrations (parades, fireworks)							
B9b. Sport / fitness events							
B9c. Health causes							
B9d. School programs / scholarships							
B9e. Agricultural programs							
B9f. Naming rights of a community / civic facilities							
B9g. Arts and cultural initiatives							
B9h. Affordable housing initiatives							
B9i. Environmental initiatives							
B9j. Literacy programs							

**Section D: Demographics**

RECORD GENDER (do not ask, leave blank if undetermined)

Male 01

Female 02

Thank you for your opinions. Finally, I have a few short questions for classification purposes.

What is your highest level of education?

Less than Grade 12	01
Grade 12	02
Some University or a Trades/Technical Certificate	03
University Degree or Higher	04
Refuse	99

What is your primary occupation?

Management	01
Business, Financial, or Legal	02
Computer or Information Technology	03
Engineering	04
Research or Sciences	05
Health (e.g., doctor, nurse, other)	06
Government or Social Services	07
Education (e.g., teacher)	08
Sales, Food, or Other Services	09
Mining, Farming or other Resource Industry	10
Trade (e.g., electrician, mechanic) or Construction	11
Administration	12
Other	20

Are you a Treaty Card or Indian Status Card holder?

Yes	01
No	02
Don't know	98
Refuse	99

## Which category best describes your annual household income?

Less than \$25,000	01
\$25,000 to \$49,999	02
\$50,000 to \$74,999	03
\$75,000 to \$99,999	04
\$100,000 to \$149,000	05
More than \$150,000	06
Refuse	99

## Which category best describes your personal net worth?

None, negative net worth	01
Less than \$50,000	02
\$50,000 to \$99,999	03
\$100,000 to \$249,999	04
\$250,000 to \$499,999	05
More than \$500,000	06
Don't know	98
Refuse	99

That's all the questions I have. Thank you very much for your help!

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## SECTION FOUR

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### Member and Stakeholder Engagement



MEASURING MEMBER ENGAGEMENT:  
BUILDING A MODEL OF CHANGE?

RICHARD SIMMONS<sup>1</sup>

**Introduction**

**T**HIS CHAPTER focuses on some of the rationales and techniques for measuring member engagement. It seeks to establish the extent of current developments examining the accuracy of measures, meanings of “good measurement practice,” and the role of benchmarking in interpreting measurement data. It also considers how to deal with measurement uncertainty, particularly in the combination of numerical and non-numerical data, as a way to build a more contextualised understanding.

Various measurement tools are considered. In particular, the potential of the “Outcomes Star” approach, drawn from outside the co-operative sector, is reviewed. This is linked to a “model of change” that examines such key dimensions of member engagement as democracy, participation, loyalty, commitment, and identity. The chapter emphasises the need to ensure that members’ interests and identities are both positively represented in members’ ability to both have a say and make a difference, and have a meaningful sense of commitment and loyalty. In turn, it emphasizes the role of measurement tools — and the ways

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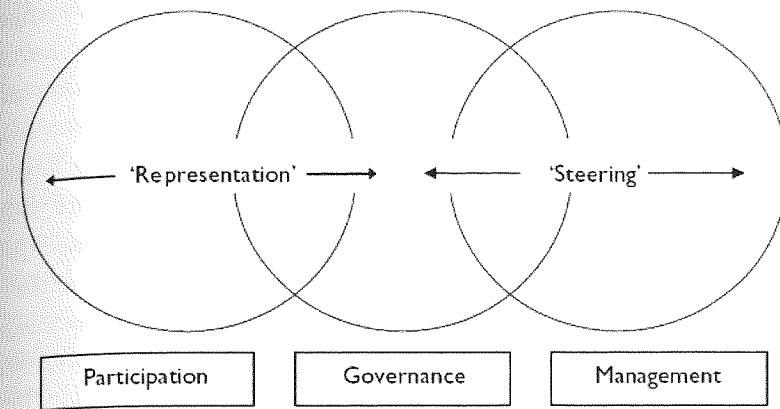
in which they are used to promote change — in enhancing organizational performance, members' well-being, or both.

### Why Measure Member Engagement?

Many co-operatives have a keen interest in better understanding member engagement. At a strategic level, co-operatives face the same issues as those confronting all business organizations, including the search for meaning and legitimacy, how to mobilize value-based action, and how to inspire loyalty (Freeman and Harrison 2010; Visser 2011). This means finding ways to be a learning organization and, in the case of service organizations, becoming more person-centred (Stirk and Sanderson 2012). Engaged members tend to be more committed to making the co-operative successful, proud of their co-operative and the work it does, and willing to talk positively about it to others. Moreover, accommodating multiple views through member engagement can add to the quality of decision making through an improved understanding of the key issues and the selection of appropriate solutions. This can help establish trust and common ground, and reduce conflict between members. Together, these things make member engagement a valuable organizational goal.

Many argue that co-operatives are suited by their nature to address these kinds of issues through close relationships with their members (Côté 2000). Yet, in many co-operatives, this advantage is often held as potential, rather than kinetic, energy. There is a need to ensure that co-operatives are able to capitalize on this advantage through effective member engagement. This process needs to be managed, and can certainly not be taken for granted. If the potential of member engagement is to be realized, it needs to be integral to the operational life of the co-operative. Member participation should therefore not be considered in isolation from the governance of the organization, nor from its management (see figure 1; Simmons et al. 2007). However, the nature of the overlaps between participation and governance and between governance and management are not always clear. To bridge between them, the views of the membership need to be accurately represented; these representations, in turn, need to be appropriately connected to the steering of organizational activity.

Figure 1: Member Engagement, Governance, and Co-operative Management (Simmons et al. 2007)

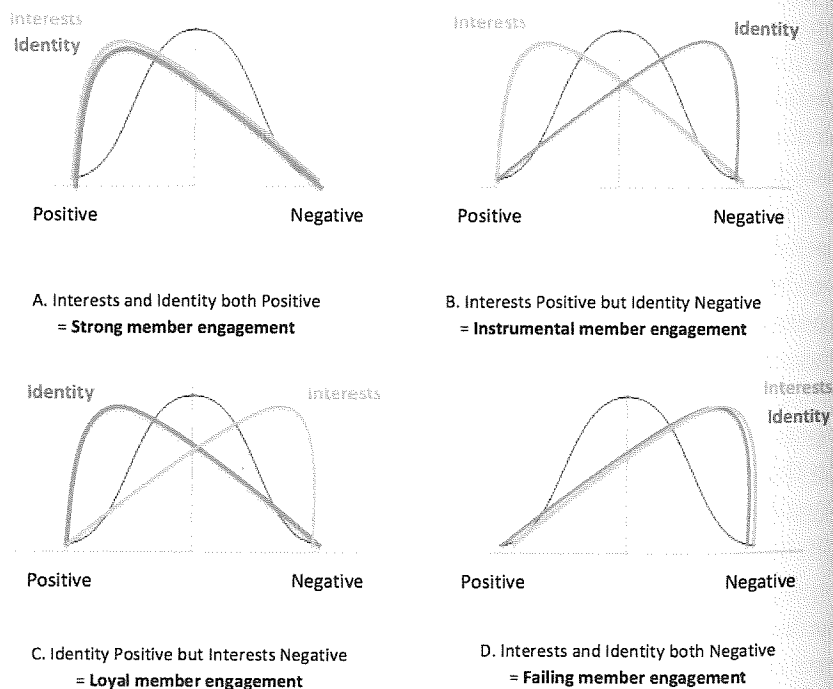


A healthy process of engagement, therefore, has its foundation in member participation and democracy. Affected parties, it is thought, are the best judge of their own interests (Fiorino 1990). In this manner, participation is hoped to promote fairer, more just decisions, as well as provide useful intelligence about member needs. The important International Joint Project on Co-operative Democracy (IJPCD) was conducted in the 1990s. This project found that where participatory democracy was working well, co-operatives were more likely to be fulfilling the needs of their members and “making membership meaningful” (IJPCD 1995). This goes to the heart of the “value of co-operative membership,” based on the three key criteria of member control, member benefits, and member ownership (Birchall 2011). Giving members control rights and entitling them to share in the distribution of benefits means that co-operatives can deliver against members' perceived *interests*. However, member democracy also symbolizes inclusion in the co-operative and reinforces members' sense of ownership and belonging. In this way, the extent to which people incorporate their co-operative membership into their identity is an important part of how likely they are to be loyal to it (Simmons and Birchall 2009).

In short, members' hearts and minds are more likely to be aligned with the goals of co-operatives where they are able to satisfy their interests and experience a meaningful sense of member identity (Simmons

and Birchall 2009; Mazzarol, Simmons and Mamouni-Limnios 2011; Côté 2000). Simmons (2011) observes that it is possible to see “normal distributions” of these characteristics among members. Where member engagement is healthy, we might expect these distributions to have a “positive skew,” and vice versa. Figure 2 provides a way to understand why member engagement is so important. Only in scenario A can co-operatives feel confident about strong member engagement and “meaningful membership.” Scenario B leads to instrumentality and side-selling, requiring a greater depth of connection to develop member loyalty (Mazzarol, Mamouni-Limnios, and Simmons 2012; Wollni and Fischer 2014). Scenario C leads to poor member value, requiring escalating commitment from “alert” members and patience from “inert” members to avoid further deterioration of the business (Hirschman 1970). This may be feasible in the short term, but is unsustainable in the longer term. In scenario D, the situation is such that organizational failure or demutualization becomes a realistic possibility.

Figure 2: Interests, Identity, and Member Engagement



In sum, strong member engagement is most evident where members are able to both “have a say and make a difference,” leading to a meaningful sense of commitment and loyalty. Other things being equal, these factors should contribute positively to organizational performance. In one example of this, a case study of a financial co-operative (*la caisse Desjardins de Saint-Roch-de-L'Acigan*), Côté (2000) used a diagnostic tool to examine its business practices “in comparison with best practices known to support loyalty.” Using this as a basis for change, the co-operative worked first on internal issues to gain employee support. It then focused on key weaknesses identified by the diagnostic, mostly building a stronger dialogue with members using focus groups, surveys, and personal interviews. The aim was to significantly enhance the value proposition to members, segment-by-segment (Côté 2000). From an initial score of 56 percent, the co-operative went up to 76 percent when this exercise was conducted again one year later. It did so by emphasizing strong values, putting members first, and offering the best deal possible without members having to negotiate for it (Côté 2000). Within two years, the assets of this *caisse populaire* had grown from around \$50 million to around \$110 million (Canadian) while nothing of significance had happened in its community (Côté 2000).

Understandably, the importance of member engagement has led to a burgeoning interest in how to measure and improve it. This chapter takes a look at some of the tools that can help co-operatives to better understand their member engagement. In particular, it thinks about the need for tools that are fit for the purpose. As the term “member engagement” covers a range of important inter-related ideas (such as democracy, participation, commitment, and loyalty), the chapter also considers whether one tool for understanding member engagement is enough, or whether there is instead a need for co-operatives to have access to a small box of tools.

## What Kind of Measures?

### *Problems of Measurement*

What kinds of resources are available to measure and improve member engagement? If we take a strict definition of what is required for suc-

successful measurement, this would include *accurate instruments and application of good measurement practice*, along with *benchmarking to an agreed standard*. All these things, where available, help to enhance the quality of the measurement process. They provide “dials” (such as a temperature gauge) from which reliable measurements can be taken and compared directly between different time periods and/or between different organizations.

For example, the UK apex body, Co-operatives UK, has developed a practical framework of non-financial indicators (CESPIs) that includes “member democratic participation” (e.g., average number of members voting in elections as a proportion of total membership; average attendance of members at General Meetings). Measuring co-operative performance on these common indicators over a period of years has enabled Co-operatives UK to develop benchmarks based on shared data, and a revision of these indicators has been developed as a result (Co-operatives UK 2011).

In the Democracy Audit developed by Martin Strube (chapter 15 in this volume), similar quantifiable indicators such as attendance rates and voting turnout are used. However, this instrument goes further to examine other straightforward indicators (such as turnover rates for elected officers, how long officers stay in a post, how long any posts go unfilled, and the proportion of total posts this represents), as well as more sophisticated measures, such as the “coefficient of decision making” (which is arrived at by dividing the number of decisions taken at a meeting by the total of person-hours involved).

In perhaps the most all-encompassing approach to gathering numerical measures, the Co-operative Index (CI) developed in Canada by a group of academics and practitioners, is computed using a detailed 168-item survey instrument with a number of indices (see chapter 9 in this volume). Although only some of these are concerned directly with member engagement, it can be useful to see how member engagement fits alongside other pertinent indicators in giving a holistic picture. The CI is now being developed into a “Co-op Index 2.0” for all forms of co-operatives (Stocki 2014).

An important question arises over whether the instruments for gathering the above data meet the definitive criteria for accurate measure-

ment: yet it may be that this is a difficult condition to meet. Even for such seemingly straightforward indicators as the calculation of voting turnout, Co-operatives UK (2011) recognize that co-operatives need to verify that their membership data truly represents current membership levels. Similarly, Strube laments that more accurate coefficients of decision making could be extracted if timings of meetings were more meticulous. These examples demonstrate that, even for ostensibly “hard” figures, there is a risk of misinterpretation.

This emphasizes a further key component of successful measurement — an *understanding of uncertainty*. There is both uncertainty about the accuracy of measures themselves and uncertainty about whether some of the important dimensions of member engagement can be measured effectively at all. Albert Einstein is famously reputed to have had a sign on his office wall proclaiming, “Not everything that can be counted counts, and not everything that counts can be counted.” Sometimes it is possible to establish “dials” from which to take readings. However, often these measures need to be seen as “can openers” rather than dials (Carter et al. 1995) — they simply allow us to lift the lid on member engagement for further discussion. Of course, “hard” measures do matter, and it makes sense to take them where it is feasible. The implication here is simply that a wider range of tools is often needed to capture what is important about member engagement.

What this demonstrates is that numerical and non-numerical data are each important. While measuring matters, gathering non-numerical data helps build more detailed understandings about members’ needs, experiences, and relationships with the co-operative. Good practice appears to be developing to take this into account. It is therefore no surprise that the member loyalty tool used by the Scottish Agricultural Organisation Society (SAOS, see chapter 16 in this volume) allows space for free text answers against each of its four quantifiable indicators, nor that the Democracy Audit tool supports its quantitative measurements with more qualitative data such as observations at meetings, documentary analysis, and personal interviews. Similarly, the Co-operative Index also prefers to employ a range of methods — employee survey, document review, and key informant interviews — before making recommendations (although a “partial diagnosis” is possible using the employee survey only (ICDS 2014)).



*Moving Forward with Measuring Member Engagement*

The inputs of apex bodies, academic researchers, and specialist auditors are helping considerably to move forward understanding of member engagement in co-operatives. Yet increasingly co-operatives themselves are grasping this agenda. For example, in her account of the formal “social reporting” process in Italian co-operatives, Costa (2014) shows how one such co-operative, Bessimo, voluntarily integrates detailed descriptions of its stakeholder relationships with quantitative data to better explain the social value they are creating. Another co-operative, Acli, uses the social report proactively alongside their financial report to present stakeholder engagement practices that capture the perceptions and claims of the main recipients of the services offered. This enables them to reconsider annually “what is our task?” and “are we being faithful to it?” (Costa 2014) — or in other words: “are we meeting the needs of our members?”

The first important step for co-operatives is to recognize the importance of measuring and reporting on their member engagement. Openness to do so will improve their sensitivity to what measurement instruments are available, how they apply good measurement practice, and how they might benchmark their practice effectively. The next important step is to acknowledge that there may be gaps in understanding that require further interpretation. This may require new evaluative activities within the co-operative. Self-assessment tools that can be used internally may be helpful, at least as can openers for further discussion. For example, participatory evaluation with members can take place through surveys or interactive events.

However, it may be the case that external support is considered to be necessary. The SAOS, for example, follows up on its measurement tool by offering high-quality advice from an experienced and respected team that knows each of their members intimately and are able to move quickly and expertly in partnership with them to resolve any problems. External support may also be available from specialist external auditors who, while they may have no prior knowledge of the co-operative, are able to use standardized measures and experience from similar cases to quickly evaluate its member engagement. Or it may take the form of more detailed analysis, in which the co-operative works in partnership with academic researchers to explore these issues.

Table 1: Knowledge Domains (after Jerome Ravetz, originator of post-normal science)

Form of knowledge	<i>(Critique)</i>
Individual	<i>(biased)</i>
Local	<i>(anecdotal)</i>
Specialized	<i>(inaccessible)</i>
Strategic	<i>(disconnected)</i>
Holistic	<i>(abstract)</i>

Self-evaluation, audit, and research tools are all legitimate. Each offers slightly different ways of addressing the measurement of member engagement, and each will prioritize different forms of knowledge. For example, table 1 shows a number of different knowledge domains. While each is legitimate in its own way and brings certain strengths, each is also subject to a different critique. The knowledge of individual members and local groups and communities is crucial to the co-operative, but can sometimes be dismissed as biased or anecdotal. The equally important specialized and strategic knowledge of staff and managers may sometimes be viewed by the membership as inaccessible or disconnected. Similarly, holistic knowledge (largely associated with academics) can provide a useful way to build understanding, but may sometimes be seen as rather abstract. The important point is that co-operatives should aim to bring together the types of knowledge that are required to address the purpose to which measuring their member engagement is addressed, whether this is to gain a better understanding of the outcomes and impacts of member engagement on organizational performance, members’ wellbeing, or both.

**What Kind of Tools?**

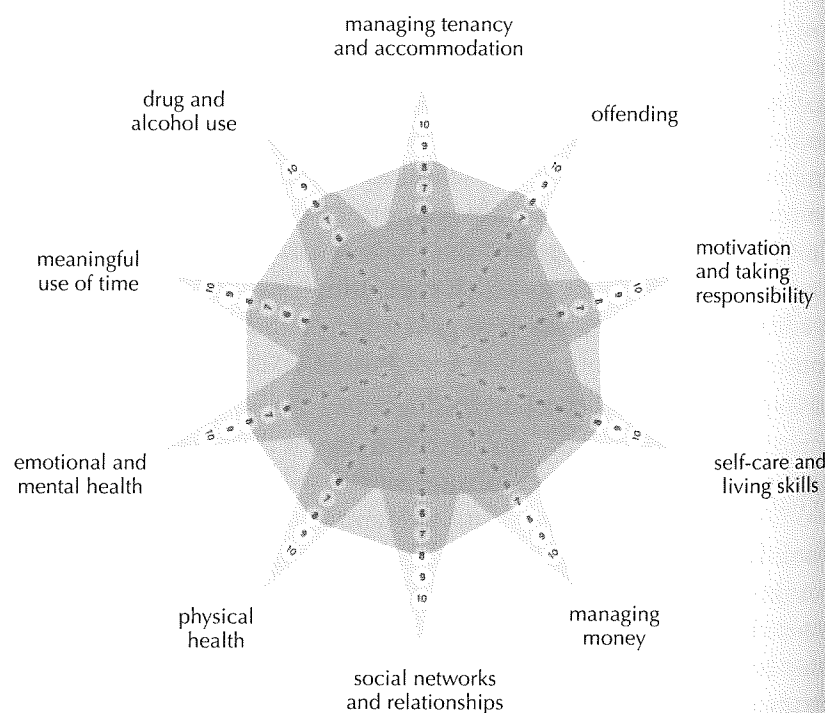
Tools that work need to be fit for the purpose. Work is ongoing on the comprehensive, multi-functional Co-op Index (chapter 9 in this volume). However, a single tool may be too limited, and a range of tools may be required. In this section of the book, Bob Yuill and Martin Strube introduce the tools they use specifically to consider how member engagement and democracy feed into decision making and influence loyalty and commitment. These tools are each at different stages of de-



velopment. Yuill describes the process of refining the SAOS tool down to four “killer” questions from an initially longer list (based on work with Daniel Côté at HEC, Montreal). This now provides a valuable diagnostic tool and acid-test for member engagement. Strube has also developed his audit tool with academic support — this time from Roger Spear and his colleagues at the Open University in the UK — but seeks to develop it further through more practical applications. These are exciting developments that deserve to be shared more widely.

In searching for tools that may be useful, however, it is also possible to draw on learning from beyond the co-operative sector. For example, one tool that has been developed specifically to gain a better understanding of outcomes and impacts — and is currently gaining in popularity — is the “Outcomes Star” approach.

Figure 3: Example of a Ten-Point “Outcome Star” Chart .



Outcomes Stars are premised on an attempt to “enable value-driven organisations to ‘count what really counts’ in their work” (Triangle 2014a). An advantage of the Outcomes Star, its initiators claim, is that it aims to both *measure* and *promote* change (MacKeith 2011). There are now more than twenty different applications. Outcomes Stars consist of a number of scales. These are based on an explicit “model of change,” which creates coherence across the whole tool (Triangle 2014b). The scales are plotted on a Star Chart (See figure 3), which shows the distance travelled toward the optimum point on each scale.

Expectations at each of the points on each scale are clearly defined. Self-evaluation is possible through collective discussion around detailed scale descriptions and summary ladders, or by aggregating individual responses from a questionnaire. Whether the drive to understand member engagement is “supply-led” (i.e., measuring the effectiveness of member engagement strategies from an organizational perspective), or “demand-led” (i.e., measuring the quantity and quality of member engagement from a member perspective) becomes superfluous. The flexibility of this approach allows different stakeholders to contribute their own perspectives to the evaluation, which, in turn, allows different questions to be answered for different people (see table 2).

Table 2: Different questions for different stakeholders (adapted from Triangle 2014c)

**Members** need a tool that enables stronger member engagement. The questions for them are:

- Does it measure the things that matter to me?
- Does it help me make sense of my membership?
- Does it empower me to have a say and make a difference?

**Staff** need a tool that helps them work effectively with members. The question from their perspective is:

- Does it help me work more effectively to meet members’ needs?

**Managers** need a tool that helps them manage services effectively and identify areas for service improvement. The questions from their perspective are:

- Does it enable me to identify how effectively member democracy and member relations are working in the co-operative?

- Does it help me assess how effectively the co-operative is serving members' needs and achieving its intended outcomes?
- Does it help me to manage more effectively so that positive impacts can be increased?

Co-operative developers, advisors, auditors, and researchers need a tool that helps establish which interventions are most effective. Their questions are:

- Does it measure reliably over time and consistently across co-operative members?
- Does it measure what it is supposed to measure?

The Outcomes Star approach is by no means the only tool available for such forms of self-assessment, and it is important to meet the diversity of co-operative organizations with a range of tools to ensure they can cater for everything their situation demands. However, given this approach has already proved its ability to serve a number of uses (including a "Community Involvement Star"), there may be some promise in adding to the tools available to co-operatives with the development of a "Co-operative Star." The pursuit of this endeavour would require a "model of change" to be devised to give coherence to the important issue of member engagement in co-operatives.

#### *Finding a "Model of Change" for Member Engagement*

It is quite common for measurement tools to be underpinned by a "model of change." Models of change are generally constructed with reference to frameworks that map out what is important to measure. These frameworks represent broader, conceptual tools that can be harnessed to practical, everyday experience. They can be used to generate working assumptions and propositions that can be modelled and tested through measurement. So, what frameworks might be helpful when it comes to member engagement? Earlier we identified that member engagement covers a range of significant inter-related ideas, such as democracy, participation, loyalty, commitment, and identity. It would therefore seem to make sense to bring these ideas into the model of change.

