

Tools to measure Co-operative Performance and Impact

Halifax, May 23-24, 2014

Agenda

- Co-operatives and accounting
- Some considerations on the relevance of an integrated accountability system
- How to define and to read co-op performances
- Co-operatives and impact
 - Some examples from italian Social Co-ops
- Conclusions



Cooperatives and accounting

- Often no specific pro-forma for co-operative balance sheet
- Often co-operatives must follow the same rules as limited enterprises
- One law for different types of organizations
 - FPO: economic and financial value for shareholders
 - Cooperatives: mutualistic goals, that means economic advantages (in the broadest sense) for members
 - social cooperatives or social enterprises aim to create social value



Cooperatives and accounting

- Weak accountability
- Weak stakeholder relationship
 - Often too much based on the sensitivity of the managers
- Accountability as management tool is not the rule
- Studies often inaccurate
 - hard to find specific data
 - small samples for research and analysis



Weak accountability

- The aim of co-operatives is not to maximize the net-income or earnings
 - Mutualistic co-operatives → maximize the economic interest (in the wider sense) of its own members
 - more cost and/or less revenue
 - Social co-operatives → maximize social benefits for the community
 - not necessarily only for members



What can we do?

- It would be very difficult (and inopportune too) to define new accounting standards for coops
- Better to adopt specific balance sheet models and specific general ledger
- But the first step is to read the same datas and ratios differently than FPOs

What can we do?

- But accounting is not adequate to satisfy the need to be accountable and to evaluate the performance of the organization
- We need a more articulated model:
 - The institutional end cannot be read through financial accounting

Non profit: some peculiarities

- Maximization of social value
 - Definition of the mission
 - Basis for strategy and associated objectives
- Economic and financial equilibrium
 - NGOs, charities, foundations depend on donors and public funding and are unable to create economic value
 - Social enterprises *e.g.* social coops
 - work in the market, producing and selling goods and services. These activities create economic value destined to pursue a social end (institutional end)



The institutional end: cooperatives

- Co-operatives are often in the middle (Hybrid Organizations)
 - Social co-operatives are totally non profit organizations
 - Mutualistic co-operatives are not FPO in the strictest sense but pursue economic advantages (in the broader sense) for members
 - *e.g.* agricultural or fishing cooperatives
 - Co-operative banks: different models
 - micro-credit to giant banks
 - in this panel we will **not** consider this topic



Non profit: the two dimensions

- Two different dimensions in a non profit organization
 - Effectiveness: capability to maximize social value *i.e.* Identity accountability, Ebrahim, 2003; Organizational mission and values, Moore, 2000
 - Efficiency: economic and financial equilibrium
- This means that a non profit organization has to be primarily accountable on these points
- But is it enough?
 - **Organizations responsible and accountable to all those upon whom their actions have (or may have) an impact** (Unerman and O'Dwyer, 2006) → THE ACCOUNTABILITY THEORY FOR NPOS

Single, double or “triple” dimension?

- If we consider only an economic and financial dimension of accountability, we are not able to accomplish in the wider sense the concept of accountability
 - In a nonprofit we have also to consider that accountability arises from issues of legitimacy and power, where these are located, and how they are bestowed (Gray, Bebbington, Collison, 1996)
 - Also in FPOs this approach is not enough. It might possibly be enough only if we consider accountability as a legal requirement in the strictest sense.



Single, double or “triple” dimension?

- At least a second dimension
 - Social value creation (institutional end)
 - Economic and financial sustainability
- Is the accountability on these two dimensions able to represent the «accountability duties» to all stakeholders?

Relational concept (Brown and Moore, 2001; Ebrahim, 2005; Unerman and O’Dwyer, 2006)

- accountability involves a relation with stakeholders because they ask organizations to account for their activities