#### *1. Democracy and Participation*

In section 2 above, some important measures of different aspects of the democratic participation of members (attendance at meetings, voting turnout, and so on) were considered. However, on their own, these measures do not give a complete picture of member engagement. Other, less directly accessible measures are also helpful in building deeper understanding. For example, leading researchers on democratic participation agree that people participate "because they can, because they are asked, and because they want to" (Verba et al. 2000; Lowndes et al. 2006). These ideas are central to one leading approach to member engagement in co-operatives, the "Participation Chain" (Birchall and Simmons 2001a, 2001b, 2004a, 2004b; Simmons and Birchall 2005, 2007; see figure 4a). This framework links the ways in which members:

- "Can participate": have the *resources* and knowledge to participate
- "Are asked to participate": are given good *opportunities* and are *mobilized* effectively
- "Want to participate": are sufficiently *motivated*, individually and collectively

This framework also recognizes how the *dynamics* of participation need to promote positive outcomes, so that members are satisfied and feel their views have received due consideration (see figure 4b). The "participation chain" metaphor is used advisedly. It suggests that if a weak link is not strengthened, it may cause the chain to break.

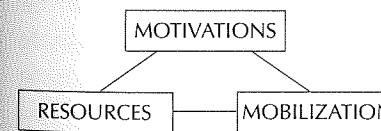


Figure 4a: The "Participation Chain"

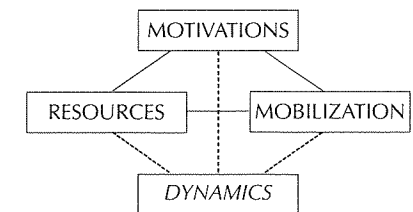


Figure 4b: The Extended "Participation Chain"

In terms of whether people *can* participate, co-operatives need to look at whether individual members have the appropriate skills and resources. Skills range from the capacity to understand corporate information and communications to the ability and confidence for public speaking and letter writing, to the capacity to support and sometimes organize initiatives and events. Resources include *time, money, and knowledge* — for example, do people have the time for participation, and, if not, what can be done to overcome the major factors restricting their availability? At the level of the community, it is also important to know the level of *social capital* available as a resource. The more social capital is available, the more likely that relationships of trust and reciprocity are able to develop through member engagement (Birchall 2011; Mazzarol et al. 2011). The level of social capital can also influence whether members are *asked to* participate effectively. Participation in isolation is more difficult and less sustainable (unless an individual member is highly motivated). While the availability of groups and networks is important, explicit mobilization attempts where co-operatives actively ask members to participate are also vital (Birchall and Simmons 2001a; 2004a). This links to the nature of the *opportunities* that are made available for member engagement. However, what is regarded as a “good opportunity” may differ across the membership. Co-operatives can have a significant effect by extending “choice about voice” to their members through a variety of options (Simmons et al. 2012).

In terms of whether people *want to* participate, it is important to think about the nature of members’ motivations. A validated measurement tool has been developed to measure members’ motivations using “mutual incentives theory,” which considers the balance between people’s individualistic and collectivistic motivations (Birchall and Simmons 2004a; Simmons and Birchall 2005). Individualistic incentives include personal benefits such as “having my problems solved” or “gaining status in my community.” Collectivistic incentives are divided into three categories. “Shared goals” (or being part of a unifying mission), “shared values” (the core values that guide organizational behaviours) and “sense of community” (a shared identification that brings a “we” mentality, whereby we win and lose together). Finally, if people are to maintain their motivation and remain mobilized and engaged, the *dynamics* of member participation must also be conducive. In short, members need

not only to feel they have a say, but also that their involvement is making a difference (IJPCD 1995). For people to participate they have to believe they are going to be listened to, even if they are not always agreed with (Simmons 2011).

In sum, for the purposes of a “model of change,” the above framework for understanding democracy and participation in co-operatives could contribute seven scale-points to a “Co-operative Star.” These issues can be operationalized in a number of questions that can be asked to enable their measurement:

- Level of participation in the co-operative
- Skills and resources available to members
- Quality of opportunities for participation available to members
- Extent of active mobilization attempts by the co-operative
- Strength of individualistic motivations of members
- Strength of collectivistic motivations of members
- Members’ ability to influence decision making

In themselves, however, the above factors only address one part of the story on member engagement. For a more complete picture, it is necessary to examine the role of another set of factors around member loyalty, identity, and commitment.

## 2. *Loyalty, Identity, and Commitment*

Côté (2004) identifies a number of important issues from his extensive work on the role of loyalty in co-operatives. Noting that loyalty is a source of competitive advantage, he claims that co-operatives are better able to achieve this than conventional enterprises, as their distinctive business model incorporates many of the best practices known to support loyalty (e.g., democratic function, member education, communication and transparency, engagement toward community, ethics based on honesty and social responsibility, focus on people). Côté (2004) asserts that “it is important to offer a world-class value proposition to members and employees through mutually beneficial relations, based on trust.” This involves both:

- *Building and maintaining satisfaction* (i.e., being close to its customers and capable of acting on their enthusiasms, taking a true interest in them long after sales, anticipating their future needs and delivering on promises)
- *Building faith in the fidelity of the enterprise* (i.e., demonstrating ethics and integrity without compromise, providing transparent access to information, and developing mutual trust) (Côté 2004).

As part of a broader framework, Mazzarol et al. (2011, see figure 5, facing page) have explored similar notions of how the co-operative business model feeds a member value proposition that can define service quality and lead to member satisfaction, perceived value, and a strengthening of member loyalty and identity. This framework seeks to elucidate further the key principles involved, and show their relationships with one another.

The framework has since been operationalized in survey work with some Australian co-ops (Mazzarol, Soutar, and Mamouni Limnios 2012). This has led to the logic model in figure 6 (overleaf). The scores indicated with dots in this preliminary model show how important factors such as emotional value and affective commitment are (relative to factors such as functional value and value for money) when it comes to member loyalty and members' identification with the co-op. In short, as Côté found in his study of *la caisse Desjardins de Saint-Roch-de-L'Achigan*, and as Bob Yuill describes in this volume, relationships do matter. Conformance with the best practices known to support loyalty means taking these things seriously as a core part of the business strategy.

Co-operatives may assume they are being "hard-nosed" by focusing on the tangible benefits that drive co-operative membership. However, this is looking only at one side of the coin. On the flip side are the so-called "softer," intangible factors that drive the extent to which members feel a sense of loyalty, commitment, and identity. If a co-operative is really going to take a hard-nosed business approach, it will focus relentlessly on all the things that can make a difference. Soft outcomes can result in hard outcomes, and vice-versa. This means giving attention to both sides of the membership coin.

Figure 5: A Conceptual Model of Member Relations (Mazzarol, Simmons, and Mamouni-Limnios 2011)

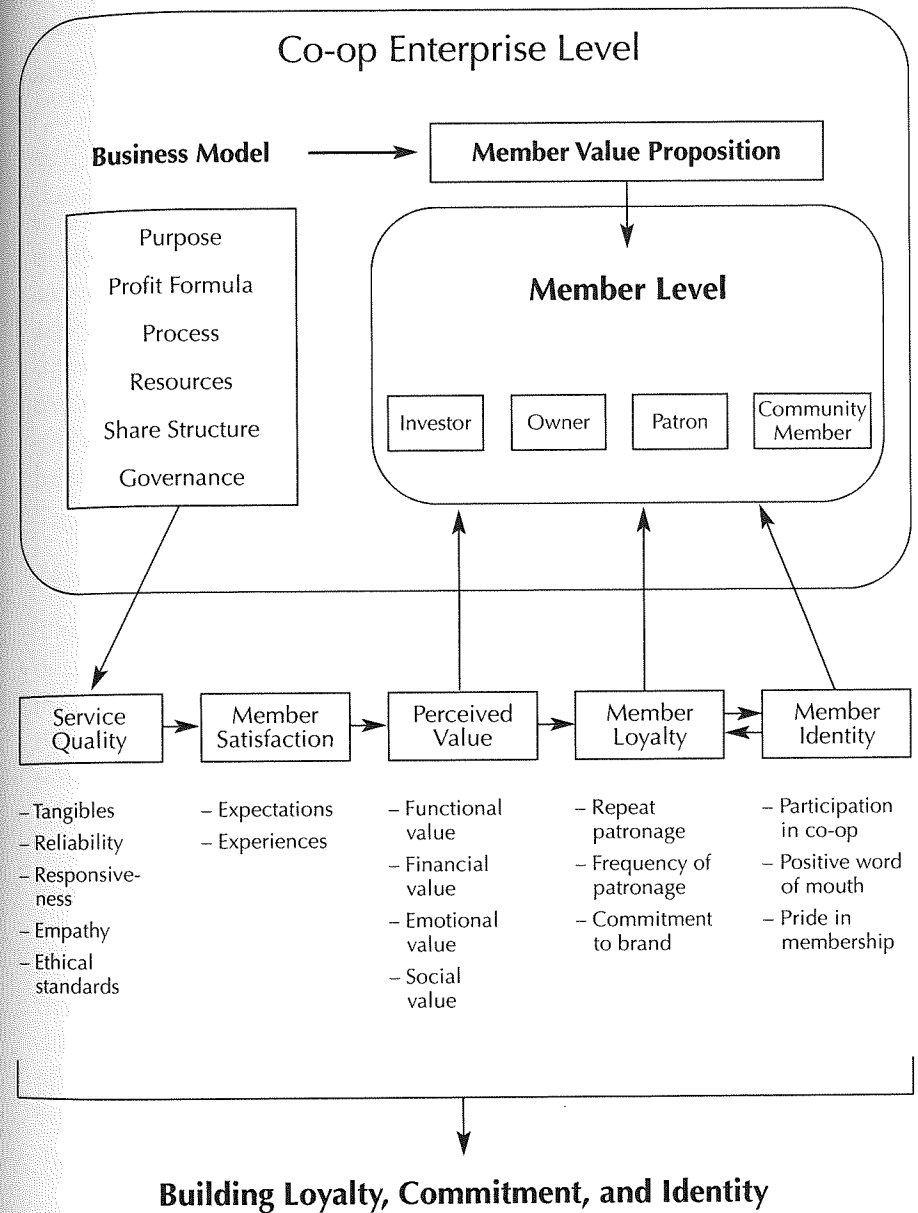
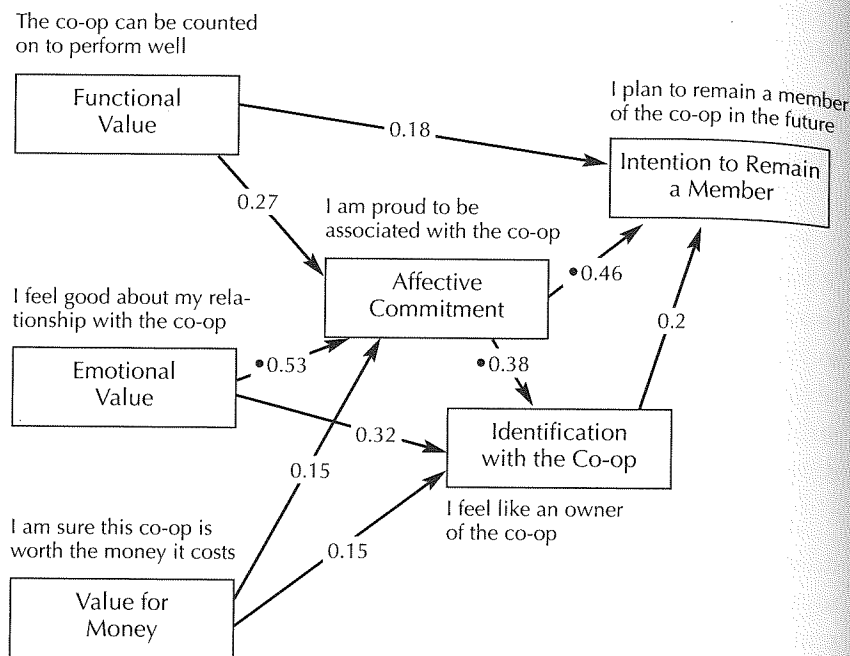




Figure 6: Key Drivers of Member Loyalty in Some Australian Co-operatives



Source: Mazzarol, Soutar, and Mamouni Limnios 2012

For the purposes of informing a “model of change” for member engagement, the above framework is able to contribute five further scale-points to an embryonic “Co-operative Star”:

1. Level of fidelity and integrity
2. Extent of “tangible” benefits: functional value and VFM
3. Extent of “intangible benefits”: emotional value/affective commitment
4. Extent of member loyalty
5. Extent of member identification with the co-operative

In combination with the seven democracy and participation scales, this model of change would generate a twelve-point star. As with existing uses of the Outcome Star approach, this could then be populated by scores from a survey questionnaire, or through discussion and scoring

of the co-operative’s situation by different stakeholders against a pre-defined scale. Comparison between different stakeholder populations, or between similar populations at different time periods, could serve a useful basis for considering what is needed to strengthen member engagement.

### What Next?

It is one thing to gather measurement data using various tools for understanding the different elements of member engagement, and quite another to put that data to good use. This section considers two further aspects that need to be taken into account. The first acknowledges how differences in co-operatives’ contexts can influence the way in which measurement data is interpreted and used. The second considers some examples of how measurement data can be used to promote change and help build organizational sustainability.

### Interpreting Measurement Data

The process of benchmarking is important in interpreting measurement data. Benchmarking seeks to both standardize the criteria for measurement and enable direct comparison between different organizations, different time periods, and so on. Such standardization seeks to control for variables that might confound these comparisons. However, this is not always possible. Co-operatives are diverse (Birchall 2011). Therefore, in the interpretation of measurement data, it is often as necessary to acknowledge how they differ as it is to consider how to standardize their features. An important consideration is which criteria matter when it comes to the interpretation of evidence; a similar score on a particular measurement scale for member engagement may mean something very different to a small, community-based housing co-operative, for example, and a large, national consumer co-operative. While it is beyond the scope of this chapter to detail the many ways in which this diversity might be captured, a number of key criteria suggest themselves:

- a. *Co-operative type*, such as producer, consumer, or worker co-operatives. Birchall (2011) further differentiates each of these types by “genus,” “species,” and “hybrids”



- b. *Size and complexity*; i.e., small scale v. large scale (Birchall and Simmons 2004a), and simple v. complex (Simmons et al. 2007)
- c. *Member types*; investors, owners, patrons, and community members (Mazzarol et al. 2011, after Nilsson 2001)
- d. *Single or multi-stakeholder*; commonality of need or aspiration v. interdependencies (Turnbull 2000)
- e. *Stage of development in the co-operative life-cycle*, such as “economic justification,” “organizational design,” “growth-glorious-heterogeneity,” “recognition and introspection,” and “choice” (Cook and Burrell 2009)
- f. *Governance structure*, from “100% member control,” through “traditional model,” “extended traditional model,” and “managerial corporate model” governance structures to “loss of member control” (Chaddad and Iliopoulos 2013)
- g. *Cultural context*, whereby the expectations from member engagement in one culture may be different from those in another.

In short, different perspectives or “lenses” are needed through which to interpret measurement data. This makes the task of interpretation difficult, but it is a task that cannot safely be ignored. Each perspective has implications for how the co-operative’s business model and member value proposition is organized (see figure 4). It is therefore important that effective measurement and enlightened interpretation are combined to provide a firm foundation for the promotion of change.

### *Promoting Change*

Building consensus on a model of change for the co-operative, based on its unique context and characteristics as well as on standardized and benchmarked measures, is an excellent starting point. However, while measurement can help answer the question of “What is going on?”, the questions that follow are “So what?” and “Now what?” Kolb (1984) identifies three important opportunities for learning here:

1. Reflection-for-action — thinking ahead (e.g., the construction of a model of change)
2. Reflection-on-action — review our experience (e.g., administration of the measurement tool)

3. Reflection-in-action — thinking on our feet (e.g., using measurement data to adapt or transform our everyday organizational behaviours)

In other words, if the information provided by measurement tools is going to be of use to co-operatives, it needs to help promote change with a purpose (namely, enhancing organizational performance, members’ well-being, or both). As Co-operatives UK (2011) assert in the guidance for their non-financial indicators,

Member democratic participation is fundamental to co-operative identity and co-operatives should be working to ensure that this indicator shows an upward trend (i.e., an increase in democratic participation)... there is a need to ensure that this is maximised wherever possible.

Yet Côté (2004) neatly summarizes how co-operatives, particularly large and mature ones, can come to face an identity crisis:

As the size of the association of members increases for reasons of economic efficiency, this leads to free rider problems and weakens member’s participation. This increasingly large number of members undermines the relationship between members and their co-operative, making it more abstract and more individualistic, and the association of members becomes a fictive community.

Rather than meekly accepting this as a truism, co-operatives need to redouble their efforts to develop and maintain an effective approach to member engagement. Measurement can help drive this forward. For example, through academic research into member participation in the Co-operative Group in the UK, Birchall and Simmons (2004a, 2004b) were able to construct a member typology according to the level of commitment:

- TYPE I: “Dynamic insiders”: committed and highly active
- TYPE II: “Supporters club”: dutiful believers and “wise owls”
- TYPE III: “Lower identifiers”: peripheral insiders, less active
- TYPE IV: “Inactive members”: self-excluders and disconnected/alienated members

Following this with observations and interviews enabled the pro-

duction of a strategic-level, “umbrella” approach to member engagement (see table 3). This was linked to the findings of a training needs analysis for elected member representatives conducted in tandem with the research by the UK Co-operative College. The implementation of a strategy like this in a business of the size of the Co-operative Group is always a challenge, however, and there is a sense that while considerable progress was made with stages 1 and 2, implementation did not fully follow through to stages 3 and 4.

Table 3: An “Umbrella Strategy” for Member Engagement in the UK Co-operative Group (Birchall and Simmons 2004a)

Stage 1	Stage 2	Stage 3	Stage 4
IDENTIFY “MOBILIZATION POTENTIAL”	MAKE MEMBERSHIP MEANINGFUL	BUILD CONFIDENCE AND TRUST	REMAIN ACCOUNTABLE AND REWARD LOYALTY
1. (Re)activate membership (update databases, etc.)	1. (Re)establish democratic processes	1. Allow members time and space to re-orientate	1. Make accountability central to corporate governance and strategy
2. Conduct member research	2. Provide good, clear, relevant information about the co-op	2. Reinforce the values and benefits of mutuality	2. Reinforce the importance and value of member democracy
	3. Recruit/select “Type I” and “II” members to task-oriented roles	3. Resist temptation to use an involvement strategy to “hard sell” to members	3. Ensure that democratic structures are continually renewed, and therefore remain legitimate
	4. Engage “Type III” and “IV” members as creatively as possible	4. Engage widely and responsibly with the community	4. Member benefits as the other side of the same coin — “co-op dividend”

At a more grounded level, Wilson et al. (2003) (see also Simmons and Birchall 2004) conducted action research with a number of co-operative retailers and housing co-operatives in one English region. This led to the production of the “Just Ask” Membership Toolkit,<sup>2</sup> which includes a useful set of resources (activities, metaphors, case studies, research findings, and examples of good practice) to guide conversation and promote action.

Measurement tools that generate data that can be used to create win-win situations for different stakeholders are therefore important in

2. See [http://www.co-op.ac.uk/bookstore/member-participation/membership-toolkit/#.VGX\\_3GByb4g](http://www.co-op.ac.uk/bookstore/member-participation/membership-toolkit/#.VGX_3GByb4g)

gaining buy-in to the change process. It remains for co-operatives to decide whether what is needed is a single universal tool, or whether different tools are required to complete the job effectively.

## Conclusion

This chapter has sought to identify some of the rationales and techniques for measuring member engagement. It has demonstrated that member engagement is an important part of co-operatives’ function and purpose, and that if it is harnessed effectively it can contribute in many positive ways to organizational performance. Measurement plays a crucial role in ensuring this process is, indeed, positive.

If it is accepted that good measurement requires accurate instruments and benchmarking to an agreed standard, along with the application of good measurement practice, then it must also be accepted that there remains much to do to measure member engagement effectively. Of the tools currently available to measure member engagement, there are a number that show promise. Benchmarking of some of these measures is now taking place and this will strengthen their interpretation. However, as the nature of member engagement mitigates against fully quantitative measurement, there remains a need for more contextualized ways of building understanding.

This becomes clear in individual contexts, such as the *caisse populaire* in Daniel Côté’s research. Here, good measurement practice involves all those with an interest in the organization in defining the questions they want answered, and uses imaginative and creative approaches that engage all those involved. It highlights and celebrates successes and achievements, but also encourages an honest appraisal of progress at all levels. Learning from what has not worked as well as what has is then used in informing future planning, delivery, and support.

If the importance is accepted of members’ ability to both have a say and make a difference, and have a meaningful sense of commitment and loyalty, there may be some scope in developing a co-operative “Outcomes Star” around the twelve-point “model of change” outlined in this paper. Flexible and versatile, this approach can help us both see better and work smarter. For example, by linking the views of different stake-

holders in a single framework, it can also help overcome uncertainties. Linking this to performance data can provide a robust way to ensure that members' interests and identities are both positively represented. The Outcomes Star is a useful tool for self-evaluation. However, this chapter has argued that self-evaluation, audit, and research all have their place in helping to achieve better outcomes. Each can address different levels and dimensions of measuring member engagement. Each also has a different set of useful knowledge and expertise attached to it.

Nearly twenty years ago, the International Joint Project on Cooperative Democracy concluded that there is no one solution that can be used to increase member participation, but that it is vital for co-ops to set goals and measure performance or progress in these areas (Zimbelman 1997). Twenty years on, the progress that has been made has been patchy. It is time to ensure that the process of member engagement is taken seriously in today's co-operative businesses. Accurate instruments, good measurement practice, and benchmarking must all play a role in making this happen. In turn, an understanding of uncertainty must feed a careful interpretation of the measurements taken. Only at this point will co-operatives begin to fully appreciate what must be done to promote positive change in pursuit of the "co-operative advantage."

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## Chapter 15

DEEPER MEASUREMENT OF MEMBER ENGAGEMENT:  
THE DEMOCRACY AUDITMARTIN STRUBE<sup>1</sup>

## Introduction

**M**ANY ORGANIZATIONS such as voluntary bodies, trade unions, or co-operative societies may be democratic in the sense that this was always the intention and is still the assumed norm. However, a scratch at the surface may illustrate that all is not quite as it should be from a democratic decision-making perspective. Organizations often lapse into customs and practices that may save time or appear simpler, but in fact slowly diverge from the intent of founders or independent reviewers to be truly democratic organizations. Common examples of the gradual erosion of democracy are the perfunctory nature of annual general meetings or the pre-determination of decisions made in committees. These in themselves are not necessarily “bad” things, but they illustrate the beginnings of a divergence from the principles.

A democracy audit endeavours to show what divergence is taking place and suggest a course of action to bring practice and principle more closely together. In some cases, the solution may be to alter the practices; in others, it may be to revisit and modify the principles. Assessing democracy — performing a democracy audit — is not, so far as we were

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able to ascertain, practiced anywhere. Occasionally, organizations may revisit their principles and their constitutions in order to update them in line with current thinking or modern practices, but rarely do they set out to qualitatively assess the extent to which they may or may not be functioning in an objectively observed democratic way.

This chapter provides an outline of a tool specifically evolved for such a purpose. The “Democracy Audit” is a tool for measuring the extent and nature of democratic involvement within co-operative organizations. It is not an audit that is democratically controlled; it is an independent audit intended to “measure” the state of an organization’s internal democratic processes. Such an audit could be carried out internally, if only as an informal indication of where an organization might be with regard to its democracy, but if perceived to be necessary as a full blown audit process, external verification is essential.

The procedure has been developed from theory evolved out of first-hand experience and observation by co-operative development professionals, and has been put into practice in several commercial co-operative settings. A particular area of interest for the audit is the scope for democratic involvement in meetings and other decision-making processes. Still in a “beta” phase of development, the procedure needs refinement through practical applications in more settings. This need for comparative data means more audits need to be undertaken. As things stand, there appears to be little need for expansion of the field of vision, but wider discussion of some of the concepts — decision tracking, decision grading, coefficient of decision making, focus of attention (as discussed below) — would be very useful.

The Democracy Audit examines a number of indicators and practices. On a formal level, these include the organization’s adherence to constitution and mechanisms for accountability and demarcation/delegation. More informally, indicators include levels of clarity among members about organizational democracy and their satisfaction with it. These issues are considered using a range of strategies, including an analysis of documentation, direct observations, and surveys and interviews. In the following sections, these indicators and the current methodology are outlined in more detail, and an example is provided of the Democracy Audit in practice. The chapter concludes with a set of reflections



on the difficulties of auditing democracy in co-operatives, and also on the opportunities that such an audit creates.

## The Democracy Audit Tool

### *Indicators*

In a Democracy Audit, what would be the elements under review? There is a need to establish formally how closely the co-operative is adhering to its constitution, how it demarcates and delegates responsibility within the organization, and how it stays accountable to its membership. However, formal indicators do not always capture the democratic experience of co-operative members. To do this, it is necessary to engage people informally to establish how clearly they understand the purpose of the co-operative (and their own role within it), as well as how satisfied they are in subjective terms.

To address some of the key questions in relation to organizational democracy in co-operatives we considered a range of possibilities. After considerable discussion, debate, and exchange of professional experiences, we refined the issues and parameters down to four basic elements and adopted the following as primary indicators:

1. adherence to constitution
2. responsibility and accountability
3. clarity of purpose, procedure, and performance
4. member satisfaction

In terms of *adherence to constitution*, frequently co-operatives may have a formal constitutional structure that outlines where authority/responsibility should lie, but where does it actually lie in practice? There are questions about where real decision making is taking place — and by whom, for whom? These questions allow co-operatives to consider how closely this is all related to what the drafters of the constitutional structure intended. It may be that the co-operative needs to counter “democratic mission-drift” by reverting to its original democratic principles, or it may be that the constitution itself needs to be changed to reflect new realities.

In terms of *responsibility and accountability*, there are questions about how well the various mechanisms for this work. For example, how is responsibility defined and applied through demarcation/delegation? Good democratic practice does not require all members to participate in all decisions, so proper delegation of collective authority to smaller executive teams or individuals with a clear understanding of the nature of the working brief is vital. The audit asks whether members delegate effectively. In particular, can members “switch hats” effectively as they shift from general collective to executive or from one works team to another? Do they recognize and respect the limits of their delegated authority/responsibility? This leads on to how accountability is defined and monitored. To whom are the decision makers accountable, and to what degree? How far “down” does it go? In a small co-operative, where communication between all members is easy, this is less of a problem, but where delegation takes place, accountability mechanisms become very important.

In terms of *clarity of purpose, procedure, and performance*, it is important to know how well these aspects are understood by members. For example, how accurately do the participants perceive all of the above arrangements? Is there introductory documentation and adequate induction for new/potential members? Also, how is organizational performance information presented and understood by members as a means to hold their representatives to account?

This leads on to further questions about *member satisfaction*. In other words, how happy, in subjective terms, are participants with the above? And what is the nature of members’ democratic experience in the co-operative?

### *Methods of Assessment*

In order to assess co-operatives and other democratic organizations against the above indicators, a number of conceptual and practical methods are used. The conceptual methods include “decision tracking,” the “coefficient of decision making,” “decision grading,” and “focus of attention.”

*Decision tracking* involves poring over all the meeting minutes

within the stated period of review and identifying every decision documented in the minutes. Each decision is tagged and then traced through every following meeting. The decisions are also *graded* as either Routine (R), Major Policy (Ma), Minor Policy (Mi), Supplementary (S), or Carried Forward (CF). With all these in place, it is possible to see if there is any further reference to specific decisions and, ultimately, if any action arose and any outcomes derived.

Dividing the number of decisions taken at a meeting by the total of person hours (number of people in attendance times the duration of meeting in hours) involved determines the "Coefficient of Decision Making." More specific coefficients could be extracted for each of the above grades of decision if the timings of meetings were more meticulous. The purpose is to have a stab at producing reasonable quantitative empirical data for comparative purposes. The coefficients themselves don't make sense in a vacuum, but as more organizations produce more coefficients for wider and wider ranges of meetings, patterns will begin to emerge and norms will begin to be established.

The Focus of Attention involves subjective assessments by neutral observers to capture when the focus of a meeting's attention shifts from one individual to another. The duration of the focus is timed (by stop watch) and the movement patterns (to chair, to male, to female, to frequent speaker, to infrequent speaker, and so on) noted. Again, the purpose of this is to produce comparative data.

Practical methods for assessing co-operatives' democratic performance include documentary analysis, observations, surveys, and interviews.

### 1. Documentary Analysis

In the Democracy Audit, *documentary analysis* focuses on three main areas: strategic constitutional and operational documents such as the articles of association and business plan, minutes of meetings (including records of attendance, voting, and the turnover of elected representatives), and performance information (such as the annual report and accounts and information about the distribution of surpluses, staff turnover, and so on).

In order to familiarize auditors with the stated structure and purpose of the co-operative, the constitutional documents are first inspected. A number of questions are asked; for example, to what extent do the Articles of association vary from standard? What is the intent of any variations? What liabilities are attached to membership? Are there secondary rules? To what extent are they utilized? When were they last updated?

Next, the audit considers the current or on-going business plan. Is it in keeping with the stated organizational aims? Is it good in business terms? Is it clear how many members were involved in its drafting?

Democratic practice in the co-operative is considered next. The first port of call is the minutes of meetings. There is some obvious information about democratic practice here — for example, the ratio of attenders to non-attenders and voting turnout. What proportion of those eligible actually attend meetings with any regularity? What is the turnout for any voting that may determine who sits on the body in question? Is there a high turnover of officers? How long do officers stay in post? How long do posts go unfilled and what proportion of the total posts does this represent? A look at the use of subcommittees can also be instructive. In relation to the size of the organization, how many and how big are the subcommittees? How often and with what regularity do they meet? How accountable are they? Are their minutes freely available to members? Are there confidentiality issues?

Importantly, a more detailed assessment of the minutes is also undertaken. Here, auditors look for *decisions translated into actions*. For example, over a certain period, how many decisions for action are taken? Of these, how many are successfully actioned and within what period of time? What proportion of the members who are able to take action do so? Are decisions requiring actions consistently carried over? To what extent is there reporting back, and how much of this is clearly related to actual tasks undertaken and completed?

Performance information such as the annual report and accounts and any supporting documentation provide further useful insights. These are examined for a number of things. What proportion of profits goes directly to members and what proportion is retained? How much goes to outside donations and for what purposes? Are there any pay differentials? If so, how much variation and how often is this reviewed? Is

the trend towards greater or lesser disparity? What proportion of staff turns over annually and on what grounds? What is the ratio of members to non-members? What is the involvement of non-members?

## 2. Observation

Observation of meetings is also undertaken in the Democratic Audit. These observations are useful in understanding the formal scope of democratic practice. For example, who controls the agenda? How easy is it for members to get items on? Is the agenda adhered to? Is business conducted efficiently? Is there sensitivity to less-frequent speakers? How frequently are meetings held? How regularly (predictably) are meetings held? Are they at times and on days convenient to members? Who can attend meetings? Are observers allowed and may they speak? Is information about topics readily available? What is the proportion of regular speakers compared to non-speakers? How are these distributed in terms of interest groups?

Key expectations of formal democratic practice are also considered. For example, are the minutes central to the functioning of the meetings? Are matters arising dealt with thoroughly? How long are attention spans on average? Does this accord with time allocated to items? What are the longest, the shortest, and the average speaking times? To what extent is the Focus of Attention spread among the participants? Is there sensitivity to too much speaking from specific individuals?

There is also consideration of the extent to which formal democratic processes drive action in the organization. For example, are past decisions pursued for action? Do people apart from the minute-taker take notes for personal use — especially if they are called upon to take action? To what extent are powers of delegation used? Is there a variance of delegation depending on whether management issues or personnel issues are at stake? Is there resistance to delegation, and if so, on what grounds? Are delegated matters reviewed and decision makers held to account?

## 3. Subjective Views

Finally the Democratic Audit seeks the subjective views (or “operative truths”) of different stakeholders in the co-operative. These can be de-

termined by questionnaire surveys, by interviews, or by both. It is important to discover how the members themselves perceive the organization. Interviews and surveys cover things like work place “atmosphere,” ease of relations between “ranks” or capacities, informal communication (gossip), flexibility of members in task sharing/co-operation, willingness to learn, pay differentials, induction and training, commitment to learning/teaching democracy, control of information, and the physical working environment.

## Making an Assessment

Decision tracking allows us to assess how effectively decisions are being made and how soon they are acted upon and completed. Decision grading and the Coefficient of Decision Making allows us to assess the rate and quality of decision making and to compare like for like in terms of norms for company size, geographical location, primary trading sector and so on. Focus of attention allows us to assess the spread of discussion and participation within meetings. A good spread would indicate better democratic engagement. A poor spread may indicate too much influence in the hands of too few individuals.

Ideally, comparisons should be made with similar groups involved in similar industries. Clearly, there is not much comparative data at this point, but with the increasing use of “democracy audits,” perhaps national, regional, or sectoral norms could be developed.

## *The Democracy Audit in Practice*

The most in-depth democracy audit to date was carried out at an alternative technology centre in the UK. The company is run as a co-operative with about thirty member employees and between fifteen and forty paid non-members and non-member volunteers.

Owing to external circumstances, not enough time was available to complete the audit properly. As a result, the audit involved one researcher/writer on location for a total of six days over three weeks, reading through one year’s minutes in isolation and writing in his spare time. Ideally, there should have been a team of three on location for three or

four weeks over two or three months. More meetings should have been observed and notes compared. Elements such as decision tracking are greatly enhanced by two or three people going through the same data and comparing results before committing to draft. Moreover, in the course of the on-site interviews, it became apparent that few people understood about the audit and what it was trying to achieve. This meant that considerable time was spent explaining the project to potential interviewees. For future reference, it is vital that everybody within an organization understands what is taking place and why. Finally, the period of review was set as fifteen months, commencing one year prior to the previous January and ending in March of the current year at the time of the audit. A longer review period would have been more useful if resources had allowed. Nevertheless, despite the above limitations, the Democratic Audit was able to make the following assessment.

### *1. Adherence to Constitution*

There are two sets of Memorandum and Articles of Association (M&As) that apply to this co-operative. Previously, it was trading as a registered charity (and was therefore not strictly speaking a co-operative at all). Because there was a requirement to raise share capital, a second set of M&As was raised and a private limited company (PLC) was constituted — with A shareholders being employees (with voting rights), B shareholders being friends, supporters, and ethical investors (without voting rights), and “Guardian” shareholders (with fairly specific rights of veto). The charity has ten trustees (elected by members of the trust) and the PLC has three elected directors. There is also an Employee Share Ownership Trust with elected trustees. In practice, none of the above has anything whatsoever to do with the management of the centre. There is a separate, semi-formal structure, evolved over time, and theoretically enshrined in the minutes of the Permanent Staff Meetings (PSM) or its equivalent going back many years. The period of review for this audit only goes back to the previous January, so extraction of all the decisions that defined this semi-formal structure was not possible.

Interestingly, most members (permanent staff) had a very clear idea of the semi-formal structure; especially when compared to their hazy idea of the formal structure. The semi-formal structure consists of an

elected management group called Overview, which meets weekly, and a PSM, which meets monthly. In addition, there is an emphasis on “departments” and on departmental autonomy, which means many initiatives are taken at root level without reference to Overview or the PSM.

Overview has four members elected by secret ballot of permanent staff for eighteen-month terms and two ex-officio members — the director and the finance officer. Any decisions that cannot be taken at an individual or departmental level are referred to Overview. Overview considers the matter and makes a decision. The decision is listed in the Overview minutes, which are posted on the staff bulletin board for all to see. If no objections are written directly on to the posted Minutes within seven days, the decision is considered ratified. If any objections are posted, the matter must be taken up at the following PSM.

Generally speaking, the mechanisms of balance between formal and semi-formal structures actually work quite well. There is rarely any interference in the work of the semi-formal structure by the representatives of the formal or constitutional structures. The semi-formal structure exists almost by virtue of an oral tradition. As many Aboriginal societies will attest, there is nothing wrong with oral tradition. The essential difference is the way in which the tradition is passed on. Aboriginal societies devote considerable time and energy to ensuring that the correct traditions and their interpretations are duly passed on. Members of this co-op, for a variety of reasons, devote much less time to this.

What is perhaps less satisfactory is the balance between the semi-formal structure and the informal structure of the centre. It is apparent that, besides the Overview and PSM channel for arriving at decisions, there is also a lot of collective decision making taking place in other, smaller, less formal clusters of influence.

### *2. Responsibility and Accountability*

In terms of demarcation, the collective appears (and is perceived by the bulk of members) to delegate generously to individuals and to departments. The autonomy afforded to departments is extensive. So, in a sense, the need for delegation is pre-empted — departments may unilaterally take action in a given area anyway. This seems to work well as



far as departmental interests are concerned, but where the collective interest as a whole is at stake, there appears to be some discrepancy. Problems seem to arise with regard to following up the delegation. The collective is not always aware of the outcomes of delegated actions or undertakings. A problem for the audit, and therefore one assumes for the collective, is that decision tracking (and especially outcomes from decisions) was not easy from the minutes (this is partly due to the nature of the minutes themselves; see below).

A number of working groups have been at various times empowered to carry out specific tasks. Recently, teams were delegated to deal with staffing strategies, organization of finance, winter opening, and performance monitoring. These have reported back with varying degrees of coherence and success.

In terms of accountability, formal decision makers are clearly accountable to the constituents described in their M&As. The fact that very few decisions are taken through formal channels, however, means that this accountability is rarely put to the test. The semi-formal decision makers on Overview are also clearly accountable to their constituents. And all of their decisions are very evidently open to review by members. The accountability of informal decision makers is less clear, as is, of course, their actual influence.

### *3. Clarity of Purpose, Procedure, and Performance*

Long-standing members appear to have a very good sense of the workings of the semi-formal structures. There is slight variation in the perception of procedures, but by and large there is a good common understanding. Where this clarity breaks down is with regard to the formal structures by all members, the semi-formal structures by newer members, and the informal structures by less “connected” members. There is little introductory documentation for newcomers. There is an induction procedure involving “mentors,” which is inconsistently applied and ranges from “very good” to “useless” in the eyes of participants.

Overall, the subjective interviews indicated a variety of feeling with regard to all of the above. Some were content though acknowledging scope for improvement; others were resentful of some aspects and de-

spairing of others. Most of the contentment came from full-time employees and most of the resentment and despair came from the volunteers and part-time staff.

### **Conclusions and Future Development**

Plausibly, using the Democracy Audit to track decisions and actions as they pass through the co-operative could help quantify and improve internal communications, member engagement, and partnership working. Something along these lines might move an aspiring “learning organization” toward establishing and embedding a more productive culture — whereby participants are conscious of the need for outcomes — and “collective time” consciousness. Whatever the problems associated with tracking, it is clear that knowing how ideas, decisions, and actions flow through an organization would be hugely beneficial in terms of improving that flow.

Because the Democracy Audit is, for the most part, relative, there is a great need for much more comparative data. This is true particularly in the area of “decision tracking” and the “coefficient of decision making,” but also in other norms. Increased use of democracy audits will perhaps begin to determine national, regional, and sectoral norms, but in the meantime the measures are reporting largely in a vacuum with reference to insufficient context.

There is also a need for more credibility. This will come as usage increases and both the audit itself and its outcomes become more refined, but it could take some time. There is the possibility, however, that substantial credibility could be precipitated by one or two large democratic organizations committing to and implementing the procedures. With sufficient take-up by some key organizations and support from academic institutions, it is possible that an ISO standard could be established and meaningful award systems put into place.

As all this unfolds, it should be remembered that co-operation and democratic processes in general tend to run in relatively barren (at best) or hostile (at worst) environments. There is no systematic groundwork; no preparation in national education systems for involvement in democratic organizations. Most school and even university students graduate



without an inkling of how such systems work or how they might themselves become involved. This also affects democracy at the political level as, for the vast majority of voting adults, the exposure to the workings of a democracy has been kept to a minimum. This makes the whole business of making organizational democracy meaningful and efficient that much more difficult.

Chapter 16

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DEVELOPING AND MEASURING THE EFFECTIVENESS OF STRATEGY:  
LOYALTY, THE ESSENCE OF SUCCESSFUL CO-OPERATIVES

BOB YUILL<sup>1</sup>

**Introduction**

**T**HIS CHAPTER underlines the importance of measuring and developing member engagement and loyalty. It opens with an episode in the Scottish agricultural sector that exemplifies the implications of failing to do this. It then considers the thinking that led the Scottish Agricultural Organisation Society (SAOS) Ltd., the federation owned by the agricultural co-operatives in Scotland providing development advice, to act with its members to address shortcomings in this regard. The combination of these ideas and the practice of actively supporting co-operative members in their strategic approach led SAOS to the development of a survey tool for measuring two complementary areas:

- a. members' understanding, approval, and support of the strategic intent of their co-operative
- b. levels of member loyalty

The design and constitution of the measurement tool itself is discussed in relation to how to generate satisfactory response rates, the specific questions asked, and the availability of space for respondents to add text freely. For each co-operative, the chapter shows how a "loyalty

1. Scottish Agricultural Organization Society, Ltd.

index” can be generated, which allows benchmarking and can prompt further investigation. It is therefore recognized that the survey is best not carried out in isolation; it should be supported by other members’ communications, focus group meetings, board strategy workshops, and so on. The chapter concludes that a member loyalty strategy and the process to measure member loyalty proves to be a powerful tool for Scottish agricultural co-operatives. What has become apparent is that co-operatives with a high loyalty index are very resilient, and that this resilience is built on a foundation of strong member engagement. These co-operatives are highly capable of adapting to changing member needs, and able to develop new strategy or update existing strategies quickly, with the full understanding of members and staff.

### A Prompt to Action

During November 1997, a headline in the farming section of the *Glasgow Herald* shouted, “Restructured co-operative sees bright future despite third year of losses NEF feeling bullish.”<sup>2</sup> In October 2000, the same newspaper headline was “Bannermill sell-off puts NEF in black; Boost to balance sheet sees co-operative upbeat again after years of financial woe” and in June 2002 the headline proclaimed “NEF and Harbro in merger talks,” later explaining that “it is five years since NEF made a profit and in its most recent accounts show a loss of £215k.” A statement from Harbro Farm Sales Ltd. (a private company) said it hoped negotiations could be completed by August and the business would extend its choice of products and create cost efficiencies for customers.

Scotland had lost one of its century-old and largest co-operatives, with a membership of 7,300 and net assets in 1997 of nearly £8 million over a five-year period. NEF’s members didn’t know why. SAOS Ltd. had lost one of its largest members and also did not really know why. At the time the general explanation from the NEF board was that it was the members’ fault for “not supporting the business” and “there is just no loyalty any more.”

2. NEF is the acronym for North Eastern Farmers, a former agricultural co-operative in Scotland.

It was clear to the agricultural co-operative community that this should never happen again, but it was entirely unclear what could be done, or developed, as a prevention strategy. It was the role of SAOS to figure out and provide solutions. Today the NEF story is used as one of a number of practical case studies within directors’ governance workshops provided by SAOS — the case study is as follows:

The 100-year-old requisite business faces real trading difficulty. Competition is targeting the co-op as a source of dissatisfied customers to grow their own business. The co-op has sold a series of substantial assets to provide cash and has relocated out of town by purchasing a previous competitor’s mill site. The manager has not met his own targets since his employment but is quite clearly able to garnish the support of the Chairman. The bank is putting severe pressure on the business to develop a new strategy, but has rejected a report from PwC as being inadequate. The board had been hand-picked over the years at each AGM, which has had a vanishingly small support from members, although there were always attendees dressed in suits and ties. — What are the issues with this business? 6–8 short bullet points.

The governance weaknesses commonly identified in the case study include:

- the business being controlled by outside influences — the bank
- clearly no member control of their co-op
- a manager who should have been told to move on
- a chairman who was too close to the manager to make that fundamental call
- a board that was deferential to its chairman and thereby the manager

The concept of developing member engagement as a core strategy toward building a competitive business was missing at the time and had yet to be “discovered.” This chapter tells the story of this discovery and relates the importance of the coincidence between academic search for answers and practical application of a concept that makes a significant difference.

## Engaging Co-operative Members

In the NEF case study, control rights had moved from members — in some dim and distant past — to the board, then to a defiant management, and finally to the main creditor. Indeed, within NEF's history previous to the case study, the business had been governed solely by an egotistical management who demanded a measure of deference. Members had not been able to exercise any control rights for decades and had become subdued, illustrated by poor attendance at general meetings.

During the first decade of the new century, it had become evident to SAOS that its relevance to its own co-operative members, during a period of rapid change within the industry, would require a fundamental re-think about the role of co-operatives and applicable governance tools that would be simple and effective. The catalyst that made the re-think feasible was the Saint Mary's University graduate program in co-operative management (MMCCU — Master of Management, Co-operatives and Credit Unions), which concentrates on the effectiveness and applicability of co-operative principles to drive competitive strategies — the co-operative advantage. At the heart of effective co-operative governance is the understanding that members have a cardinal role in the effectiveness and relevance of their co-op. Members must be engaged within participative strategies because they have (must have) control rights over revenue streams, contracts, and the property of their co-operative. This is the uniqueness of the co-operative business model, which is particularly poignant within farm co-operatives.

Daniel Côté, professor of Strategy at HEC Montreal who delivers the MMCCU module "Co-operative Management and Strategic Planning," noted that to earn member loyalty a co-operative must apply a number of inviolate principles to its management practice. The first is a partnership with members based on ethics and uncompromising integrity. The second is the ever-important added value performed by the core activities of the co-operative. Third is mutual trust and an openness and sharing of information, particularly of markets and product specifications; and finally, mutual, active, concrete help between members and employees. Many co-operatives would claim that they follow these principles to a greater or lesser degree. While this may be true, they

most often do not tie them together within a loyalty strategy that increases the cohesiveness and effectiveness of the co-operative. Loyalty must be incorporated into the co-operative's basic strategy, and this starts by analyzing its management practices to identify processes that need improvement.

Members are "passionately" loyal to co-operatives that they trust to always act in their best interest, without exception. This different way of doing business is the concept of total trust, where the co-operative and its people never take advantage of customer vulnerabilities. One of the most difficult aspects of delivering a member engagement strategy is getting management support, particularly where management has had a free rein and effectively exercise their own control rights over the co-operative, despite their board.