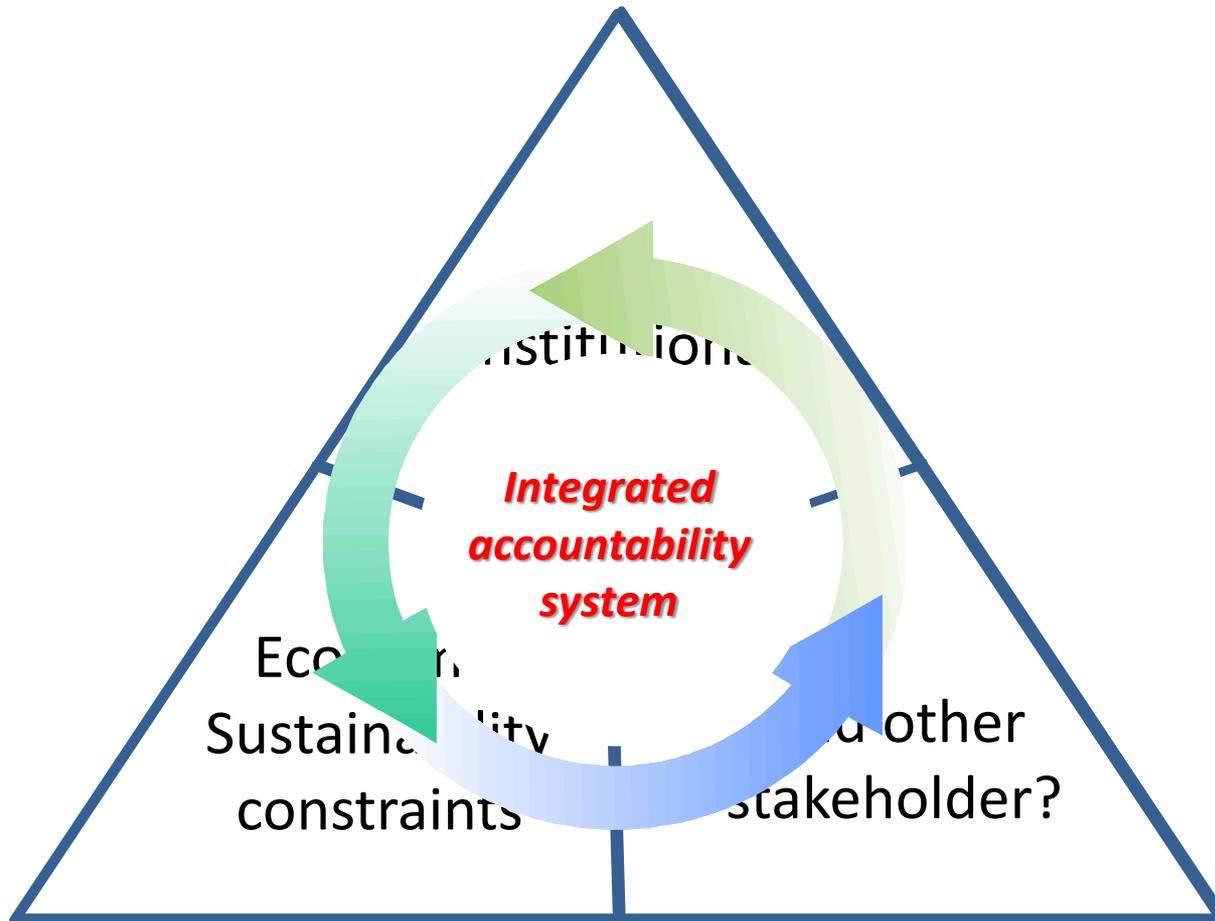


A proposal

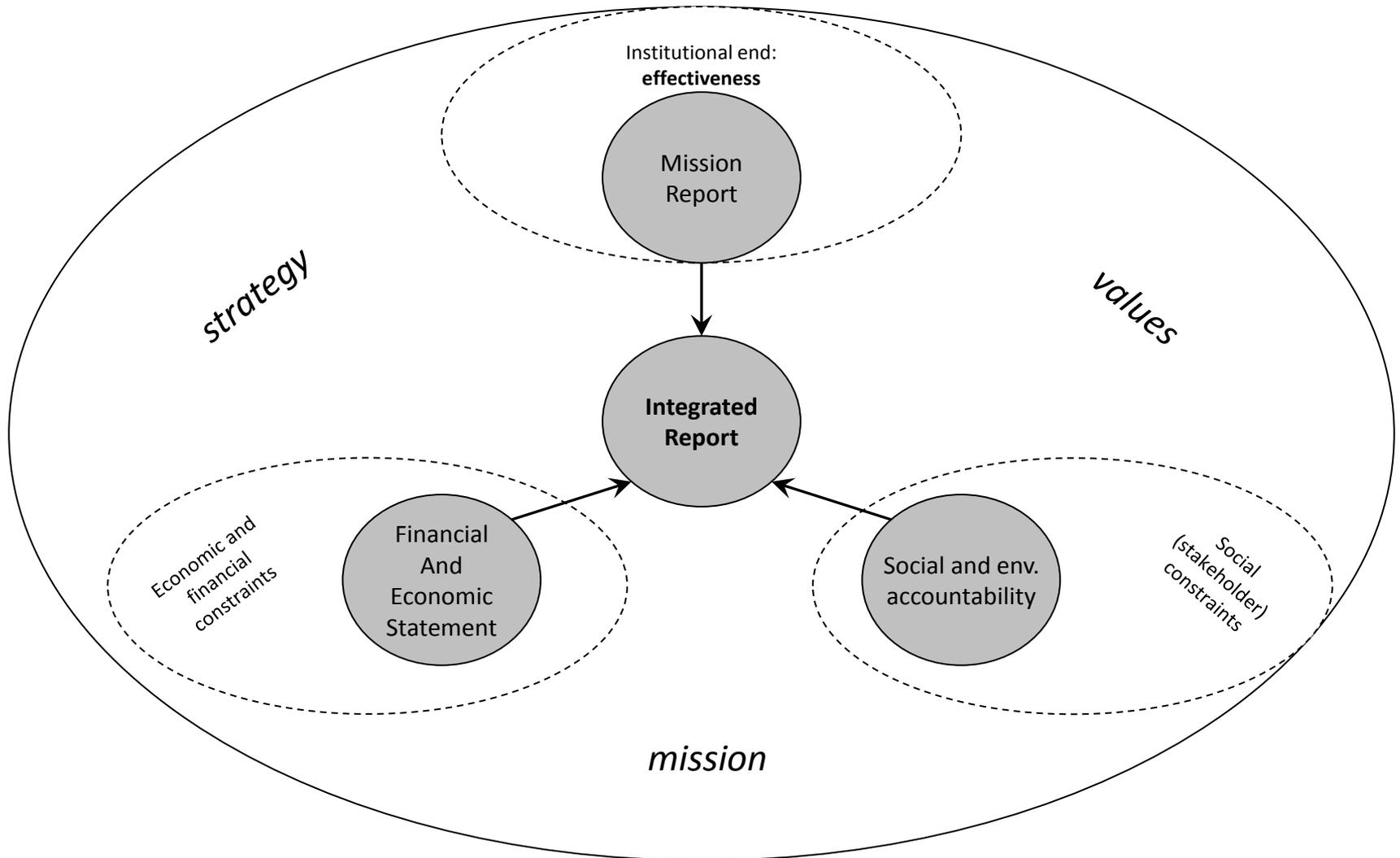
- NPOs have to be accountable on:
 - The institutional end: The sum of the interests of those the organization has been set up for and is managed
 - Create social value for the primary stakeholder and in a broader view for the community
 - Create economic advantages for members
 - The economic and financial stability
 - Capability to maintain the economic and financial stability over the long term
 - Their «social purposes»: capability to pursue the institutional end through the respect of all the stakeholders directly and indirectly involved in the activity.



The three dimensions of the accountability



My proposal: an integrated accountability system



Analysis from our database

- Euricse database – 72,000 cooperatives and 55,000 financial statements
- Analysis of balance sheet data (but not only)
- Some examples
 - Economic equilibrium
 - Financial equilibrium



First example: economic dimension

- Same rules as limited company
 - an income statement with earnings or loss
 - no information re mutuality
 - advantages for members