The challenge of breaking the noose of ineffectual governance and member disengagement is onerous and requires a supporting mechanism with a complete confidence of making an effective change. The real difficulty illustrated by the NEF case study is that the business was run by an ineffective controlling management/board, who took advantage of members in search of a trading margin to cover business inefficiency.

The only way is to re-engage members to become the power base of the business — give them back control rights over their co-operative. But this requires:

- the board to agree to the introduction of a loyalty-based strategy
- loyalty to be a key factor in management style
- it to be the business of everyone
- that employees understand it as a set of practices that affects their daily work

## Measuring Loyalty — Its Development

SAOS quickly recognised that the beginning of the journey to fully engage members with strategies that would lead to increasing loyalty was to carry out member research. The specific aims of this research were to:

- improve understanding of members' businesses
- identify factors influencing member's decision making
- gather members' honest views on the co-ops' current services provision and operations
- interpret members' future intentions
- gauge interest in developing new services and operations
- describe emergent strategies from ongoing change

Over the last decade and as a result of working with co-operatives working to engage their members, there have been some significant learning points:

First, any membership survey needs to be one component of a membership engagement process that involves the whole of the co-op, including the chairperson, the board, management, and staff. The SAOS survey is generally not carried out in isolation, but supported by other member communications, focus group meetings, board strategy workshops, and so on. The process is dependent on the size and complexity of each co-operative.

Second, co-operatives need to be convinced of any survey's effectiveness and the change process. The starting point for SAOS was to develop the necessary proofs that loyalty is a legitimate measure of the effectiveness of a co-op. SAOS started with its exemplary member co-operatives. It would not have been possible to start with the NEF case study — hence why it was entirely unclear what could be done or developed as a prevention strategy at that time.

Third, a loyalty strategy cannot be developed in isolation from a multiplicity of member-engaged strategy. Loyalty does not come first; it is developed as result of member understanding, approval, and support of the strategic intent of their co-operative. This means, therefore, that any survey to measure loyalty cannot be done in isolation because to do so would be virtually meaningless — “So there is no membership loyalty — now what?”

### *Design of the Survey Tool*

The basic tool for working on a loyalty programme is the member's survey. The design of the survey raised several important issues around the

introductory wording, the ordering of questions, the number of questions, and the need for free text to help answer both the “so what?” and “now what?” questions. SAOS found the survey had to be short and very much to the point. A survey that is perceived to take longer than a few minutes to complete generally will not be completed by an “average” farmer-member. The survey takes just a few minutes to complete, and this is stated up front. The following illustration from a recent survey provides the *introductory wording* from the chairman and the managing director:

Your board will be delighted if you could take a few (about 4) minutes to complete this feedback form. We will publish the results, but please note that your responses are confidential. However, you may give your name if you wish and we will follow up on any comments you make. We have set aside £xxxx worth of (Co-operative) Vouchers as a prize draw. All members and customers who complete their feedback form and provide their name will have a chance of winning a £xx voucher.

With thanks \_\_\_\_\_ (Chairman) and \_\_\_\_\_ (MD) –  
Co-operative Limited

PS. To keep the costs of this form as low as possible we have combined the form to include both members and non-member customers; so please bear with us where the feedback form asks questions you think we should already know.

In terms of *question ordering*, SAOS found it best to place survey questions that involve members with the working decisions of their co-operative (that is, members taking an active role in developing new strategy or services) first. These questions develop engagement by the member and demonstrate their importance to the strategy development process. This draws members into their survey and recognises the importance of their participation. The following is an example of this type of question/statement:

We have recently employed a nutritionist to help members develop high-quality, cost-effective feed rations. With the cost of fertiliser having increased substantially, impacting on farm profitability, there is much to be gained from carefully managing soil

nutrition by best use of lime, fertiliser, straight, slurry and manure. Do you think it will be a benefit to provide technical assistance concerning soil nutrition and fertiliser management?

*Yes, No, Not applicable*

In terms of the *number of questions*, SAOS discovered that members did not particularly understand the need or reason for nuanced questions, particularly if they are reluctant to provide the time to complete the survey in the first place. In an initial draft of the survey, members were invited to give their answers to fifteen questions.

Strongly agree	Agree	Agree somewhat	Disagree	Strongly disagree
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Members can rely on the co-op to provide quality service.

The co-op works to build a relationship of trust with me.

The co-op hires and retains quality people.

The co-op sets the standard for excellence in its field.

The co-op communicates openly and honestly.

The co-op values people and relationships above profits.

The co-op knows how to listen to its members and meet their needs quickly.

I will do extra business with the co-op if I need additional products or services.

The co-op rewards member loyalty appropriately.

I understand the values and principles that guide the co-op.

I recommend the co-op wholeheartedly.

I trust the staff of the co-op for their integrity and honesty.

I am proud to be a member of the co-op.

I believe the co-op has earned my loyalty.

My loyalty to the co-op has increased during the year.

However, if two questions seem similar, then the humble member will regard them as identical, answer them the same way, and may become cynical. For example:

(The co-op) communicates openly and honestly.

(The co-op) knows how to listen to me and meet my needs quickly.

Arguably, these two questions are asking nearly the same thing.

Finally, SAOS finds that a clear *space for each member to provide free text* is a most powerful feedback mechanism. The following examples provide just some of the insights gained from free-text feedback from a co-operative member survey:

Q. Please provide any other suggestions as to how (Your Co-op) might help farmers and the wider rural community:

- "Sales staff need to keep in closer contact with members so they know who to speak to in the office about their individual requirements."
- "Members" discussion night — perhaps once or twice a year with a quick update on all the products handled and perhaps someone to lead a discussion."
- "There may be some synergy in closer co-operation between veterinary practices and yourselves."
- "How about branching into fuel supplies, or you could start a bio-diesel plant."
- "Store to remain open at lunchtimes — office workers only chance to use the shop."
- "Emailed orders to be acknowledged by responding email with information on availability and expected delivery."
- "I'm not a member, and have traded with the co-op for over 30 years and the question of membership has never been raised."
- "Get together with other co-ops and supply businesses and stand up to the cartel that has been allowed to develop in the fertiliser manufacturing sector."
- "Perhaps customers should be made more aware of the wide range of products you sell (or have I missed something?)."



Most interestingly, free text almost always provides insight into a potential strategy for the co-op, or an emergent strategy that is beginning to engage members but not known to the co-op management. Responses can indicate a most basic solution to a member's difficulty in engaging with their co-operative that the board/management have missed.

### The Loyalty Component of the Survey

Following the communication and feedback about potential services, or new strategy, the loyalty component of a survey is able to gain honest feedback on some fundamental questions. The surveys do not refer to loyalty per se, but rather, have an introduction to why the "loyalty" questions are being asked. The following statement is typical:

(Your Co-operative) is a unique business and is rightly proud of its heritage and closeness to the communities of the southwest. To make sure that your co-operative is developing in the right way we would like to understand how satisfied, or otherwise, you are with the business.

After much feedback from co-operatives, having carried out member communications and initial loyalty survey work, SAOS has distilled the loyalty survey to four fundamental, "killer" statements:

1. I can always rely on (My Co-operative) to provide a quality service.
2. (My Co-operative) sets the standard for excellence in its field.
3. (My Co-operative) knows how to listen to me and meet my needs quickly.
4. I am proud to be a member/customer of (My Co-operative).

Members are able to mark these statements as to whether they: Strongly agree, Agree, Somewhat agree, Disagree, or Strongly disagree. These statements have become an "acid test" for member loyalty. SAOS staff are able to work with boards and management to quickly interpret the results in conjunction with both earlier survey answers and/or work-

ing knowledge from other communications with members, such as focus groups, to be able to make clear recommendations for action.

For example, in one co-operative where there was a low score on question 1, it became clear that their database system of members and their requirements had become outdated and needed re-development. As a result, and with SAOS, they worked with other, similar co-operatives in different areas to enhance their IT capabilities.

In another, where a low score was found on question 3, it became obvious that the logistical operations to quickly and efficiently move crop were inadequate, but the problem was seen on farm. As a result, the board worked with members to make a substantial investment in crop intake and handling systems to remove backlogs on any busy harvest day.

### Benchmarking from the Loyalty Survey Results

Benchmarking is an important use of the loyalty measurement tool. Most often the board will ask for a comparison with other co-operatives. SAOS has applied a simple weighting to each of the member agreements to assist an easy understanding by co-operatives. This allows a comparison between different co-operatives using the Loyalty Index. It should be noted that many farmers will be a member of two or three different co-ops so will use their experience to help interpret any comparison.

	Co-operative Name	Response rate %	Loyalty Index	
1	BNR	28	120	
2	TRF	33	127	
3	ADG	57	112	
4	RS	14	106	
5	GG	91	143	
6	CSF	36	89	Weighting
7	SA	57	148	Strongly agree = 2
8	HG	67	148	Agree = 1
9	TFMR	28	126	Somewhat agree = 0
				Disagree = -1
				Strongly disagree = -2

10	SBP	78	109
11	SPP	55	142
12	SL	60	146
13	ESG	79	129
14	RNK	13	132
	Mean	49.6	126.9

The table above provides a table of fourteen loyalty survey results in which loyalty index scores have been created from a combination of the four “killer” statements above. Similar co-operatives can be directly compared — e.g., BNR, RS, TFMR, and RNK are all similar co-operatives working in different geographic areas. The Loyalty Index allows them to compare best practice and also highlight any weakness each may have.

Interpretation of the above results is key to further understanding. The following commentary provides some context to comparisons. First, the co-operatives with the highest loyalty indexes — GG, SA, HG, SPP, and SL — are all particularly close to their members and in nearly all cases have a close “technical” interaction and work in sophisticated markets that are difficult for members to service adequately on their own. Members all have substantial control rights throughout these co-operatives. The significance of these high-loyalty indexes is that these co-operatives can develop and engage new strategy sufficiently quickly to outwit any competitor or counter strategy arising from the marketplace. For example, SPP and SL have recently entered a joint venture to purchase and upgrade a large processing plant in collaboration with a Danish Co-operative.

Second, the lowest index score CSF, is a co-operative not dissimilar to the case study NEF; it is not a member of SAOS. The survey was commissioned by the board without the input of management and no follow-up to the survey was commissioned. It might be that the intention to move control rights from management to members has not been allowed.

Third, RS, with a low index score and a low response rate has always had difficulty within their market sector, struggling to remain relevant, and are facing competition from other, similar co-operatives. The board

and management have been working to develop better loyalty, but are finding that their internal strategic capability to do this is limited.

Fourth, SBP, with a very high response rate and a low loyalty index, had been struggling with internal issues that required fixing. The survey concluded to the board, in very stark terms, what had to be done, and quickly, by the board — they couldn't hide from member demands.

Fifth, RNK with a low response rate and a high loyalty index, illustrates that there is not always a close correlation between response and loyalty. In this case, the survey was carried out entirely by using the internet. Using this method alone in this case was a test to understand a particular segment of the membership using the Internet and email for communications.

The interpretations that SAOS is able to bring to its members using the loyalty survey tool and associated loyalty index are important for organizational learning. They are also important in promoting the changes that are necessary for these co-operatives to continue to meet their members' most important needs.

## Conclusions

A member loyalty strategy and the process to measure member loyalty is proving to be a powerful tool for Scottish agricultural co-operatives. The timing of its development has been significant, coinciding with agriculture and food supply chains working within an environment of increasing uncertainty and complexity caused by climate change, globalism, technology, and increasing bureaucracy. The connectedness between these components further increases complexity, meaning that calculating predictability and risk factors for any forthcoming event becomes impossible. What has become apparent is that co-ops with a high loyalty index are very capable of adapting to changing member needs, able to develop new strategy or update existing strategies very quickly with the full understanding of members and co-operative staff. In essence, co-operatives with a high loyalty index are highly resilient.

A loyalty strategy is the business of everyone connected to the co-operative; it cannot be developed in isolation by a single group within a co-operative. It starts by analyzing a co-operative's management prac-

tices to identify processes that need improvement, then working with everyone to make the changes that need to happen.

The biggest barrier to developing member loyalty is an ineffective management that works to retain its own influence. In this case the board must be empowered to take control initially, which in most cases will require the support of a third party development organization or consultancy such as SAOS, who understand the process and can improve the effectiveness of the process to engender confidence.

A measurement of loyalty on its own cannot make change happen; at most, it provides the primary benchmark for a change programme from which to measure future development. Measurement of loyalty alone is a wasted opportunity to develop broader engagement with members, their board, and staff. Free-text member feedback can state the brutal truth of the change that needs to happen and can shock management into action, but the co-operative requires a supportive, committed, and critical board to make sure they do.

## SECTION FIVE

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Reporting Practices:

Co-operative Identity and Sustainability

YUILL HERBERT<sup>1</sup>

**T**HE *BLUEPRINT FOR A CO-OPERATIVE DECADE* outlines an ambitious vision for the development of co-operatives internationally. One aspect of this vision is that co-operatives become the acknowledged leader in economic, social, and environmental sustainability (Davies and Mills 2013).

In order to understand if co-operatives are indeed the leader, comparison with other forms of enterprise is required, and the obvious method of assessment is the rapidly growing field of sustainability reporting. As I will illustrate, the terrain selected for this comparison gives rise to a fundamental question for the co-operative movement: are the intrinsic characteristics of co-operatives, which can be of the greatest value to the sustainable development agenda, enhanced or undermined if co-operatives seek to demonstrate their contribution to sustainability in frameworks conceived within an ideology that is incompatible with a substantive definition of sustainability?

This question gives rise to four tasks. First, I will consider the notion of sustainability (note: for the purposes of this paper, I use sustainability and sustainable development interchangeably); second, I will provide an overview of sustainability reporting; third, I will describe the value

1. Sustainability Solutions Group

proposition of co-operatives for the sustainable development agenda; and fourth, I will identify foundational principles or concepts against which co-operatives can substantively measure their contribution to sustainable development.

Prior to embarking on these tasks, there are two terms that I will draw upon in subsequent arguments that are worthy of clarification up front. *Hegemony* is “[a] social condition in which all aspects of social reality are ... supportive of a single class or group” (Livingstone 1976, 235). In these times, that social condition is *neoliberalism*, “a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade” (Harvey 2005, 2).

### What Is Sustainability?

The World Commission on Environment and Development produced the Brundtland Report (1987), which defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” This definition is ambiguous, and has been subject to considerable debate; at its core, however, is the premise that the circumstances of those who are in need can be improved without further degradation of the vitality and resilience of the ecosystem.

A focal point in the debate on the definition of sustainable development is

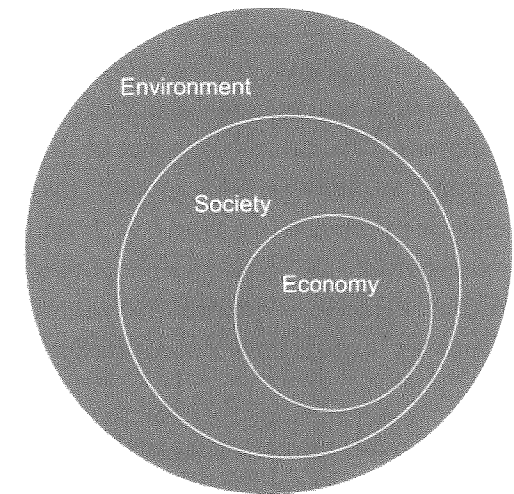


Figure 1: World Sustainability Model

whether or not human capital can be substituted for natural capital and whether or not there are limits to growth (Jackson 2009). Many ecologists and a few economists argue that natural capital is not infinitely substitutable — this is sometimes termed strong sustainability (Ekins et al. 2003). Weak sustainability, on the other hand, maintains that the aggregate stock of capital can be maintained by substituting human capital for depleted natural capital; one is substitutable for the other.

From the co-joined premise of limits and non-substitution, the concept of sustainable development can then be represented as three components or imperatives in a series of circles, or nests (figure 1), with each senior level transcending but embracing its junior. In this description, the economy is embedded within a society or cultural sphere, which, in turn, is embedded within the ecological or ecosystem sphere, the ultimate limiting factor for all human activities. The ecosystem is the all-encompassing sphere, of which human society is but a subset. In its turn, the economy is a subset of society, a sub-subset of the ecosystem. This framework coalesces with our understanding, for example, of climatic limits, or a limited global forest area from which only so much wood can be extracted.

The idea of limits does not, however, mean that the economy cannot change or evolve. As Daly (1990) argues, the word “development” is an intrinsic partner to “sustainable” in the idea of sustainable development. Without the concept of development, there is a tendency to couple sustainable with growth, giving rise to the imaginary and dangerous pretence of a world without limits. Development is, then, an alternative and equally viable pathway to growth. As Daly writes, “In short, growth is quantitative increase in physical scale, while development is qualitative improvement or unfolding of potentialities” (1990, 1).

Sustainable development is then a paradigm with the goal of improving the quality of life of people while recognizing physical limits of the ecosystem, as well as cultural and societal limits in a framework of development and not necessarily of growth.

## The History of Sustainability Reporting

Sustainability reporting began as a genuine effort in the 1990s to inform stakeholders of the environmental impact of businesses such as the Body Shop (Ioannou and Serafeim 2014), as an attempt to reflect on and acknowledge the fraying ecosystems. Sustainability reporting represented a fresh approach to engaging with and informing stakeholders of large enterprises in a parallel and voluntary effort to financial reporting, in effect economic agents recognizing a world outside the economic sphere. With that recognition came significant differences in approach to reporting, as the tentacles of information reached beyond the tangible financial metrics into the intangible complexity of the social and ecological spheres (see table 1).

Table 1: Differences between sustainability reporting and financial reporting

	<b>Emphasis in financial reporting</b>	<b>Emphasis in sustainability reporting</b>
Time-scale	The reported year	Future orientation
Focus	Issues that organization directly controls	Wider sustainability impacts
Economic view	Material	Intangible
Data	Financial	Non-financial
Materiality	Financial significance	Any information that is significant to readers
Users	Investors	Stakeholders

Source: Karis and Pöysti 2013, 10

Corporate Social Responsibility (CSR) reporting gained traction around the same time due to concerns about labour impacts in supply chains and human rights abuses, particularly child labour. Triple bottom line reporting was the next significant trend, in which social, environmental, and economic pillars were tracked independently in annual reports that paralleled legally required financial reports (Mitchell et al. 2012). As these trends emerged and evolved, various standards and frameworks were created, including; ISO 14001 (1996), an environmental management standard in 1996; the Global Reporting Initiative (GRI) in



1997; ISO 26000 on social responsibility in 2004; and the International Integrated Reporting Framework (IIRC) in 2013. While the GRI is the most widely used framework, the IIRC represents the latest development in sustainability reporting, combining financial and non-financial aspects in a single report, with the aim of embedding sustainability issues in the mainstream performance of an organization.

There are also developments in the regulatory requirements for non-financial reporting, either by governments or stock exchanges, as governments provide a legal mandate for the provision of non-financial information. An analysis of the legal framework of thirty nations for the United Nations Environment Program found 142 requirements and guidelines for reporting on different laws and regulations for sustainability (KPMG Advisory 2010). In a recent development, the EU passed a directive that will require companies with more than five hundred employees (approximately six thousand companies) to disclose information concerning their policies on environmental, social, employee, human rights, anti-corruption, and bribery matters, as well as information on the outcomes of their policies (European Union 2014).

Beyond organization-wide approaches to sustainability, certification systems have developed within specific sectors, with examples such as Leadership in Energy and Environmental Design (LEED) primarily for the building sector in North America, Forest Stewardship Council for forest products, Marine Stewardship Council for fisheries products, and Sustainability Tracking, Assessment and Rating System (STARS) for colleges and universities. Table 2 describes different approaches to engaging in sustainability management.

This varied and complex landscape of reporting frameworks and methods has given rise to confusion about which is the preferable framework or approach (Leinaweaver 2015) and many large organizations are currently using multiple systems or frameworks for different audiences or regulatory environments.

In general, co-operatives have not embraced sustainability reporting to the same extent as investor-owned companies. An analysis of the extent of sustainability reporting in the largest 300 co-operatives found that the total increased from one report in 2001 to twenty-two reports in 2010, but dropped drastically in the past two years. Of those co-op-

Table 2: Different approaches to sustainability management

	Management system	Reporting framework and guidance	Certification system
Purpose	Support continuous improvement	Ensure transparency of impacts	Achieve a standard of performance
Approach	Policies	Indicators	Credits
Performance standards	None	Determined by applicant organization against indicators	Established by certifying body
Recognition	Certification of process	Certification not necessary	Certification of performance level (Silver, Gold, Platinum, etc).
Flexibility of application	Broad based	Broad based	Applies to specific sectors or industries
External validation	Of policies and processes	Of transparency	Of performance
Examples	ISO 14001	GRI	LEED, STARS FSC, MSC

eratives that issued a sustainability report, only 5 percent commissioned external assurance to validate the results (Segui-Mas and Bolla-Araya 2012). In contrast, the GRI sustainability reporting framework has been adopted extensively by conventional business, with 82 percent of the top 250 companies of the Fortune 500 Index reporting and 71 percent of National 100, the top 100 companies in sixteen countries where KPMG operates reporting (KPMG International 2013). A study of European banks also found that a low percentage of co-operative banks prepared sustainability reports, but those that were published were of high quality (Bolla-Araya et al. 2014). In some cases, co-operatives have helped lead the development of sustainability frameworks or standards; for example, the Co-operative Bank in the UK was the first organization to use AccountAbility AA1000, and Vancity Credit Union in Canada has helped pioneer integrated reporting.

## Sustainability Reporting as an Instrument of Hegemony

*“Did you ever expect a corporation to have a conscience,  
when it has no soul to be damned and no body to be kicked?  
(And by God, it ought to have both!)”*

— The First Baron Thurlow (1731–1806)  
Lord Chancellor of England (Banerjee 2008, 51)

Sustainability reporting has emerged as a distinguished aspect in the countenance of the investor-owned corporation. However, there is a profound disconnect between the business practices of investor-owned corporations and the magnitude of environmental and social challenges facing society. This disconnect appears intransigent, derived from the resilience of the dominant narrative of neoliberalism. As an ideology, neoliberalism hungers after growth, and, through accumulation by dispossession, neoliberal markets have claimed and conquered realms such as public utilities, social welfare provisions, public institutions, and even warfare (Harvey 2005). This process of creative destruction has not only devastated the livelihood and dignity of millions around the world, but has brought about the destruction of the environment (Ivanovski 2012), a direct contradiction of the aims and objectives of sustainable development.

What is the role of sustainability reporting in this context? Sustainability reporting, one can argue, has provided cover, as an allowance from social movements that request accommodations rather than challenge the power alignment — what is called the “compromise equilibrium” (Kebede 2005, 84). This is one strategy that has enabled an economic ideology to secure the consent and loyalty of people whose individual and common interests it frequently undermines or contradicts, a situation that Gramsci described as hegemony (1971).

Gramsci describes civil society, for example, organizations like GRI and other sustainability frameworks, as a “powerful system of earthworks” (Hoare and Smith 1971, 238) that buttress an ideology against any challengers. While the intention of sustainability reporting was to bring clarity to the relationship between firms and society and the environment, the opposite may be occurring, as the appearance of trans-

parency dulls the desire for real transparency. As Mitchell et al. describe, “Organisations wishing to be seen as socially responsible have tried to synthesise these irreconcilable opposites by creating discourses within a broad and ineffectual middle ground that only serve to reinforce the status quo of business as usual, and avoid — even distract attention away from — the unsustainable scale of current growth trajectories” (2012, 3). The GRI founders, for example, took “efforts to shape GRI as complementary to corporate and financial market needs. The strategic risk, of course, is that GRI would be co-opted and assimilated within these structures rather than transform them. This does appear to be the emerging outcome” (Levy et al. 2010, 34).

It is not only the obfuscation of cause and effect that has sustained the power of neoliberalism, but also the dissipation of alternatives, a “hegemony by pulverisation,” which is partially captured by the ideas of cultural fragmentation and “consent without consensus” (Carroll 2006, 12). A solid substance becomes a jumble of tiny loose particles, each clamouring for attention in a sea of particles clamouring for attention, so that it is only possible to hear those in immediate proximity. Co-operatives consist of a few of those marginalized particles, characterized as appropriate for “farmers (at least they used to be), cohesive religious-ideological communities and for developing countries” (Fairbairn 2003, 13), but not for university economic text books (Kalmi 2006). This tyranny by oblivion has been reinforced by political pressure expressed in the form of a hostile legal environment, the rise of a managerial class with a neoliberal orientation, and a de-emphasis on collective or common endeavour (Diamantopoulos 2011).

In summary, there is a hegemony of neoliberalism, which, because of its dedication to, and reliance upon, growth, is incompatible with sustainable development. The hegemony is sustained by accommodation at the margins and by distributing sufficient self-interest and cultivating individualism so as to dissipate any cohesive and alternative world views. In this world, co-operatives survive in niches or by playing the game. Meanwhile, in the clouds at the margins, there are growing and increasingly desperate calls for substantial change, which echo more or less loudly with events such as the financial crisis and climate change.

### Another World Is Possible: Co-operatives as Counter-Hegemony

The vision of the *Blueprint for a Co-operative Decade* is that co-operatives will become the acknowledged leader in social, economic, and environmental sustainability. The temptation for the co-operative movement is to engage with neoliberalism on its own terms, to participate and excel in applying frameworks such as the GRI and Integrated Reporting. But by doing so, co-operatives inevitably reformulate their strategy and structures into a framework designed for an investor-owned corporation.

Co-operative leadership on sustainability or sustainable development must employ another strategy — namely, differentiation — and part of the leadership is turning away from existing sustainability frameworks. Neoliberalism is unable to substantively reconcile its existence with sustainable development; its emphasis on economic growth is incompatible with ecological limits, yet this ideology has a stranglehold on the imagination of society. The critical role for co-operatives is to extend and capture the imagination of society as an *alternative*. A powerful aspect of hegemony by dissipation is the inability of those who would counter the hegemony to articulate an alternative, to reassert the social flow, when the ideas they envision, the language they speak, and the activities they engage in are captured within the ideology of neoliberalism.

One conception of counter-hegemony inspired by the Zapatistas, an indigenous movement in Mexico, is: “the struggle for the reassertion of social flow of doing, against its fragmentation and denial” (Holloway 2005, 36). Holloway envisioned *doing* as the source of power of creation, describing the construction of a chair. The chair, when it is sat upon, is part of the social flow and derives meaning, and power, from that interaction.

Co-operatives are indeed *doing* and, as such, have a unique offering in a time of profound societal challenges on inequality, social exclusion, and fraying ecological systems: “Instead of affirming the social Darwinian prescriptions of greed and individual gain in the market place, which is at the heart of neoliberal ideology, genuine co-operatives affirm the opposite norms; human solidarity, economic democracy and collective endeavor” (Satgar 2007, 47).

Co-operatives have been a powerful movement against similar economic ideologies in the past. In the late 1800s, two significant movements emerged in the US to confront a regime of corporate consolidation, rate discrimination, and credit restrictions — namely, the Grange, or Patrons of Husbandry, and the Farmers Alliance (Schneiberg et al. 2008). The movements united agrarians and farmers in the Midwest, the Plains, and the South under a banner of regional republicanism that included a political program of anti-trust laws, financial regulations, and economic self-organization in the form of co-operatives, mutuals, and state exchanges. The movements represented a significant economic and political force, with the Grange securing railroad regulation and the Alliance generating a membership that reached one million members by 1890.

In the context of the neoliberal hegemony, it is simply by existing as a living and breathing alternative that co-operatives are *doing*, as Holloway imagined. It is their existence that represents “one no and many yeses” in the face of neoliberalism, to quote the slogan of the Zapatistas (Kingsnorth 2003). The subsequent task is then to illustrate and call attention to *what* they are doing. Employing sustainability frameworks conceptualized within a neoliberal hegemony, however, is likely to undermine this differentiation and thus the ability of co-operatives to articulate an alternative to neoliberalism.

### A Co-operative Framework for Sustainability

*“Remedies for social justice that merely affirm a group’s status or entitlements within an existing order must be distinguished from remedies that transform the world in ways that abolish underlying generative mechanisms of injustice.”*

— Fraser cited in Carroll (2006,19)

Co-operatives exist within the neoliberal economy and, as such, are “sites of contestation, power structures and multiple, competing logics” (Schneiberg 2013, 655), as the battle between difference and sameness, collective and individual, profit and non-profit rages. The existence of co-operatives provides the opportunity for the construction of a post-

capitalist economy in the present that directly responds to sustainable development; this is the leadership that, while perhaps not envisioned by the *Blueprint for a Co-operative Decade*, is what the world critically needs. Such an effort would consist of the following three pillars.

### Prioritize People, Not Profits

The first aspect of a sustainability framework: the co-operative principles can serve as a foundation of sustainability. Both the literature and practice on sustainable development have struggled with the intangible nature of the social dimensions of sustainable development. Again, co-operatives have novel contributions to offer. In a study that explored the relationship between co-operatives and sustainability, mathematical strategies were used to identify the dominant concepts in the social, ecological, and economic domains of fifty key papers on sustainability and sustainable development (Dale et al. 2013). Strong overlap was found between the seven co-operative principles and the social concepts of the sustainability literature, while less overlap was encountered with key concepts in the environmental and economic groupings of literature. In other words, we can simply look to co-operatives as a practical manifestation of the social dimensions of sustainability.

### Embrace Development, Not Growth

The second aspect of a sustainability framework: the contribution to development as opposed to economic growth. Returning to the definition of sustainable development, as I described earlier, sustainability without development fails to articulate an alternative to growth and fails to acknowledge limits. Co-operatives offer insight into a pathway of development that is not dependent on growth. Fundamentally, co-operatives exist to serve their members by providing goods or services or other purposes, in contrast to investor-owned corporations that seek to maximize profit. As Zamagni (2005) points out, it is counter-intuitive that an organization that has voluntarily elected to self-govern according to seven principles is as free to pursue financial gain as an organization that is not constrained by a set of principles. These principles are incompatible with the economic notion of rational choice, as economic

efficiency rationality does not include social and ethical motivations. If efficiency were to encapsulate notions of “the valorization of subjectivity; the psychological advantage of not suffering alienation; the sharing of the results of a common activity; [and] the sense of equity” (Zamagni 2005, 21), it is likely that co-operatives would be considered extremely efficient.

### Acknowledge Limits

The third aspect of a sustainability framework: an explicit acknowledgement and response to limits. Study after study and report after report document the fraying of the ecosystem, yet the sphere of the economy is unable to come to terms with ecological limits, owing in part to the dominance of the neoliberal hegemony. Co-operatives, on the other hand, are unafraid of limits, because growth is not fundamental to their purpose, and because they tend to be place-based and the reality of constraints when one is constrained to a particular place are more apparent. As co-operatives lack the primary need of providing a return to investors, they are free to take a long-term view of the interests of their stakeholders, be they customers, employees, or the wider community (European Commission 2002).

### A Collective Effort

In the past, others have attempted to develop sustainability frameworks for co-operatives, but these have languished in the margins, adopted at most by a handful of co-operatives. A condition of a co-operative sustainability framework is therefore that it is well-resourced, has extensive buy-in by co-operatives everywhere, and is relatively easy to communicate. As a marginal or marginalized voice, any collective effort is susceptible to hegemony by dissipation, and authentic and sustained communication will be required to capture the attention of people above the noise.

### Conclusion

As liminal organizations (Fairbairn 2003), co-operatives occupy the space in between. They simultaneously deny the inevitability of Adam Smith's



invisible hand, yet they fully engage in the markets, on the terms and conditions of the markets, and they succeed in a myriad of sectors, forms, and cultures, defying categorization and confounding economic theorists. Co-operatives contain modern principles — open and voluntary membership is premised on rational individualism and free choice, and their notion of democracy reflects a modern understanding (Fairbairn 2003). As manifestations of “what should and can be” (Mayo 2003, 42), co-operatives have the potential to guide us through a time of exceptional social, ecological, economic, and political difficulty (Johanisova et al. 2013), and in order to do so, they must fully embrace their own identity as co-operatives. The battle sign of co-operativeness, the last line of defence, are the seven co-operative principles. The principles are the essential foundation on which an alternative to neoliberalism is constructed and equally are the starting point for a co-operative sustainability reporting framework. The principles partnered with key aspects from the sustainable development agenda include an understanding and acknowledgement of ecological limits and a commitment to defining and measuring a pathway based on development, not growth. With this framework, co-operatives will be able to demonstrate their leadership.

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## Chapter 18

THE CO-OP CERTIFICATION PROCESS:  
CO-OPERATIVES OF THE AMERICASMANUEL MARIÑO<sup>1</sup>

## Social Responsibility and the Co-operative Social Audit

**T**HIS CHAPTER addresses the question: is there a particular kind of social responsibility for co-operatives? If so, a co-operative social audit<sup>2</sup> can be used to assess to what extent co-operatives are socially responsible organizations.

To begin with, we need to recognize a common basis for all organizations and institutions that want to carry out a social audit. This common basis arises from the word “responsibility” (or accountability); an act an organization is obliging itself to undertake in relation to someone else (“the stakeholders”). Responsibility within co-operatives includes an adjective that clearly states a distinctive characteristic of our solidarity system: *social* responsibility.

There is no doubt that, in the case of investor-owned enterprises, Corporate Social Responsibility (CSR) has been clearly defined for a long time, with interesting advances under different regulations and formulas to measure it. It is also important to remember why and for what

1. Co-operatives of the Americas, International Co-operative Alliance
2. Co-operatives of the Americas undertook the role of the auditor in this process. See <http://www.aciamericas.coop/Balance-Social-Cooperativo-2394>.

purpose the concept of Corporate Social Responsibility was developed. During the second half of the sixties and the first half of the seventies, the corporate world faced different pressures regarding its social responsibility. Two different schools of thought emerged depending on the different demands and pressures that companies faced. In the US, the corporate world faced huge pressures, especially from environmental advocacy groups, in defence of minorities and consumers. Thus, CSR appeared in the US as an answer to external consumer pressures.

In Western Europe, companies started to face pressures and demands from internal groups, particularly trade unions. In this way, CSR was originally focused on providing answers to internal labour demands.

Today, we refer to Corporate Social Responsibility as “the ability of an enterprise to listen, assist, understand and meet the legitimized expectations of different stakeholders, which contribute to the development of the enterprise” (Valdemar de Oliveira Neto, Director of ETHOS Institute).

The Argentinian Institute of Corporate Social Responsibility states that Corporate Social Responsibility implies an ongoing process, which includes

- an integral vision, since it comprises a complex number of dimensions
- a gradual approach, since it is a path of excellence to follow
- a proportional notion, since the expectations generated when it is put into practice are directly related to the size of the enterprise and its corresponding power or influence in the market
- a holistic perspective, since, in fact, it is an idea that must include all enterprises, regardless of their kind or size

To be effective, Corporate Social Responsibility or Co-operative Social Responsibility — measured and assessed by the Social Audit — cannot be realized sporadically.

## Co-operative Social Responsibility

Corporate Social Responsibility is not a new discovery for co-operatives. Since their beginning, co-operatives have taken into account that their

actions affect their members, including their workers and the community where the organizations operate. In different ways, the co-operative movement has been the pioneer in the development of Corporate Social Responsibility.

Co-operatives, with their democratic structures based on members, have always looked beyond financial profit. Co-operative values and principles have been at the heart of the co-operative business model for 150 years. Co-operative values include: self-help, self-responsibility, democracy, equality, equity, and solidarity. According to the tradition of the pioneers, the co-operative movement believes in the ethical values of honesty, transparency, social responsibility, and care for others. These values are the basic elements of any genuine long-term commitment of Co-operative Social Responsibility.

The growing recognition of the value of co-operatives, which are seriously committed to socially responsible business, has meant that enterprises of all kinds have started to adhere to this essential co-operative concept, establishing policies or reports regarding their actions. Co-operatives are increasingly standing out since social responsibility is at the heart of their daily businesses.

It is in this context that it is necessary to return to the true essence of this kind of solidary organizations to discuss the significance of these concepts. We need to be clear about some conceptualizations that are at the core of the distinction between Co-operative Social Responsibility and Corporate Social Responsibility. Co-operative Social Responsibility defines the essential and genuine values of co-operatives and co-operative doctrine. Social responsibility is not an add-on: it is the essence of the co-operative business.

### The Co-operative Social Audit

The Co-operative Social Audit emerges as a new tool for socioeconomic management that enables co-operatives to evaluate themselves and to be accountable to their member-owners and other groups influenced by their actions. The co-op social audit rests on the co-operative values and principles as a measure of fulfillment of co-operative identity.

The model proposed by Co-operatives of the Americas implements

a set of dimensions and indicators. The process of compilation of indicators and their systematic presentation in the Co-operative Social Audit makes it possible for co-operatives to have

- a measuring instrument concerning the social impact of a co-operative in its community
- an evaluation of the relationship between social benefits and business success
- a strategic tool for systematic evaluation

Additionally, the Co-operative Social Audit allows co-operatives to

- quantify the qualitative side of co-operative management
- make visible the invisible side of services
- systematically weight the commitment of a co-operative to its community
- measure co-operative social responsibility and social policy
- undertake, if necessary, the needed changes to fulfil its mission

The Co-operative Social Audit facilitates

- the sensitization of the co-operative movement in terms of the responsibility they need to have as enterprises embedded in the Social Economy
- the dissemination of responsible and transparent practices
- the articulation of the co-operative movement with public-policy makers, opening advocacy spaces
- the production of information that ensures an educational process in the community
- the influence over markets and over social and political stakeholders to help create a favourable environment for the Social Economy

The Co-operative Social Audit aims to

- strengthen co-operative identity
- provide objective data for advocacy of the co-op movement

- have an influence on public policies, making it clear that co-operatives are not only efficient enterprises but also organizations built on solidarity

### The Co-operative Social Audit: Model and Process

The objectives of the Co-operative Social Audit are to evaluate the management regarding the co-operative compliance with Co-operative Social Responsibility built on the principles and values of co-operation over a certain period of time. This makes it possible to redefine policies, draw up programs, and make social investments more efficient. This results in an improvement in the relation to cost/benefit for its interlocutors.

As a management tool, the Co-operative Social Audit allows the Executive Board and Management to plan actions aimed at increasing productivity and workers' efficiency, and follow these actions up with a co-operative approach. Co-operatives can have access to information about their human resources and about the co-operative relationships with the sectors of the community it is linked to, so as to adequately inform the public about its social performance. This exercise allows co-operatives to update policies and programs since the Co-operative Social Audit is an effective instrument to measure and control outcomes, costs, and benefits derived from the enterprise actions.

When a co-operative systematically has information about its successes and failures — in the frame of co-operative principles and values — it can face its weaknesses, understand its problems, and better define the path to follow.

To put it simply, the objectives of the Co-operative Social Audit are the planning, evaluation, control, and distribution of resources, and the agreement on policies based on accurate information. We must remember that the primary motivation to undertake the Co-operative Social Audit is to improve integral management. On its own, the Co-operative Social Audit cannot transform a co-operative, but if it is used in a favourable environment it will be an extremely useful tool.

The Co-operative Social Audit ensures the development of a vol-

untary social policy (not compulsory), since it is a tool for decision making. It contributes to an improvement in the relationships with internal and external sectors, since the information it renders can be used to make suitable and timely decisions. Thus, it promotes dialogue and conciliation, which is valuable in itself.

### Requirements

There are certain conditions necessary to implement the Co-operative Social Audit.

#### 1. The Existence of a Social Policy

Recognition of social responsibility as the fundamental basis for co-operative identity leads to structuring integral programs, which establish parameters to develop actions, both internally and externally.

#### 2. Support from Management

The recognition that co-operative identity and the co-operative difference must be an integral part of the organization management that requires support and commitment from the executive board, the top management level, and all the direction bodies.

#### 3. Existence of an Integral Co-operative Strategy

The Co-operative Social Audit must be integrated to the business strategy, considering objectives, plans, and budget, so that it doesn't become an isolated action but an integral part of the activities of the co-operative, which represents the commitment of the organization.

#### 4. Understanding the Concept and Content of the Social Balance

It is necessary to socialize the importance of the Co-operative Social Audit so that it is undertaken by conviction and not as a matter of image.

#### 5. Definition of Objectives and Aims

By understanding the co-operative reality, we can define the objectives and aims of the co-operative strategy.

## Methodology

To carry out the Co-operative Social Audit, we need to define the different methodological and practical stages; for example:

### 1. Appointment of the Co-ordinator and Responsible Area

It is necessary to designate the department or division that will be in charge of realizing the report and assigning the corresponding responsibilities.

The co-ordinator will be in charge of the management of the multidisciplinary work team. He/she will also co-ordinate the different areas of the enterprise, lead the activities, plan the execution stages, and evaluate the fulfillment of requirements of the audit. He/she will report to the board.

### 2. Definition of the Work Plan

The department responsible for the elaboration of the plan must manage resources, set an activity schedule, and define work strategies. It will be fully supported and backed by the enterprise management. At this stage, it is important to define what is going to be evaluated, within the different fields and activities analyzed by the Co-operative Social Audit, and also the means that will be used for gathering the required information.

### 3. Training

Training of all the members of the team is important to be able to “speak the same language” and to have unified criteria. Also, it is necessary to provide all the personnel with information regarding the meaning of the Co-operative Social Audit, the enterprise philosophy, and its interest in the development of the program.

The contents of the training must:

- have an integral approach in the application of the concept of Co-operative Social Responsibility
- include the recognition of the existing resources (human, financial, technical)
- have a complete understanding of the mission and vision

of the co-operative and the different implementation stages of the audit

- include the understanding of the operative tool and its practical implementation

### 4. Adaptation of the Model

The Co-operative Social Audit must include, for each co-operative principle, a definition of the dimensions, the indicators, and the variables upon which the Co-operative Social Audit will be supported. Dimensions are the different aspects that the tool measures.

The indicators provide a diagnosis of the situation in internal and external areas and consider the aggregated values of the organization's management. Variables are “those areas of activity that can vary in the content. The indicators show this variation.” Measuring standards can be real numbers, currency/money, indexes, percentages, etc.

The results will be obtained by means of recent historical data and by analyzing the reality of the period chosen. The Co-operative Social Audit consists of the detailed description and quantification of the actions that the organization has developed in a particular period of time within the co-operative doctrine.

### 5. Information Gathering

This stage is fundamental, since it is when the different surveys to be used are elaborated. They must be clear and coherent so as to cover all the required data, but they also need to be easy to understand by the people who are supposed to answer them. Besides, the Co-operative Social Audit analyses the extent to which the management provides useful information for this process.

The department in charge of the Co-operative Social Audit — based on the information received — will plan and define the way in which the data and statistics will be presented and used, using the methodology proposed by Co-operatives of the Americas.

### 6. Information Analysis

In the Co-operative Social Audit data is analyzed and the most relevant



figures are studied to understand their true meaning for the organization. Following this analysis, suitable recommendations are made, and aims for the next period are set.

#### 7. Presentation of Results

The results are formally presented to the executive board, the management, and the assembly as part of the co-operative's annual report.

#### 8. Evaluation

After accomplishing the Co-operative Social Audit, the management and the Co-operative Social Audit team evaluate the whole process, the results and problems faced, in order to take corrective measures to facilitate the process and to lead to ideal results.

#### 9. Setting Goals for the Next Period

From the obtained results and the identified priorities, new aims are set, which must be valid and reliable.

### Structure of the Co-operative Social Audit

#### *Mission*

Analysis of compliance with co-operative principles and their main dimensions to ponder.

#### 1st Principle: Voluntary and Open Membership

- Dimension 1: Co-operative openness
- Dimension 2: Co-operative identity
- Dimension 3: Voluntary disaffiliation from the co-operative
- Dimension 4: Non-discrimination

#### 2nd Principle: Democratic Member Control

- Dimension 1: Participation in assemblies
- Dimension 2: Accessibility to social positions
- Dimension 3: Real balance of power among members
- Dimension 4: Work democracy (working environment — human potential)

#### 3rd Principle: Member Economic Participation

- Dimension 1: Capital as mutual property
- Dimension 2: Limited compensation to capital
- Dimension 3: Surplus allocation
- Dimension 4: Co-operative added value
  - Visible co-operative added value
  - Invisible co-operative added value

#### 4th Principle: Autonomy and Independence

- Dimension 1: Economic and financial independence
- Dimension 2: Autonomy of non-members
- Dimension 3: Policy of prevention of money-laundering and financing of terrorism

#### 5th Principle: Education, Training and Information

- Dimension 1: Investment in education
- Dimension 2: Education and training activities
- Dimension 3: Contribution to development through education and training processes
- Dimension 4: Investment in communications
- Dimension 5: Channels for communication

#### 6th Principle: Co-operation among Co-operatives

- Dimension 1: Representative integration
- Dimension 2: Business integration
- Dimension 3: Collaborations given and received from other co-operatives

#### 7th Principle: Concern for Community

- Dimension: Co-operative Concern for Community
- Environment
- Cultural and sporting themes
- Health

- Improvement of the living standards of members and their families
- Presence in the community
- Other commitments to the community

Apart from the analysis of compliance with the Co-operative Principles, the Co-operative Social Audit devised by the Co-operatives of the Americas includes additional information according to the particular characteristics of each organization.

- Surveys and their results (if they are requested and approved by the corresponding governing bodies)
- Member satisfaction indicators
- Organizational co-operative development
- Women's participation
- Youth participation
- Special actions with the community
- Other types of information depending on the characteristics of the organizations

An example of the Social Audit resulting in certification by the Co-operatives of the Americas is provided for a consumer co-operative Co-operativa Obrera in Argentina in the next chapter.

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THE CO-OPERATIVE SOCIAL AUDIT IN COOPERATIVA OBRERA<sup>1</sup>

MARIANO GLAS<sup>2</sup>

### The Context

WITH MORE THAN 1.4 MILLION MEMBERS as of January 2015, Cooperativa Obrera ([www.cooperativaobrera.coop](http://www.cooperativaobrera.coop)) is the largest consumer co-operative in Argentina, and the second largest in Latin America, behind Co-op in Sao Paulo, Brazil.

Originally established as a bakery in Bahía Blanca on 31 October 1920 by 173 workers, its first principles were “quality, exact weight and fair price.”

Its mission is to “satisfy economic, social and cultural needs of the population, ensuring an appropriate balance between service, quality and affordable prices.”