- How can we overcome this problem
 - need earnings/loss
 - value of production (E/VP)
 - ratio to explain the capacity of the cooperative to hold value for equity
 - most cases no distribution of profits to members



First example: economic equilibrium

- Profit not the goal
- Constraint for sustainable growth
- 4 levels
 - $E/VP < -6\%$: dangerous loss
 - $E/VP > -6\% < 0$: needs control
 - $E/VP > 0 < 6\%$: optimal
 - $E/VP > 6\%$: potentially hazardous situation for strategic reasons - economic resources not used to reach institutional end (mutuality or social value)



First example: economic equilibrium

Whole sample (52,656 coops.)

| | Eq/l | | | | |
|--------------|----------|----------|-----------|----------|--------------|
| E/PV | ≤ 0 | 0 – 0.15 | 0,15–0.35 | > 0.35 | Total |
| ≤ -0.06 | 11.1 | 3.9 | 2.3 | 4.2 | 21.5 |
| -0.06 - 0 | 5.5 | 15.0 | 4.4 | 4.2 | 29.1 |
| 0 – 0.06 | 1.6 | 18.9 | 8.4 | 6.7 | 35.6 |
| >0.06 | 0.7 | 2.0 | 3.2 | 7.9 | 13.8 |
| total | 19.0 | 39.8 | 18.3 | 22.9 | 100.0 |

| | |
|--|------|
| | 36.7 |
| | 17.6 |
| | 45.7 |

Economic equilibrium

Industry sect. Coops – Mutualistic (3,425 coops)