In January 2015, it operated more than one hundred stores located in fifty-three cities in four provinces of Argentina. The average popula-

1. This chapter is a case study of Cooperativa Obrera, a consumer co-operative in Bahía Blanca, Argentina. Cooperativa Obrera is certified by Co-operatives of the Americas for co-operative social responsibility.
2. Manager, Cooperativa Obrera Ltda.; professor, Managing Nonprofit Organizations, Universidad Nacional del Sur, Argentina; director, GIDECOOP (university research centre on co-operatives and social economy organizations, Universidad Nacional del Sur, Argentina).

tion of the cities where the co-operative has stores is 33,000 people, so its stores are located close to consumers in both the urban areas and small rural towns.

The Co-operative Group (supermarket chain, Bahía Blanca Plaza Shopping — the major shopping centre in the south of Argentina — and a travel agency) has 4,400 employees in 2015.

Annual sales of the fiscal year ending in February 2014 reached AR\$3,714 million, equivalent to \$US 614.9 million.

In 2014, 1.3 million member-owners shared AR\$ 84.52 million (US\$ 14 million) in member refunds and interests on their member capital.

This information was available at [www.cooperativaobrera.coop](http://www.cooperativaobrera.coop). In addition, customer receipts show information about the members' patronage dividend, minimum capital requirement, and the status of their individual capital account. Cooperativa Obrera thus provides information to customers in a transparent and direct way, when people make their purchases.

In Argentina, 80 percent of the distribution is concentrated in six groups with a national presence (Carrefour, Jumbo Retail, Coto, Wal-Mart, La Anónima, DIA). Cooperativa Obrera has a national market share of 2.71 percent, not being in the main urban centres but by serving in medium-sized and small cities. In Bahía Blanca, home to the co-op's original store, and competing against Wal-Mart, Carrefour, and Jumbo Retail, the co-op holds 66 percent market share, which shows the high degree of loyalty of its consumer-members.

The co-operative has developed its own brand products as a business strategy under the names "Cooperativa," "Ecop," "Sombra de Toro," and "First Price," the latter brand through a strategic alliance with another Argentinian regional supermarket chain.

The co-operative also developed "Coopeplus," an open credit card like Visa or MasterCard. Ten thousand businesses in the region where the co-operative has supermarkets accept the credit card, and it has more than 112,000 active accounts.

In response to International Co-operative Alliance recommendations to attract young people to the co-operative movement, Coopera-

tiva Obrera has made an agreement with a public and prestigious university in Bahía Blanca, Universidad Nacional del Sur, to provide special benefits and discounts to its students. Other universities were asked to sign similar agreements in cities where the co-operative also has stores.

The objective of that action is to educate young students, who will be professionals and decision makers in the future, about economic co-operation, specifically a consumer co-operative, with the intention to awaken the interest of being employees or leaders of a co-operative in the future.

Cooperativa Obrera conducts many activities that fulfill the Co-operative Principles. The 7th Co-operative Principle is "Concern for Community." One of Cooperativa Obrera's eight departmental areas is the "Cultural and community relationship area." It is organized into three main areas: nutrition and health; the environment; and community participation, education, and culture.

The co-operative has a community centre in Bahía Blanca with an auditorium for 156 people and many rooms for different activities. In addition to the events that Cooperativa Obrera organizes, the auditorium is available to community groups to use free of charge.

Among the main activities in nutrition and health, Cooperativa Obrera was the first supermarket in Argentina to

- establish a quality control laboratory (1988)
- sign a Low Environmental Impact Program with the Province of Buenos Aires to improve the production quality of the farmers
- lead a campaign to prevent illness and addictions
- develop a program for Food and Health in agreement with the National University of La Plata and the Cecilia Grierson Medical Foundation, including the development of "Healthy Kiosks" in primary schools in Bahía Blanca for children to find nutritious food in schools instead of goodies that contribute to childhood obesity

The co-op also promotes conferences and workshops for health education.

The co-op promotes healthy habits. It organized walks and meetings in collaboration with local authorities in the cities where the co-operative has stores. It developed a campaign for the consumption of fruits called "5 a day" to encourage the intake of fruits and vegetables. It organized diabetes screening campaigns and another for the prevention of hemolytic uremic syndrome. The co-op also develops healthy foods such as "Pan ECOP," the first bread in Argentina with Omega 3,6,9 and phytosterols, which is the same price as common types of bread, and "Sunflower Oil High Oleic ECOP," which has similar properties to olive oil but sells at the price of corn oil, which is five times cheaper.

Activities under the environment focus include a Green Points program, encompassing the collection of waste paper, glass, and cardboard for reprocessing in an ecoplant that employs previously unemployed people, and the creation of the first Eco Bag in Argentina, reinforcing the principles of the 3 Rs: reduce, recycle, reuse. The Eco Bag is produced by a worker co-operative formed by former employees of an insolvent company. Obrera also supports the Ecoclubes movement; runs a battery-collection program; and encourages the recycling of kitchen oil for the production of biodiesel (the first project of its kind in the country, undertaken in partnership with the Agricultural School of Tres Arroyos). In addition, the co-op runs environmental symposia, is involved in health protection, and supports recycling programs from other nonprofit institutions and local governments.

Within the community participation, education, and culture file, the co-operative developed the Consumers' Circle in 1996. It is a space for democratic participation in which, between the months of March and November, members meet at venues spread across the cities where the co-operative has stores, giving the consumers-members an opportunity to engage directly with key officials and leaders in the organization. Various topics are discussed, contributing to member education. The co-operative organizes conferences in co-ordination with leading experts from universities and government agencies, who provide lectures and presentations on themes established at the beginning of each year.

As an example of these activities, some of the proposals originated there were then transferred to legislators and turned into laws. One such law enforced adding folic acid to wheat flour and corn for human consumption in Argentina.

These Consumers Circle groups democratically elect representatives to participate in the "Solidarity" campaign, which is giving cents back at cash registers by consumers to donate to charitable organizations in need of support.

For several years during the months of January and February, a campaign called the "Safe Maternity Project" developed in all the stores in support of the United Nations International Children's Fund.

Other contributions to community and education include partnership agreements with universities and educational institutions to promote internships; solidarity contributions; support for regional producers supplying to the co-operative; and discounts and benefits toward social programs of national, regional, and local governments.

Activities of community participation, education, and culture include training courses for teachers in co-operative values and principles; guided visits for primary students; free distribution of the journal *Co-operative Family* (eighty thousand copies monthly); language courses; documentaries and feature films in the auditorium of the community centre; crafts courses; gymnastics courses for seniors; pre-natal courses; a childrens choir formed in 1978; school competitions; and photography exhibitions — all provided with free access to consumers.

All these activities were reported over a number of years in Cooperativa Obrera's financial report, but they deserve special treatment and wider dissemination as an illustration of accountability to members and society, as well as a contribution to the co-op movement's clarity on its social contributions. To better reflect these initiatives, the Co-operative social audit report (Balance Social Cooperativo) shows members and the rest of society why a consumer co-op is much more than a retailer, with numbers and indicators that support the theoretical concepts.

### The Co-operative Social Audit — Balance Social Cooperativo

According to Co-operatives of the Americas ([www.aciamericas.coop](http://www.aciamericas.coop)), the regional office for the Americas of the International Co-operative Alliance, the Balance Social Cooperativo (BSCo-op) is a management tool, useful to measuring the social impact of co-operatives in their communities.

BSCo-op allows a systematic evaluation and measurement of non-economic actions and helps to disseminate the responsible and transparent practices of the co-operatives. BSCo-op allows a co-operative to quantify qualitative co-operative management and make visible the invisible services. It also helps to systematically weigh the commitment of co-operatives to their communities and measure co-operative social responsibility and social policy in order to fulfill its mission. The audit further helps raise awareness of the co-operative movement towards the responsibility they bear as social and solidarity economy enterprises, and their influence on markets and social and political decision makers.

The BSCo-op meets the following objectives:

- presents a strong co-operative identity
- provides objective data for the policy advocacy movement
- influences public policy by showing that co-operatives are companies of people

### Why Cooperativa Obrera Decided to Use the Co-operative Social Audit Report

Obrera's first social report was published in 2011 as a response to the ICA recommendation to increase the visibility of the co-operatives and the activities they undertake to fulfil their mission that exceed simply economic operations.

For decades Cooperativa Obrera has presented its financial report in accordance with the national co-operative law requirements, with a chapter including its "Memories," which describes the social and cultural activities the co-operative engaged in over the previous year as the board decided that all social, cultural, and environmental activities deserved special highlights.

### Stages in the Process of Adopting the Social Audit

1. Awareness of the importance of developing the co-operative social report. Without this political support, the process of developing, measuring, and monitoring could be seriously affected. In Co-

operativa Obrera, the board committed itself to putting the resources into the development of a BSCo-op to reflect all its activities.

2. Training leaders and senior managers in the development of the BSCo-op tool, certified by Co-operatives of the Americas. The training mainly creates awareness and develops consciousness about the importance and relevance of the tool.
3. Project approval by the board of the co-operative.
4. Forming a team dedicated to the BSCo-op development. In general there are two alternatives: the establishment of a specific area within the organization to produce the co-operative social report that has exclusive involvement in this task; or the establishment of a team with a temporary task to develop BSCo-op. In Cooperativa Obrera, we decided to use the latter option because we believe that the sum of visions of people from different areas in a multidisciplinary team could enhance the final result.
5. Development of the BSCo-op.
6. Approval process by Co-operative of the Americas, through its auditors.
7. Reporting of results, through the internal and external communication. First, it has to be accepted by the board and then communicated to delegates, employees, members, and externally to leaders such as local, regional, and national authorities, and a strong communication to the rest of society.

Our first document, which was published in our one hundredth fiscal year in 2011, was developed following the format prescribed by the Co-operatives of the Americas, but without being certified by the Alliance.

Obrera accomplished the social audit with a team of five members (one co-ordinator and four people from different functional areas in the co-op). The objective was to summarize and measure the actions taken and to start with the exercise of collecting data and presenting it methodologically. In our first BSCo-op, many indicators were specifically developed and served as a pilot project. The report was published in



2011 and the board of Cooperativa Obrera decided to extend the Co-operative Social Report of 2012 with the audit and certification from the Co-operatives of the Americas.

### Improvement over the Years

Cooperativa Obrera's Co-operative Social Audit has improved each year. We extended the base of the indicators and the number of people dedicated to developing them.

The original team of five members was expanded to include representatives from each area of Cooperativa Obrera; in 2014 there were fifteen members. The team has a co-ordinator and it works under the supervision of the general manager.

The social, cultural, and environmental activities of the co-operative have been reflected in the financial report for many years. The Social Audit allows us to compare ourselves over time and, most importantly, to develop and introduce some tools to measure the co-operative difference in the day-to-day operations.

### Message from the Board in BSCo-op 2014

Below is a copy of the introductory letter from the board of director in Cooperativa Obrera's 2014 Social Audit report. This note reflects the aim of co-operative leaders and explains why Cooperativa Obrera gives strategic importance to the BSCo-op.

Dear members:

For some years there has been an increase in the interest of people for companies' actions beyond the strict delivery of the economic functions that constitute its specific purpose, which has resulted in increased exposure of "social responsibility." It is quite common now for investor-owned companies to develop a corporate social report to show mainly the actions they take on behalf of their employees and the environment.

Co-operatives, which by definition of the International Co-operative Alliance are "autonomous associations of persons united vol-

untarily to meet their common needs and economic, social and cultural aspirations through a jointly owned and democratically controlled enterprise" also present their "co-operative social balance."

The substantial difference that should be especially evident is that the social responsibility of co-operatives is not just a creation of the past few decades and is not the result of the need to improve the corporate image in society. By contrast, the Principles and Values that govern its operation are rooted in the co-operative Rochdale Pioneers created in 1844, considered the starting point of modern co-operatives. Through compliance with co-operative values, it becomes evident that the social responsibility of co-operatives is implicit in their nature.

This Co-operative Social Balance that we offer for consideration by our members is a report not only on compliance of Cooperativa Obrera with co-operative Principles, but also on the actions taken in the promotion of health, the environment, education, culture and general issues involving the interests of the community, specified through an ethical and transparent conduct.

To ensure that the content of this Co-operative Social Audit responds strictly to the actions of Cooperativa Obrera and in no way constitutes purely a marketing strategy, it has been submitted for consideration to the auditors of the International Co-operative Alliance, who have given the respective Certificate of Quality.

Raúl Oscar Gouarnalusse  
Secretary

Mónica Elsa Giambelluca  
President

### Goals of Cooperativa Obrera's Social Audit BSCo-op, 2014

1. Continue to develop and maintain this strategic tool for systematic evaluation that allows us to analyze the performance of Cooperativa Obrera in relation to compliance with co-operative values and principles and developments concerning the results achieved in previous periods.
2. Consolidate co-operative identity in our members, consumers, and human capital, through the communication of the results.

3. Assume, according to the provisions of the International Co-operative Alliance (ICA), and in line with the strategy of the *Blueprint for the Co-operative Decade*, political advocacy, showing actions and results that go beyond the merely economic.
4. Get quality certification from Co-operatives of the Americas for our BSCo-op.
5. Encourage reading of the report through a more visually attractive and user-friendly design.

### How We Measure Internal and External Activities

Obrera's BSCo-op lists a set of indicators to measure the various activities, and it tracks the contribution of managers of different areas and each of our stores to reaching the goals in non-economic spheres of operation.

We are building a scorecard to include about twenty of the most relevant indicators distributed in all departmental areas.

The main indicators are:

- Members
  - percent member consumer over total population
  - percent member operations
  - percent member with activity
- New job sources
  - new jobs by acquisitions
  - new jobs created by increased activity
- Internal staff development
- Percent staff by responsibility and gender
- Co-operative added value
- External financing — grants and subsidies received
- Activities, participants, and hours of training
  - Co-operative staff professional development
- Operations of sales and purchases with co-operatives and mutuals (quantity and value)

- Purchases from local and regional suppliers and small companies
- Product sales to sheltered workshops
- Value and quantity of sales of private (co-op) labels
- New private label development
- Contributions made to the community, donations, discounts
- Health — quantity of healthy products sales
- Development of new products
- Environment — biodiesel, compost, waste collection points, Eco Bag, batteries
- Education and culture — number of people attending the various activities Cooperativa Obrera offers totally free
- Community participation — number of participants at the Consumers' Circle meetings and events

Our goal is to internalize the indicators on social, cultural, and environmental activities in the same way that our managers follow budgets and economic indicators, and in the near future to evaluate the performance of our teams in an integrated way, including economic and non-economic indicators.

The aim is to measure the performance of the organization aligned with the accomplishment of the mission and co-operative principles, and not just economic performance, because we are a consumer co-operative, not just a supermarket.

### Certification Process with Co-operatives of the Americas

The social audit is certified by Co-operatives of the Americas, following the certification steps. The process is simple.

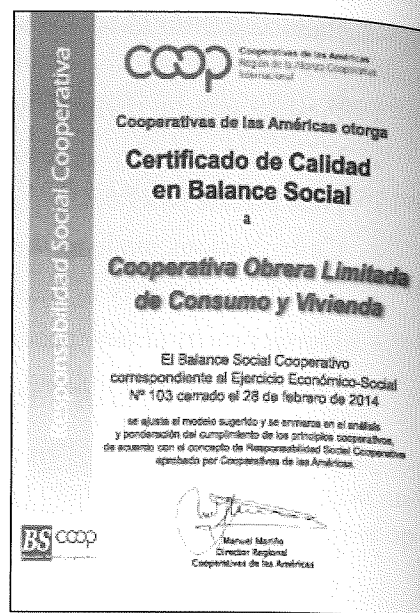
First is to request certification from Co-operatives of the Americas. The regional organization determines the cost and, once accepted by Cooperativa Obrera, the person who will be in charge of the audit process.

Second, the auditor visits the co-operative on site and gathers the information that supports the BSCo-op report. S/he also conducts in-

interviews with members of the team and with staff to discuss the way the BSCo-op was put together and to assess whether the guidelines of the Co-operatives of the Americas were followed.

The third step involves an audit of the information and validation of the model followed by the co-operative, and it also gives recommendations for the present BSCo-op and for future reporting.

The final step of the evaluation process is the final report of the Co-operatives of the Americas auditor and a quality certificate to the co-operative.



### Usefulness of the Information and the Reporting of Results

The social audit process and report has a feedback impact on the co-operative in a number of ways. The process of co-operative staff training (for example, three hundred people were trained in 2014) includes a practical learning activity of the social audit that takes place over a full day, analyzing the specific results of the BSCo-op and understanding its importance and nature.

In 2013, Cooperativa Obrera conducted a seven-week campaign devoting each week to explaining one of the co-operative principles and describing an indicator for each one.

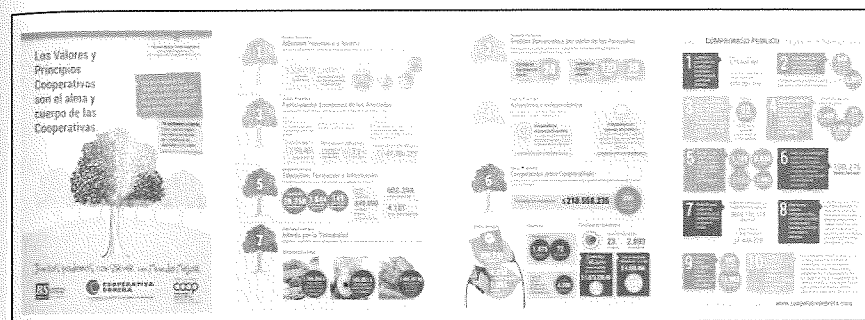
When a new supermarket opens in a new city, Obrera develops an institutional prospectus including the main indicators of BSCo-op.

The co-operative distributes the BSCo-op to public authorities at local, regional, and national levels and for all of Cooperativa Obrera's delegates.

Information in the Co-operative social report is used to demonstrate

to the public that a consumer co-operative is much more than a retail business. Advertisements to this effect have been publicized in regional newspapers.

We at Cooperativa Obrera also want to directly reach our members. Considering that we are a consumer co-operative and members come often to our stores, we published a summary of the BSCo-op to distribute to members. In 2014, Cooperativa Obrera distributed two hundred thousand copies of a four-page summary of our social balance (see below). The copies were available in each of our 109 stores in fifty-three cities. The same summary is also available at [www.cooperativaobrera.coop](http://www.cooperativaobrera.coop).



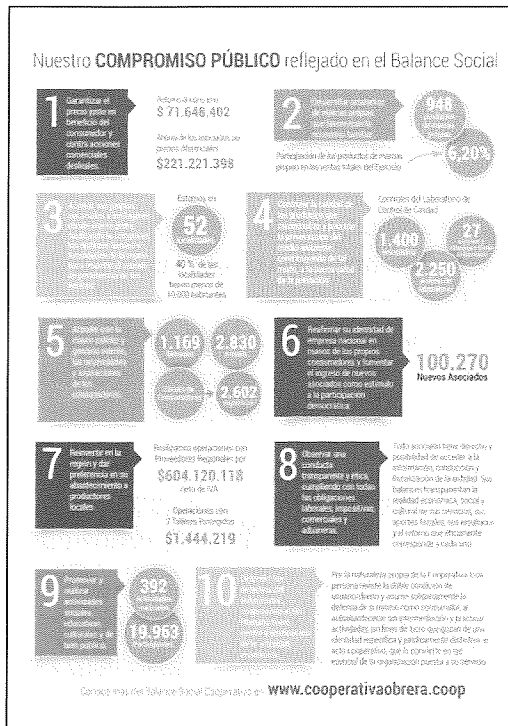
### Public Commitment Reflected in Co-operative Social Audit Report

In 1996, Cooperativa Obrera made a public commitment to put in practice co-operative principles applied to a consumer co-operative.

The BSCo-op linked the ten points of the public commitment with indicators of the BSCo-op. The last page of the prospectus (see overleaf) that summarizes the BSCo-op explains clearly those ten points, adding information about activities that Cooperativa Obrera engaged in and the indicator used to measure them.

### Obrera's Public Commitment Reflected in the Social Audit 2014:

- *Ensure a fair price for the benefit of consumers and against unfair trade actions.* Members refund: \$71,648,402. Savings for members through differential prices: \$221,221,398.



- *Develop private label products to favour the family economy.* 948 private-label products; 6.2 percent of total sales came from our private label.
- *Bring branches to places where people live, facilitating purchases in different neighbourhoods and towns of the region to respect the ownership of the neighbours.* We are in fifty-two cities. Forty percent of localities have fewer than 10,000 habitants.
- *Control the quality of the products we sell and prioritize the preservation of the environment,*

thereby contributing to the health of the population. Controls of the Quality Control Laboratory: 1,400 swabs, 27 actions, and support for environmental activities.

- *Address the warmth and genuine interest in the needs and aspirations of consumers.* 1,169 calls received; 2,830 e-mails; Consumers Circle: 2,602 suggestions.
- *Reaffirm our identity as a national company in the hands of consumers themselves and encourage the entry of new members as a stimulus to democratic participation.* 100,270 new members.
- *Reinvest in the region and give preference for local producers.* We made operations with regional suppliers for \$604,120,118 (VAT net). Operations with seven sheltered workshops.
- *Observe transparent and ethical conduct, complying with all tax, trade, and customs work liabilities.* Every member has the right and opportunity to access information, lead the co-operative, and be elected to the board. The balance sheet shows the eco-

conomic, social, and cultural reality of services, tax contributions, results, and members' refund.

- *Promote and conduct social, educational, and cultural activities.* 392 activities with 19,963 participants.
- *Defend consumer rights, holding the human being as the centre of economic activity.* By the nature of the co-operative, everyone has the dual identity of a user/owner; exercises their rights as a consumer; engages in auto-self-help without intermediation; and practises nonprofit activities that have a specific and legally distinct identity in a co-operative.

### Conclusion

Cooperativa Obrera undertakes a lot of activities in fulfillment of its co-operative identity and its mission. The co-operative introduced these activities decades ago to put its principles into practice, long before the concept of Corporate Social Responsibility arose, noting the difference between a co-operative and an investor-owned business. In fact, co-operatives have developed social responsibility because of their nature and the purpose of the co-operative movement.

The activities of Cooperativa Obrera include social, cultural, and environmental actions that clearly benefit the society where it operates. Those actions need to be measured and reported to its members and society as a whole. For several years the activities were mentioned in the financial report in the "Memories" chapter, but they deserve a special report to highlight this aspect of the co-operative.

Since 2011, Cooperativa Obrera has been developing its co-operative social audit as a tool to show the co-operative difference, to reflect the social, cultural, and environmental actions it was involved in during the previous year, and to introduce it as a management tool, to plan, organize, and evaluate the co-operative's activities not simply by economic indicators.

The first BSCo-op was applied as a pilot project and served for training. Since its second year, the BSCo-op has been audited and certified by the Co-operatives of the Americas to ensure the board, members,

and society that the measurement process follows the guidelines of the International Co-operative Alliance.

The BSCo-op has improved each year, including the auditors' recommendations in each new edition and the experience of the team from the previous year.

For Cooperativa Obrera it is important not just to produce the report and leave it on a shelf but to distribute it to members and consumers, and to learn from it. In 2014, in part from information on the website, we distributed two hundred thousand copies of a summary from the Co-operative Social Audit in the 109 stores of the co-operative.

Surely the tool will improve in the future, with contributions from researchers and practitioners, but it is a remarkable tool to measure the co-operative difference and to reflect how co-operatives put their principles and values into practice.

## Chapter 20

### INTEGRATED REPORTING FOR CO-OPERATIVES: A CASE STUDY OF VANCITY CREDIT UNION

DAPHNE RIXON<sup>1</sup> AND LOUIS BEAUBIEN<sup>2</sup>

#### Introduction

**T**HIS CHAPTER examines a relatively new non-financial reporting framework known as integrated reporting and its application for co-operatives. There is a paucity of research on co-operative reporting in general, and very little on the impact of integrated reporting on co-operatives. A case study of Vancity Credit Union's experience in adopting integrated reporting is presented, since Vancity is the first Canadian enterprise and the only co-operative to contribute to the development of this new reporting framework.

Co-operatives are organizations that operate in a number of industries such as banking, insurance, agriculture, consumer goods, utilities, and others, where the investor-owned companies (IOC) are the dominant organizational form in the marketplace. One differing element of co-operatives is the existence of a social purpose in addition to the financial one (of profit or sustainability) that motivates their operations. The seven co-operative principles<sup>3</sup> often influence the nature of this prerogative; for example, a worker co-op may be concerned with

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employment, another co-operative may be interested in training and education.

Beaubien and Rixon (2014; see also Rixon and Ellwood 2011) argue there are inconsistencies with the best practices and means of performance analysis and the means by which these results are reported. Many co-operatives state they find value in the co-operative principles, however, they choose to analyze their performance against IOC measures and ignore these same principles when judging their success. Institutional influences of significant participants in the field, i.e., the largest competitors (Beaubien 2008; Moerman and Van der Laan 2005), often shape the direction of how reporting evolves in organizations and industries. An alternate argument suggests that a subjective judgement of the useful information is a potent influence in the development and use of reporting (Lipe and Salterio 2002; 2000). Despite a bias toward economic and financial data (Lambert 2001; Liang 2010), considerations on the character of the organization also affect the decision on measures and reporting (Ittner et al. 2003).

Birchall and Simmons (2004; see also Brown and Hicks 2007) note that many co-ops utilize the co-operative principles as part of their mission, vision, and values statements; but there is little evidence these sentiments are prescriptive in the operationalization of strategy. Given this variation in business practices, it is worthwhile asking, How do co-operatives integrate non-co-operative focused measures into their own reporting?

This paper will take a perspective of *learning* as the integrative mechanism for co-operatives to integrate non-co-op focused measures into their own analysis. It is based on Crossan et al.'s (1999) 4i Framework, and applies this analytic framework to the practices at Vancity Credit Union as instructive of the integration of "main stream" reporting guidelines into the practice of co-operatives.

3. Co-operatives are established to meet member and community needs, and are governed by seven guiding principles: voluntary and opened membership; democratic member control; member's economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for community (MacPherson 1995).

## Theory of Dynamic Capabilities

The Theory of Dynamic Capabilities (DC) is used to examine the transition of Vancity to the adoption of integrated reporting processes. Eisenhardt and Martin (2000; see also Helfat and Peteraf 2003) describe DC as an evolution of the resource-based view of the firm (Barney 1991; 1986) — to accommodate the ability to seek and integrate new resources, and to provide a better conceptualization of knowledge-based resources. Rather than focusing on an entrenching view of resources, DC approaches resources as something that must be developed, integrated, and used as a source of renewal for the firm, not a means to maintain a status quo.

The perspective of DC suggests an inter-connected set of processes; integration, learning, and reconfiguration are key to the ability to mobilize a resource to enhance the sustainability and success of a firm. A resource in this instance can be conceived as something as tangible as a physical object, such as a metal ore, to something more ephemeral or intangible, such as knowledge and expertise (Teece et al. 1997). *Integration* is the process of incorporating the resource into the operations of the organization, and requires recognition that the resource brings something new to the firm's operations. This is true in the instance that the resource itself is not "new," in that this form of recognition identifies new value, or a new use of the existing resource.

*Learning* is a reflexive process that reflects, that is iterative with the notion of integration. As new uses of the resource are exploited, new learning emerges, which, in turn, may stimulate another process of integration. This is importantly linked to the notion of *reconfiguration*, where the organization is able to sustainably renew the organization and its direction in favour of the new stable learning(s) that have emerged.

## The Focal Organization: Vancity Credit Union

Vancity is a co-operative and a full-service financial institution with fifty-seven branches located throughout the province of British Columbia. It has approximately \$17.5 billion in assets, twenty-five hundred employees, and half a million members. Vancity is guided by a vision to redefine wealth, is a living wage employer, carbon neutral, and a

member of the Global Alliance for Banking on Values (GABV). This alliance is a network of values-based financial institutions using finance to deliver sustainable development for underserved people, communities, and the environment (Westwood 2014a). Vancity is recognized globally for its transparent reporting practices and was the first Canadian organization to join the International Integrated Reporting Council's pilot program.

## Reporting Frameworks

This section examines three reporting frameworks that focus on non-financial performance that are employed by Vancity: AccountAbility 1000 (AA1000), Global Reporting Initiative (GRI), and Integrated Reporting.

### *AA1000*

AccountAbility 1000 (AA1000 1999) is a reporting framework that may be utilized by organizations for their social and ethical accounting and reporting. It encompasses standards for accounting, auditing, reporting, and stakeholder engagement. Stakeholder consultation is central under the AA1000 framework. AA1000 provides a tool to guide dialogue, question assumptions, and identify areas of interest regarding measurement and performance.

AA1000 principles are based on inclusivity, materiality, and responsiveness. These principles are not only about reporting; rather, they speak to how an organization includes, prioritizes, and responds to legitimate stakeholder needs and expectations. This is, in fact, true of all the reporting guidelines, and the misperception that they are just about disclosure is perhaps one of the biggest challenges reporters face (Westwood 2014b).

### *Global Reporting Initiative (GRI)*

GRI is a framework that can be used by organizations to guide the preparation of their sustainability reports. The most recent version of the Guidelines — G4 — requires that organizations focus their reporting (and therefore management) efforts on the material aspects of their sus-

tainability performance (GRI 2014). It is also expected that this should lead to more relevant, focused, and shorter reports. It ensures the organization understands the sustainability risks and opportunities that are of most interest to key stakeholders, and/or are of most importance to an organization's success, in the short, medium, and long term (Westwood 2014b).

The GRI Guidelines provide a good foundation for social and environmental responsibility and minimizing negative externalities. The GRI Guidelines were recently updated, and GRI reports are now intended to focus on "material aspects." The GRI defines these as "an organization's significant economic, environmental, and social impacts, or those aspects that influence the assessments and decisions of stakeholders." Organizations are expected to be transparent about how they decided what to report, the process they use to engage stakeholders and results, and to explain the boundaries of where material impacts occur (e.g., inside or outside the organization) (Westwood 2014b).

### *Integrated Reporting*

The International Integrated Reporting Council (IIRC) is an international cross-section of leaders from the corporate, investment, accounting, academics, and standard setters. Its mission is to create a voluntary, globally acceptable integrated reporting framework that incorporates financial, environmental, social, and governance information (Integrated Reporting, the IIRC). Integrated reporting is defined as a way to provide information about an organization's strategy, governance, performance, and prospects in a manner that reflects the commercial, social, and environmental context in which it operates (IIRC 2011, 2).

Integrated reporting was established to provide information that is broader in scope than that provided by traditional reporting. It is underpinned by five guiding principles (IIRC 2011, 13):

1. Strategic focus
  - Includes strategic objectives, the strategies the organization has to achieve their objectives, and how the objectives relate to other components of their business model

- Highlights new opportunities, risks, and dependencies associated with the organization's market position and business model
2. Connectivity of information
    - How strategies link to key performance indicators (KPIs) and remuneration
    - Disclosure of how changes in the market would impact strategy
  3. Future orientation
    - How the organization balances short-term and long-term interests
    - Where the organization expects to go over time
    - How it plans to get there
    - Key enablers and barriers
  4. Responsiveness and stakeholder inclusiveness
    - Provides insight into the organization's relationships with its key stakeholders, and how their needs are considered
    - Discloses the nature and quality of the organization's relationships with key stakeholders such as customers, suppliers, employees, and local communities
  5. Conciseness, reliability, and materiality
    - Distinguishes between information that is material and should be disclosed, and other information that is static, or only of interest to some users
    - Conciseness is enhanced when other information is included separately on the organization's website or in other forms rather than in the annual report

The integrated report is envisioned to be composed of the following key elements (IIRC 2011, 14–15):

1. Organizational overview
  - Includes mission, principal activities, markets, products, and services

- Business model, value drivers, and critical stakeholder dependencies
2. Operating context, including risks and opportunities
    - Commercial, social, and environmental context
    - Resources and relationships that are key to the organization's success, including key stakeholders and their needs, interests, and expectations
  3. Strategic objectives and strategies to achieve the objectives
    - Describes strategic objectives and strategies to achieve them
    - Sets out how the organization will measure achievement and target outcomes for the short, medium, and long term
    - Identifies risk management related to key resources and relationships
    - Specifies what makes the organization unique and able to realize value in the future
  4. Governance and remuneration
    - Identifies the governance structure, how it supports the strategic objectives, and how this relates to remuneration
    - Skill set of those charged with governance
    - Actions of those charged with governance to influence the strategy direction of the organization
    - How remuneration of executives and those charged with governance is linked to performance in the short, medium, and long term
  5. Performance
    - How the organization performs against its strategic objectives and related strategies as identified in KPIs
    - How the organization has performed relative to its targets
    - Significant external factors impacting performance
  6. Future outlook
    - Opportunities, challenges, and uncertainties likely to be encountered in achieving strategic objectives
    - How short-term and long-term interests are balanced

## Methodology

The methodology for this case study is comprised of a comprehensive documentary review of Vancity's website and annual reports. In addition, an in-depth semi-structured interview was held with a Manager from Vancity's reporting departments. The interview was utilized to probe for additional information regarding Vancity's participation in the International Integrated Reporting Project and its subsequent adoption of Integrated Reporting. Case studies are defined by Yin (1994) as a multi-faceted research strategy that typically involves an in-depth examination of one organization, situation, or community. While case studies yield greater realism than quantitative methodologies, it must be recognized that they are time consuming, their findings cannot be generalized, and their lack of rigorous control compromises validity (Bennett 1991; Hill 1993).

## Vancity's Reporting Journey

Vancity first began reporting social and environmental information in its annual reports in 1992. It was triggered by a survey that ranked Vancity poorly in terms of its disclosures. The board felt that as a community-owned and operated organization, Vancity needed to be accountable to its members for its social, environmental, and economic performance and impact, as well as for its financial results. In 1996, the board committed to issuing an externally verified "social report." Vancity worked closely with an organization called AccountAbility in the UK, which was a pioneer of a stakeholder-informed social audit (Westwood 2014b).

Two years later, when the GRI Sustainability Reporting Guidelines and the AA1000 Framework were introduced, Vancity became an early adopter and was one of the first organizations in the world to release a sustainability report informed by both these guidelines (Westwood 2014a).

Over the next few years, Vancity continued to produce sustainability reports, which they entitled Accountability Reports. Since they were so onerous to produce, however, they were produced only every two years. During this period, Vancity received international recognition for its reporting practices and won several awards (Westwood 2014a).

Long before the launch of integrated reporting, Vancity had started to consider producing an integrated report as far back as 2005 in order to accommodate their incorporation of sustainability factors into decision making (Westwood 2014a).

According to Westwood (2014), the AA1000 principles and the co-operative model, which by its nature is inclusive, are aligned. The main reason Vancity uses the AA1000 principles is to provide a basis for an external audit opinion that goes beyond data reliability. The external audit provides report users with confidence in the following two areas.

### *Data Validity and Accuracy*

The key data and information in the report should be accurate and reliable, and should be the same data and information that management is using to make decisions. Data accuracy is important both to management and to users who form opinions and make decisions based on what they read in the report (Westwood 2014a).

### *Relevant Information*

This focuses on determining if the right information is provided in the report. The report covers the things that are the most relevant and important — including both good news and bad news (Westwood 2014a).

The GRI Guidelines add credibility to reports and provide a standard to guide what and how Vancity reports. Determining what is "truly" material remains an ongoing challenge. In its latest report, Vancity included a list of twenty-five material topics (Westwood 2014a).

According to Westwood (2014b), Vancity officials quickly realized that they needed to streamline their sustainability data collection, verification processes, supporting documentation, and explanations for changes in data over time. Other changes included making sure the various departments across Vancity took full ownership for their data — both in terms of data quality and managing performance. In this way, they were able to meet a much-condensed annual reporting timeline.

In 2011, a select international group of seventy-five businesses and

twenty-five institutional investors began voluntary participation in a pilot project sponsored by the IIRC that ran for two years and was completed in October 2013. The objective was to develop a framework that demonstrates linkages between an organization's strategy, governance, and financial performance, and the social, environmental, and economic context within which it operates. The final version of the integrated reporting model was released in December 2013.

Through its application of the integrated reporting framework, Vancity believed it had improved specific areas of its reports. For example, they strengthened the discussion of external trends and developments that could materially impact the organization, including stakeholder insights. Furthermore, they strengthened how they communicated the links between strategy, governance, risk, remuneration, and KPIs. Finally, Vancity continues to produce shorter, more focused reports by elevating the conversation to a more strategic level (Westwood 2014a).

Vancity attributes the biggest driver of integrated reporting to the launch of its bold vision to redefine wealth in 2008. This vision included supporting members and communities in new and innovative ways — ways that create long-term blended value to members and society as a whole. This vision is reflected in its business strategy. While many organizations have separate business and sustainability strategies, Vancity has just one business strategy that incorporates sustainability factors. It is also reflected in organizational targets, remuneration and governance practices (Westwood 2014a).

### Discussion and Analysis

Despite Vancity's enthusiasm for adoption of these various reporting frameworks, they also acknowledge there are areas where these frameworks do not meet the reporting needs of co-operatives. This is the instance of *recognition* in terms of DC, as it positions the organization to seek new resources (Barney 1991; Eisenhardt and Martin 2000). Once identified, the resources may be mobilized to improve the organization's overall performance. In the instance of Vancity, the deficiency relates to the way it collects, uses, and communicates information; a new resource

is needed to provide the information that Vancity needs, and the tool chosen is the concept of integrated reporting.

One area where the AA1000 principles and the co-operative model might be interpreted differently is stakeholder engagement. While co-operatives are participatory in nature, many tend to focus primarily on member needs and expectations, especially as members are both owners and customers of the credit union. The AA1000 Stakeholder Engagement Standard 2011 encourages a multi-stakeholder approach. It defines stakeholders as "those groups who affect and/or could be affected by an organization's activities, products or services and associated performance." It goes on to note that organizations "will have many stakeholders, each with distinct types and levels of involvement, and often with diverse and sometimes conflicting interests and concerns." Identifying and engaging a broader set of key stakeholders and understanding their priorities and where opinions differ — both between the groups and between stakeholders and the organization — can be an extremely valuable governance tool. On the other hand, an engagement approach that focuses solely or primarily on members may be to the detriment of others, innovation, or long-term value creation. A narrow understanding of its service to members also implies that a co-operative is not living up to its principles — in particular Principle 7, "Concern for Community" (Westwood 2014b).

The process of engagement is one that Vancity may be striving toward, but it also reflects a perspective on reconfiguration. In the light of the perceived gap, as noted above, in capabilities, Vancity seeks to mobilize new and old resources — and reorder some existing ones — in an effort to effect a reconfiguration to meet its needs. However, while reconfiguration is something that is a target, it is not necessarily possible to achieve without going through the processes of integration of new resources and the completion of a learning cycle(s) to understand *what* that reconfiguration should be.

Westwood (2014a) points out that Vancity believes reporting in accordance with these frameworks and guidelines is not sufficient to clearly differentiate it from conventional financial institutions. Another area of concern with the GRI reporting requirements is the lack of emphasis on the co-operative nature, the extent to which sustainability fac-



tors are factored into decision making across the organization, or how its activities result in positive community impact.

A key challenge when applying the GRI's G4 Guidelines is language. Vancity believes it is important that its annual reports mirror the language, key data, and information it uses in its internal management reports (Westwood 2014b). The aspect of language is key to the ability to integration (Chalmers 2004) that goes hand-in-hand with learning. The ability to take and use language is inherently an experimental process when incorporating this new resource and the discourse around it, as the initiator must wait to see if the desired communication (within a tolerable variance) is achieved. Vancity believes the key measures and targets used internally to measure success inform decision making and reward management and employees should be consistent with those presented to members in its annual reports. Thus, the organization chose to translate the sustainability aspects included in the GRI's G4 Guidelines into Vancity priority (material) topics that make sense to the organization (Westwood 2014a).

The GRI Guidelines are not designed to rate an organization's sustainability performance. Rather, they relate to the level of disclosure on an organization's governance approach and on its material environmental, social, and economic performance and impacts. It is left up to report users and readers to make up their minds on how sustainable the organization is. In this way, a report from a large bank, tobacco, or mining organization with risk-driven sustainability practices might receive as high, or higher, accolades than a report from a leader in sustainable business practices (Westwood 2014b).

Similarly, there are also aspects of integrated reporting that are not suitable for a co-operative. According to Westwood (2014a), a key area where Vancity has not applied the framework is the six types of capital. These six capital types are: financial, manufactured, intellectual, natural, human, and social or relationship capital. The Framework suggests organizations look at each of the six capitals in terms of both the inputs and outputs of their business models. Since Vancity does not use this framework or the language of the capitals internally, they don't include it in their annual reports. Importantly, this failure to adapt fully to the integrative reporting scheme is not a failure of the dynamic capability

Vancity is seeking to develop, but rather demonstrates how the new resource (integrated reporting) is integrated into the system, and learning occurs to determine what will better the organization, and what aspects of the resource are ill suited to Vancity. The final "loop" in the process of reconfiguration takes up the applicable practices of the integrated reporting, and sets aside those processes that are less useful — reflecting the development and renewal of the capabilities of Vancity.

Although the various reporting frameworks (AA1000, GRI, and integrated reporting) all play a key role in Vancity's reporting, they admit they do not fully meet their needs with respect to co-operative values and values-based banking. To address this gap, Vancity develops and reports additional metrics and information related to its co-operative nature, its business strategy, and values-based banking (Westwood 2014b). These metrics are:

- Number of people assisted through financial education
- Number of people assisted in poverty reduction, access to credit, and credit repair
- Estimated greenhouse gas emission reductions funded through loans
- Percentage of suppliers that are locally based/purchases made from locally based suppliers
- Growth in member deposits as a percentage of growth in member loans
- Number of living wage campaign information sessions hosted
- Tonnes of greenhouse gas emissions from operations

Vancity's adoption of integrative reporting can be explained in terms of the 4i Framework. It can be argued that Vancity's reporting journey has involved all four processes.

## Conclusions

While Vancity's efforts to continually improve its non-financial reporting is commendable, there is a risk that in adopting reporting models that were intended for investor-owned companies may result in Vancity becoming more like an investor-owned financial institution, particularly

since these models were not designed to reflect co-operative principles, values, and differences.

While many co-operatives are already reporting some of the elements of integrated reporting, particularly with respect to organizational overview, operating context, governance, and performance, some may find it challenging to publicly disclose their specific strategic objectives and how to achieve them. This could be considered confidential information, and its publication could negatively impact a co-operative's competitive advantage. However, it is likely that those who choose to adhere to the integrated reporting standard will be required to disclose their strategic objectives, but not necessarily how the organization will achieve the objectives. Disclosure of the remuneration of senior executives might also be difficult for some co-operatives. In addition, co-operatives might experience difficulty with respect to stakeholder inclusiveness, particularly if it entails inviting members to participate in developing strategic plans.

It remains to be seen whether integrated reporting will become widely accepted in the business community. For organizations such as Vancity that are already reporting in accordance with the Global Reporting Initiative, Sustainability Reporting Guidelines, and the AccountAbility Standards, adopting the integrated reporting standards likely just represents the next step on a continuum of comprehensive performance reporting. Conversely, for those organizations not currently engaged in GRI or AA1000 initiatives, the move to integrated reporting may be a significant challenge. If this new comprehensive reporting framework becomes the accepted practice, co-operatives will need to determine if it is suitable in its present form or if it needs to be modified to reflect the co-operative business model.

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SUSTAINABILITY REPORTING:  
A CASE STUDY OF THE CO-OPERATORS

DAPHNE RIXON<sup>1</sup> AND LOUIS BEAUBIEN<sup>2</sup>

Introduction

THE PURPOSE OF THIS CHAPTER is to examine The Co-operators Group Ltd.'s (The Co-operators) sustainability reporting. Given that one of the seven principles of co-operatives is concern for community, there is a natural alignment for co-operatives to be leaders in sustainability initiatives and reporting on those initiatives.

The Co-operators is a leading Canadian-owned, multi-product insurance and financial services co-operative with over \$35.5 billion in assets. Its operations are comprised of property and casualty insurance, life insurance, and institutional investments. The Co-operators has 4,567 employees throughout Canada. Under its property and casualty division, it insures over 728,000 homes and 1 million vehicles and provides coverage to more than 36,000 farms and 145,000 businesses. It protects more than 642,000 lives, insures more than 188,000 employees through group benefits, and offers a wide range of wealth management products.<sup>3</sup>

1. Sobey School of Business, St. Mary's University
2. Rowe School of Business, Dalhousie University
3. <http://www.cooperators.ca/en/About-Us/about-sustainability/annual-sustainable-reports.aspx>.

The Co-operators is regarded as a leader in social responsibility and has been recognized for its sustainability efforts. In 2013 and 2014, The Co-operators ranked on *Maclean's* Top 50 Socially Responsible Corporations in Canada. It is noteworthy that 2013 was the first time co-operatives and credit unions were considered for the ranking — a change advocated for by The Co-operators. The Co-operators has also been ranked since 2010 among the top ten on Corporate Knight's 50 Best Corporate Citizens listing, and in 2013 they were named as the number one Most Sustainable Co-operative in the World on Corporate Knight's inaugural ranking of global co-operatives. The Co-operators has been named to The Green 30 list of Canada's greenest employers annually since 2010. In 2014, The Co-operators was ranked number one of 143 global insurers and reinsurers by Sustainalytics for their environmental, social, and governance (ESG) performance. Finally, the Corporate Registrar (which conducts random reviews and critiques of sustainability reporting) gave a very favourable analysis of The Co-operators reporting — ahead of many of its competitors.

## Methodology

The methodology for this case study is comprised of a comprehensive documentary review of The Co-operators website and its 2013 sustainability report. In addition, an in-depth semi-structured interview was conducted with the senior director of Sustainability and Citizenship at The Co-operators, who is responsible for the organization's sustainability reporting. The interview was utilized to probe for additional information regarding The Co-operators sustainability reporting in an effort to gain an understanding of their motivation for undertaking sustainability initiatives, and the benefits it has yielded. Case studies are defined by Yin (1994) as a multi-faceted research strategy that typically involves an in-depth examination of one organization, situation, or community. While case studies yield greater realism than quantitative methodologies, it must be recognized that they are time-consuming, their findings cannot be generalized, and their lack of rigorous control compromises validity (Bennett 1991; Hill 1993).