| | Eq/l | | | | |
|---------------|----------|----------|-------------|----------|--------------|
| E/PV | ≤ 0 | 0 - 0.15 | 0.15 - 0.35 | > 0.35 | Total |
| $\leq -0,06$ | 10.7 | 3.8 | 2.5 | 3.8 | 20.8 |
| $= -0,06 - 0$ | 5.2 | 17.5 | 5.6 | 4.6 | 32.9 |
| 0 - 0,06 | 1.3 | 18.0 | 9.5 | 7.0 | 35.8 |
| $> 0,06$ | 0.6 | 1.8 | 2.6 | 5.6 | 10.5 |
| total | 17.8 | 40.9 | 20.2 | 21.1 | 100.0 |

| | |
|--|------|
| | 36.8 |
| | 18.0 |
| | 45.3 |

Industry sect. Coops – Social (727 coops)

| | Eq/l | | | | |
|---------------|----------|----------|-------------|----------|--------------|
| E/VP | ≤ 0 | 0 - 0.15 | 0.15 - 0.35 | > 0.35 | Total |
| $\leq -0,06$ | 11.0 | 3.4 | 4.0 | 4.0 | 22.4 |
| $= -0,06 - 0$ | 3.2 | 7.2 | 3.2 | 3.9 | 17.3 |
| 0 - 0,06 | 2.5 | 17.6 | 10.3 | 11.1 | 41.5 |
| $> 0,06$ | 1.0 | 1.5 | 4.5 | 11.7 | 18.7 |
| Total | 17.6 | 29.7 | 22.0 | 30.7 | 100.0 |

| | |
|--|------|
| | 41.5 |
| | 18.0 |
| | 40.4 |

Second example: capitalization

- Cooperatives are mostly under-capitalized?
- Compare equity and the real need of equity
 - the relationship between equity ratio (E/I) and capital assets ratio (FA/I)



Capitalization

Whole sample (52,656 coops.)

| | AF/CI | | | | |
|--------------|-------------|------------|------------|----------|--------------|
| MP/CI | ≤ 0.06 | 0.06 - 0.2 | 0.2 - 0.45 | > 0.45 | Total |
| ≤ 0 | 7.8 | 3.9 | 3.5 | 5.7 | 20.9 |
| 0 - 0.15 | 15.1 | 8.5 | 6.3 | 7.3 | 37.1 |
| 0.15 - 0.35 | 4.8 | 4.3 | 4.2 | 3.8 | 17.0 |
| > 0.35 | 7.4 | 4.7 | 5.0 | 7.9 | 25.0 |
| Total | 35.0 | 21.4 | 18.9 | 24.6 | 100.0 |

| | |
|--|------|
| | 34.0 |
| | 27.8 |
| | 38.3 |



Capitalization

Industry sect. Coops – Mutualistic (3,425 coops)

| | AF/CI | | | | |
|--------------|---------|------------|------------|--------|--------------|
| MP/CI | <= 0.06 | 0.06 - 0.2 | 0.2 - 0.45 | > 0.45 | Total |
| <= 0 | 6.8 | 4.2 | 3.4 | 4.2 | 18.7 |
| 0 - 0.15 | 10.9 | 12.6 | 9.3 | 7.0 | 39.8 |
| 0.15 - 0.35 | 3.2 | 4.7 | 6.3 | 5.5 | 19.7 |
| > 0.35 | 3.9 | 3.6 | 5.7 | 8.7 | 21.8 |
| Total | 24.9 | 25.1 | 24.7 | 25.4 | 100.0 |

| | |
|--|------|
| | 29.8 |
| | 29.8 |
| | 40.5 |

Industry sect. Coops – Social (727 coops)

| | AF/CI | | | | |
|--------------|---------|------------|------------|--------|--------------|
| MP/CI | <= 0.06 | 0.06 - 0.2 | 0.2 - 0.45 | > 0.45 | Total |
| <= 0 | 5.3 | 4.8 | 3.9 | 4.7 | 18.6 |
| 0 - 0.15 | 4.9 | 8.2 | 9.2 | 6.9 | 29.3 |
| 0.15 - 0.35 | 3.2 | 5.6 | 7.3 | 5.3 | 21.4 |
| > 0.35 | 5.7 | 8.6 | 8.9 | 7.4 | 30.7 |
| Total | 19.1 | 27.3 | 29.3 | 24.3 | 100.0 |

| | |
|--|------|
| | 39.5 |
| | 20.5 |
| | 40.0 |

Social reporting

- It is important to have clear that a social report is not a mission report.
- They can stay together in one document, but they cover different aspects
- Social report and mission report as fundamental tool to be accountable

SE(A)R: a definition

“process of communicating the social and environmental effects of organizations' economic actions to particular interest group within society and society at large. As such it involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholder. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders”