## Research Findings

This section provides an overview of The Co-operators sustainability strategy and reporting. It is organized as follows: The Co-operators Sus-

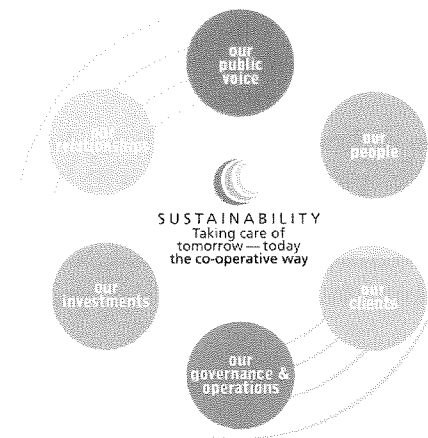
tainability Journey, Governance, Internalization of Sustainability (how well it has been accepted and incorporated into its operations), The Sustainability Report, Report Preparation and Audit, Reporting Framework, Reporting Challenges, and Next Steps in The Co-operators journey.

## The Co-operators Sustainability Journey

The Co-operators first sustainability strategy (themed "Getting Our Own House in Order") covered the period 2008–2010 and focused primarily on introducing sustainable practices into its operations, setting goals, engaging stakeholders, and developing plans and measures. The Co-operators has now completed its second sustainability strategy that covered the period 2011–2014 (themed "Becoming a Catalyst for a Sustainable Society"). This phase concentrated on moving from plans to actions and ensuring its corporate strategy and sustainability strategy were aligned.<sup>4</sup> The Co-operators sustainability strategy is summarized in figure 1.

With the next planning cycle covering 2015–2018, the respondent indicated that there will be one corporate strategy, and sustainability will be embedded throughout it. The overall objective of this third phase of The Co-operators sustainability journey is to embed sustainability throughout the organization.

Figure 1: The Co-operators Sustainability Strategy



Source: <https://www.cooperators.ca/en/About-Us/about-sustainability/strategy.aspx>

The Co-operators provides the following description of each of the elements of its strategy:<sup>5</sup>

- *Our People:* We attract and develop personal champions of sustainability through our dynamic, progressive workplace.
- *Our Clients and Member Owners:* We enable and encourage our clients to contribute to a sustainable future through our products and services.
- *Our Governance and Operations:* We model responsible, accountable, and transparent governance. Our operations help foster a more sustainable society and economy and are a source of pride for our people. Others seek to follow our example.
- *Our Investments:* We are responsible investors and build on our assets to contribute to a more sustainable future.
- *Our Relationships:* We are advancing sustainability through collaboration with industry partners, the co-operative sector, business partners, communities, governments, and non-governmental organizations (NGOs).
- *Our Public Voice:* We are strong and effective public advocates for sustainability and inspire others to take action.

Over the past decade, The Co-operators has collaborated with a number of organizations as it developed its sustainability strategy. Undoubtedly, these liaisons helped shape its overall sustainability strategy and reporting. A brief description of some of the organizations that The Co-operators worked with is described in the following sections.

#### *The Natural Step Canada (TNS)*

TNS is a not-for-profit organization dedicated to education, advisory work, and research in sustainable development. They work with corporations, municipalities, academic institutions, and not-for-profit organizations to help them move toward new opportunities, reduced costs, and dramatically reduced ecological and social impacts.

4. <http://www.cooperators.ca/en/About-Us/about-sustainability/strategy/sustainability-history.aspx>.

5. <http://www.cooperators.ca/en/About-Us/about-sustainability/strategy.aspx>.

The Co-operators partnership with The Natural Step Canada began after The Co-operators President and CEO Kathy Bardswick and other senior management members heard Dr. Karl-Henrik Robèrt, founder of The Natural Step speak at the International Co-operative and Mutual Insurance Federation (ICMIF) annual conference in 2005. Dr. Robèrt's message inspired The Co-operators to investigate a move toward sustainability and, by 2007, The Co-operators board of directors had approved a sustainability policy and strategy.<sup>6</sup>

#### *CERES<sup>7</sup>*

The Co-operators is a member of CERES (Coalition for Environmentally Responsible Economies), a non-profit that provides expert advice, access, and support for companies' sustainability needs. Its members include organizations from a wide array of sectors: technology, food and beverage, oil and gas, footwear and apparel, and financial services. Approximately one third of CERES members are Fortune 500 companies. Members of the CERES network are expected to commit to public release of their sustainability mission or principles; in-depth engagement with stakeholders and shareholders; public disclosure of environmental and social commitments and results; and continuous performance improvement.

According to the respondent, CERES is a predominantly US-based organization and has only three members in Canada: The Co-operators, Vancity, and Suncor. In 2015, CERES convened a stakeholder panel comprised of eleven people from various industries to review The Co-operators sustainability report.

#### *United Nations Environment Program — Financial Initiative (UNEP-FI)*

UNEP-FI, is a partnership between UNEP and three business sectors — banking, asset management, and insurance. This program has led to the

6. <http://www.cooperators.ca/en/About-Us/about-sustainability/strategy/natural-step.aspx>.

7. <http://www.ceres.org/>.



development of a set of guidelines, Principles for Sustainable Insurance (PSI), which outlines how sustainability can be embedded across the insurance industry.

In 2012, The Co-operators was a founding signatory to PSI. In fact, The Co-operators is the first and only insurer in North America to sign on to these principles, which provide a framework for insurance companies to better manage environmental, social, and governance risks and opportunities in their core business strategies and operations.

Figure 2: The Co-operators Sustainability Policy

As an insurer, employer, investor, community partner, and a co-operative, The Co-operators believes that we can and must lead the way in ensuring a sustainable future. To us, sustainability is about balancing economic, social, and environmental priorities as a responsible corporate citizen.

We are committed to developing our business in a way that builds on our financial strength and seeks both to minimize any negative effects that our activities could have on the environment and society and, further, to perform a restorative function through innovation in business practices, product development, public engagement, and partnerships with our stakeholders.

We commit ourselves to the ongoing pursuit of alignment with these **four sustainability principles:**

1. In a sustainable society, nature is not subject to systematically increasing concentrations of substances extracted from the earth's crust.
2. In a sustainable society, nature is not subject to systematically increasing concentrations of substances produced by society.
3. In a sustainable society, nature is not subject to systematically increasing degradation by physical means.
4. In a sustainable society, people are not subject to conditions that systematically undermine their capacity to meet their needs.

Step by step, The Co-operators will strive to align our business operations, products and services, and stakeholder relationships with these fundamental sustainability principles in ways that advance our long-term financial objectives.

Source: <http://www.cooperators.ca/en/About-Us/about-sustainability.aspx>

### *Council for Clean Capitalism*

In 2012, The Co-operators became a founding member of the Corporate Knights Council for Clean Capitalism, which is a group comprised of influential CEOs interested in making a strong impact on sustainability issues in Canada. Interestingly, four of the founding member organizations were co-operatives and credit unions. Clean Capitalism is defined as an economic system whose prices fully incorporate social, economic, and ecological benefits and costs, and whose actors know the impacts of their marketplace actions. By advocating for policy changes, the council seeks to advance an economic model that recognizes that what can also be good for business is good for the environment and society. The Co-operators journey has been guided by its sustainability policy as depicted in figure 2.

### Governance

The Co-operators board of directors established a board Sustainability and Citizenship Committee (BSCC) to provide guidance and advice on sustainability and citizenship issues to the board of directors and senior management. The BSCC oversees the development and execution of The Co-operators Sustainability Policy and Strategy, reporting regularly to the board on progress achieved.

In addition, The Co-operators formed a Sustainability Steering Committee comprised of senior leaders from across the group of companies. The Committee is responsible for ensuring the effective implementation of the Sustainability Policy and recommending sustainability goals, strategies, and operational plans. The Committee updates the full board of directors on the company's performance against its sustainability objectives. The president and CEO regularly reports on sustainability to the board, and an annual presentation from the senior director of Sustainability and Citizenship provides additional information and context (Sustainability Report 2013, 21).

### Internalization of Sustainability

According to the respondent, The Co-operators has several initiatives to ensure its staff embraces its sustainability strategy. The Co-operators

developed online courses for staff, which cover sustainability and the co-operative identity, and each take about one hour to complete. In addition, the Sustainability and Citizenship Department occasionally conducts two-hour workshops for staff on sustainability and co-operative identity.

The respondent indicated that The Co-operators 2014 annual AON Hewitt employee survey found that 93 percent of employees believed “we are a socially and environmentally responsible organization.” Furthermore, anecdotal evidence has suggested that 80 percent of employees who are new to the organization say they were drawn to the organization due to its adherence to co-operative principles and its sustainability focus. In fact, the respondent attributed The Co-operators high retention rate to its adherence to co-operative values and its sustainability reputation. She also believed that staff members were proud to work for an organization that is differentiated based on co-operative identity and sound sustainability practices.

The respondent indicated that staff members were highly engaged in The Co-operators sustainability initiatives. She noted that staff often make suggestions that are adopted. At the suggestion of a staff member, The Co-operators introduced an initiative with Habitat for Humanity ReStores to donate salvageable material following a claims event, rather than sending it to landfills. For example, in a situation where kitchen cabinets sustain water damage to the lower units, typically both the upper and lower cabinets are replaced to ensure they match. In that situation, The Co-operators could donate the upper cabinets to Habitat for Humanity ReStores.

### The Sustainability Report

The Co-operators sustainability report contains sustainability information along with other operational results. Selected components of the report are described below:

1. Incorporation of sustainability into insurance products/services offered

The Co-operators has introduced many sustainable insurance products since 2011. In an effort to market these products, in 2013 they were pack-

aged together in a campaign called the “Better Place Suite.” This campaign is largely a marketing/branching effort to make people more aware of the various sustainability products offered by The Co-operators. This package includes, among others, the following products/services:

Figure 3: The Better Place Suite

The Better Place Suite includes products and services that promote environmental, social, and economic responsibility.

- If you drive a **hybrid or electric vehicle**, you’ll receive an automatic 5% discount on your Auto policy premiums.
- With **Enviroguard**<sup>®</sup>, if you have a claim, you can replace damaged property with more eco-friendly and sustainable products. For example, for a flat fee of only \$40 per year, Enviroguard will pay an additional 10% above the claim amount up to a maximum of \$50,000.
- The **Envirowise**<sup>®</sup> discount saves you 10% for eligible Leadership in Energy and Environmental Design (LEED) certified dwellings, including residences, seasonal and mobile homes, farm dwellings and hobby farms, and revenue dwellings with up to six units.
- **Windsurance**<sup>®</sup>, **Solar Panel Installation insurance**, and the **Alternative Energy Business Interruption** option provide specialized, one-stop coverage for solar and wind energy projects for individuals and businesses.
- By choosing our **Socially Responsible Investments (SRI)**, you can bring your investment portfolio in line with your personal values by supporting companies that share your ethical values concerning environmental protection, climate change, human rights, and product safety.
- If you’re part of a voluntary/non-profit organization, find out how **Community Guard**<sup>®</sup> can provide your group with affordable and stable coverage for liability, property damage, group benefits and more so that you can keep providing much-needed services in your community.

Source: <http://www.cooperators.ca/en/About-Us/about-sustainability/better-place-suite.aspx>

## 2. Initiatives undertaken by The Co-operators within its operations to improve sustainability

The Co-operators introduced several operational initiatives to improve sustainability that are described in its 2013 Sustainability Report (24). Some of its key initiatives are described in the following sections (a complete description of sustainability initiatives is described in the 2013 Sustainability Report).

- Reduction of carbon omissions with a goal to reduce net carbon emissions by 50 percent by the end of 2014. Reductions were achieved by increasing the use of video and web conferencing instead of air travel. The Co-operators also encouraged carpooling and provided discounts for public transit tickets for its employees. For further reductions, The Co-operators purchased renewable power for its corporate offices in Alberta, Saskatchewan, and New Brunswick.
- Sustainable buildings were a focus in 2013 as The Co-operators reduced the amount of office space occupied.
- Paper consumption was reduced in 2013 by 30 percent through reduction in marketing material and policy-related documents sent to clients.
- Sustainable purchasing was targeted toward those organizations with whom The Co-operators did more than \$1 million of business. These suppliers were required to provide answers to The Co-operators sustainability questionnaire and were rated on a scale of 0–3. Suppliers were required to commit to The Co-operators code of conduct as specified in its Sustainability Purchasing Policy.
- The Co-operators investment company, Addenda Capital, adopted a sustainable investment policy. Addenda continues to deepen its integration of environmental, social, and governance considerations into its investment decisions. Additionally, Addenda has signed the following commitments:
  - UN Principles for Responsible Investment
  - Montreal Carbon Pledge
  - Carbon Disclosure Project
  - CDP Forest Footprint Disclosure Report
  - Canadian Coalition for Good Governance

## 3. Have an impact on sustainability in Canada

In addition to its sustainability-focused products and services as well as its own internal initiatives, The Co-operators strives to increase focus on sustainability through its participation in initiatives that aim to create resilient communities for Canadians. The Co-operators developed and led a project regarding overland flood in partnership with leading professors at the University of Waterloo, Ontario. The project involved interviewing leading Canadian insurance executives to investigate the barriers and opportunities in addressing overland flood insurance in Canada. The purpose of this project is to drive collaboration in the Canadian insurance industry to address this serious gap in coverage for Canadians. The research produced a report entitled “Assessing the Viability of Overland Flood Insurance: The Canadian Residential Property Market.”

The theme of The Co-operators 2011–14 sustainability strategy is to “catalyze a sustainable society.” This theme is reflected through its various initiatives (refer to the 2013 Sustainability Report for more information). One example of how The Co-operators is extending its reach on sustainability to the broader community is through its “Making an Impact!” initiative. As part of its 2011–2014 Sustainability Strategy, an objective was established to develop and inspire a network of young people across Canada to become sustainability champions. IMPACT! The Co-operators Youth Program for Sustainability Leadership, is a unique initiative that empowers college and university students to be sustainability change agents in their communities. IMPACT! Sustainability Champions Training sessions are regional workshops that build the capacity of young leaders to act strategically to address the environmental, social, and economic challenges in their communities.<sup>8</sup>

### Report Preparation and Audit

Responsibility for The Co-operators sustainability strategy rests with the Sustainability and Citizenship Department. The respondent indicated that approximately 1.5 full-time equivalents are utilized to gather

8. See <http://www.naturalstep.ca/impact>.

data and prepare the annual sustainability report. She also noted that one hundred people from across The Co-operators various divisions provide data to the Project Manager for inclusion in the report. In addition, the Sustainability and Citizenship Department draws on resources from the Communications and Graphic Design Departments to assist in completing the report.

Overall, The Co-operators did not need to develop costly systems to gather its sustainability data. For example, the respondent explained that to capture data on travel, the expense claim forms were modified to include questions on the number of legs of the journey and the number of kilometres flown.

To ensure the validity of the data, the sustainability report is audited by The Co-operators Internal Audit Department. The audit concentrates on accuracy and processes. The internal auditor's report is submitted to the Sustainability Department, senior management, and the Audit Committee of the board of directors. The respondent indicated that The Co-operators opted for an internal versus an external audit of the sustainability report since an external audit was expected to cost approximately \$100,000.

## Reporting Frameworks

### *Aligning Reporting with GRI*

The Global Reporting Initiative (GRI) guidelines help to structure the content of The Co-operators sustainability reporting. The Co-operators adhered to the GRI-G3 guidelines and self-declared its application to be in accordance with GRI Application Level "B."

The GRI<sup>9</sup> is a leading organization in the sustainability field. GRI promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development. It is an NFP organization that was started in 1997 in Boston.

Sustainability reporting is often viewed as synonymous with triple-

9. <https://www.globalreporting.org/information/about-gri/what-is-GRI/Pages/default.aspx>.

bottom-line reporting and corporate social responsibility (CSR) reporting. Moreover, it is an intrinsic element of integrated reporting, which is a recent framework that combines the analysis of financial and non-financial performance. Sustainability reporting can help organizations to measure, understand, and communicate their economic, environmental, social, and governance performance.<sup>10</sup>

The Co-operators 2013 Sustainability Report included information on the company's GRI reporting for the following categories. It should be noted that there are several measures under each main category; these can be found at the link listed below (note 11).

GRI Indicator Categories Reported by The Co-operators in its 2013 Sustainability Report:

- Strategy and Analysis
- Organizational Profile
- Report Parameters
- Governance, Commitments, and Engagement
- Economic Performance Indicators
- Environmental Performance Indicators
- Labour Practices and Decent Work Performance Indicators
- Human Rights Performance Indicators
- Society Performance Indicators
- Product Responsibility Performance Indicators
- Financial Services Sector Supplement
- Disclosures: Management Approach

### *Public Accountability Statement (PAS)*

Canadian insurance organizations' reporting is also influenced by government regulations. All financial institutions (FIs) in Canada that have in excess of \$1 billion in equity are required by the federal government to complete the PAS reporting requirements. The Co-operators respon-

10. <https://www.globalreporting.org/information/sustainability-reporting/Pages/default.aspx>.

11. <http://www.cooperators.ca/en/About-Us/about-sustainability/annual-sustainable-reports.aspx>

dent noted that for many FIs, this was the beginning of their environmental and social reporting. However, she explained that The Co-operators report significantly exceeds the minimum required standards.

### Reporting Challenges

The respondent indicated that one of the key challenges of sustainability reporting relates to lack of comparable industry data. Therefore, The Co-operators tends to compare its results to leaders in sustainability reporting such as TD Bank (which provides both banking and insurance), Vancity, and Mountain Equipment Co-op. The respondent also pointed out that while comparison with other co-operatives is beneficial, it is equally important not to concentrate solely on co-operatives when it comes to comparison and benchmarking. She indicated that it is important to compare within and outside the insurance sector and to non-co-operatives. In general, The Co-operators strives to identify and compare to best practices. Due to the lack of an industry benchmark, The Co-operators places emphasis on trend analysis of its own performance over the three- to four-year measurement period, in the context of its guiding sustainability principles and long-term sustainability goals.

Another challenge identified by the respondent relates to the broad array of tools available to measure performance. In spite of so many measurement mechanisms, there is no one reporting tool that will meet the needs of all stakeholders. In addition, the respondent commented about the cost of producing sustainability reports when there are very few readers of them. The Co-operators identified the main users of the reports as The Co-operators' people. Furthermore, members and staff have indicated that they find the report too long and difficult to find information of interest to them.

### Next Steps in The Co-operators Sustainability Journey

The respondent indicated that the next major new initiative in The Co-operators sustainability journey will be the adoption of integrated reporting. She expects that this will entail a significant level of work and would represent another journey of discovery. Given the scope of integrated reporting, she estimates that The Co-operators first report will be issued by 2017.

### Discussion and Analysis

The research found that The Co-operators focuses extensively on its desired outcome of being a sustainable organization in the economic, social, and environmental senses, and the activities The Co-operators has undertaken and continues to enact in order to come closer to this outcome. Given this perspective on The Co-operators interventions in its normal operations to achieve improvements in a target outcome — i.e., sustainability — it is appropriate to adopt a theoretical perspective that is inclined to examine work processes from this “end-point” focus. As such, Donabedian’s (1980; 1966) perspective of structure-outcome-process (SPO) is adopted to draw attention to an examination of how The Co-operators attempts to alter its operational parameters in order to be sustainable.

Figure 4: The Structure-Process-Outcome (SPO) Framework of Health System Evaluation

Structure	Process	Outcome
<i>Organizational factors</i>	<i>Operational factors</i>	<i>Consequences factors</i>
Tangible and physical components of the Health System	Intangible components of the Health System related to the provision of care	The result of care in terms of patient satisfaction and the alleviation of symptoms and return to functionality
Capital cost is easily measured, ongoing operational costs less so	Operational cost is measurable with some accuracy	Measurement of broadscale data is common and accurate
Example: New operating theatre in a hospital	Example: Employing/training a surgical team with capacity to perform a new surgical technique	Example: Mortality rates and/or patient reported outcomes

Source: (Donabedian 1966; 1988)

Donabedian’s (1966; 1988) is an approach designed to quantify and examine health care outcomes across three domains: structure, process, and outcome (see figure 4, above). From an analytical perspective, *structure* is the initial component of the framework, representing the infrastructure in a system, both the tangible (e.g., equipment) and intangible



(e.g., organizational knowledge). Structure is a baseline from which work towards achieving and outcome can be realized. However, the most robust structure does not guarantee success, and imperfect structures can be compensated for with particularly stout *processes* (Murray and Frenk 2000; Campbell et al. 2000).

*Processes* are interactions and networks of relations that exist within the context of a system or organization (Donabedian 1988). These interactions are more encompassing in scope than the evaluation of the success (e.g., was a transaction successful enough to sell to a customer?), and also include the “character” of the interaction (e.g., was the customer happy with the transaction, or did they feel cheated?) (Murray and Frenk 2000; Campbell et al. 2000).

Table 1: Elements of SPR strategy and the SPO framework

Strategic Activity	SPO Element
People: We attract and develop personal champions of sustainability through our dynamic, progressive workplace.	Structure
Clients: We enable and encourage our clients to contribute to a sustainable future through our products and services.	Process
Governance and Operations: We model responsible, accountable, and transparent governance. Our operations help foster a more sustainable society and economy, and are a source of pride for our people. Others seek to follow our example.	Structure
Investments: We are responsible investors and build on our assets to contribute to a more sustainable future.	Process
Public Voice: We are strong and effective public advocates for sustainability, and inspire others to take action.	Process
Relationships: We are advancing sustainability through collaboration with industry partners, the co-operative sector, business partners, communities, governments, and non-governmental organizations (NGOs).	Process

Source: SPR Activity: A timeline of evolution and development, and <http://www.cooperators.ca/en/About-Us/about-sustainability/strategy.aspx>

The effective enactment of processes within the boundaries established by the structure lead to the *outcome*. Campbell et al. (2000) suggest the structure-process-outcome framework might be better examined by acknowledging the difference between the interaction with the system (structure and process) and the consequence of that interaction (out-

come). Further, they argue that this gives rise to the possibility of a feedback loop — where the consequences may change, strengthen, or maintain the nature of the system. In the case of The Co-operators, this might be imagined as a successful program to promote sustainability leading to new and improved approaches to further enhance future efforts to improve the sustainable operations and reporting.

As the SPR program evolves, it is evident that structures have been established upon which to build and adapt processes to be effective in achieving the optimum SPR outcome. These activities are portrayed, alongside the element of the SPO framework of which they are a part, in table 1.

## Conclusions

This chapter provided an overview of sustainability reporting using a case study of The Co-operators, a large insurance co-operative in Canada. It traces The Co-operators journey as the organization developed and refined its sustainability strategy. The Co-operators provide an excellent example of not only improving its internal sustainability practices, but has also taken steps to impact the community at large in Canada.

The elements of structure-process-outcome framework has been applied to The Co-operators to illustrate how its strategy aligns to the SPO model. The SPO framework demonstrates that, as the Co-operators evolved in its sustainability strategy, it established structures and processes to have an optimal outcome.

The case study of The Co-operators approach to sustainability described in this chapter lays a solid foundation that can be utilized by other co-operatives, irrespective of their industrial co-operative sector. The research has illustrated that co-operatives can have a significant impact not only on their own operations, but also on the broader community. The research found that sustainability reporting must reflect a sound sustainability strategy. Ultimately, to be truly effective, co-operatives need to embed sustainability practices in their strategic plans, operations, and corporate culture.

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