(Gray, Owen, Adams, 1996, p.3)



SEAR and impact evaluation

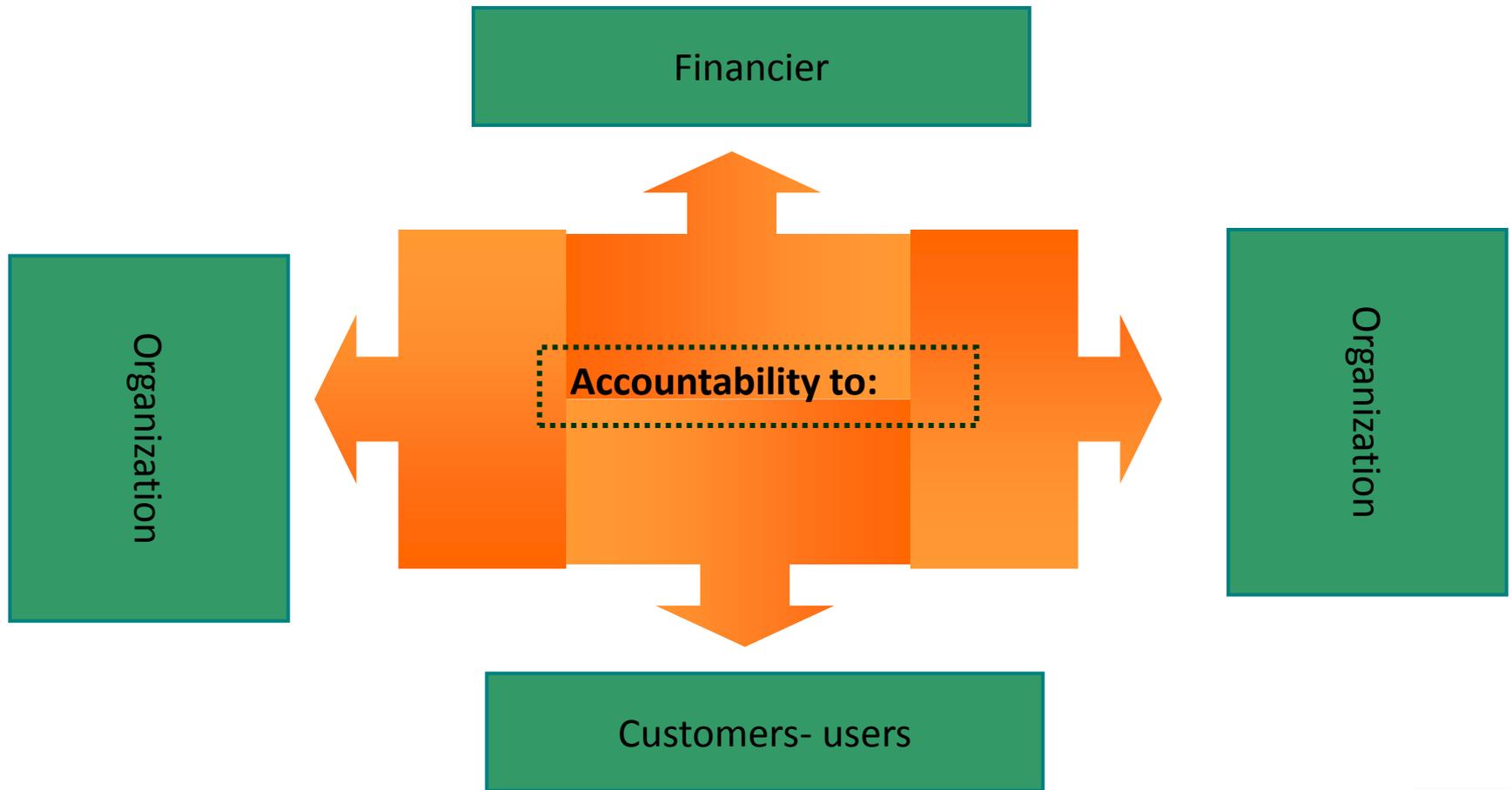
- SEAR is a management tool for:
 - Institutional performance: effectiveness in pursuing the institutional goal
 - Social performance: social efficiency or, better, respect of the social constraints

SEAR and stakeholder

- For some Authors (CSEAR School: Gray, Bebbington, Addams...) CSEAR is first of all a way to democratize the organizations (FPOs and NPOs)
- That means a very high level of transparency based on a great commitment on stakeholder relationship and stakeholder engagement
- That is particularly important for NPOs, SE and Co-operatives (O'Dwyer, Unerman 2006) that are multistakeholder organizations

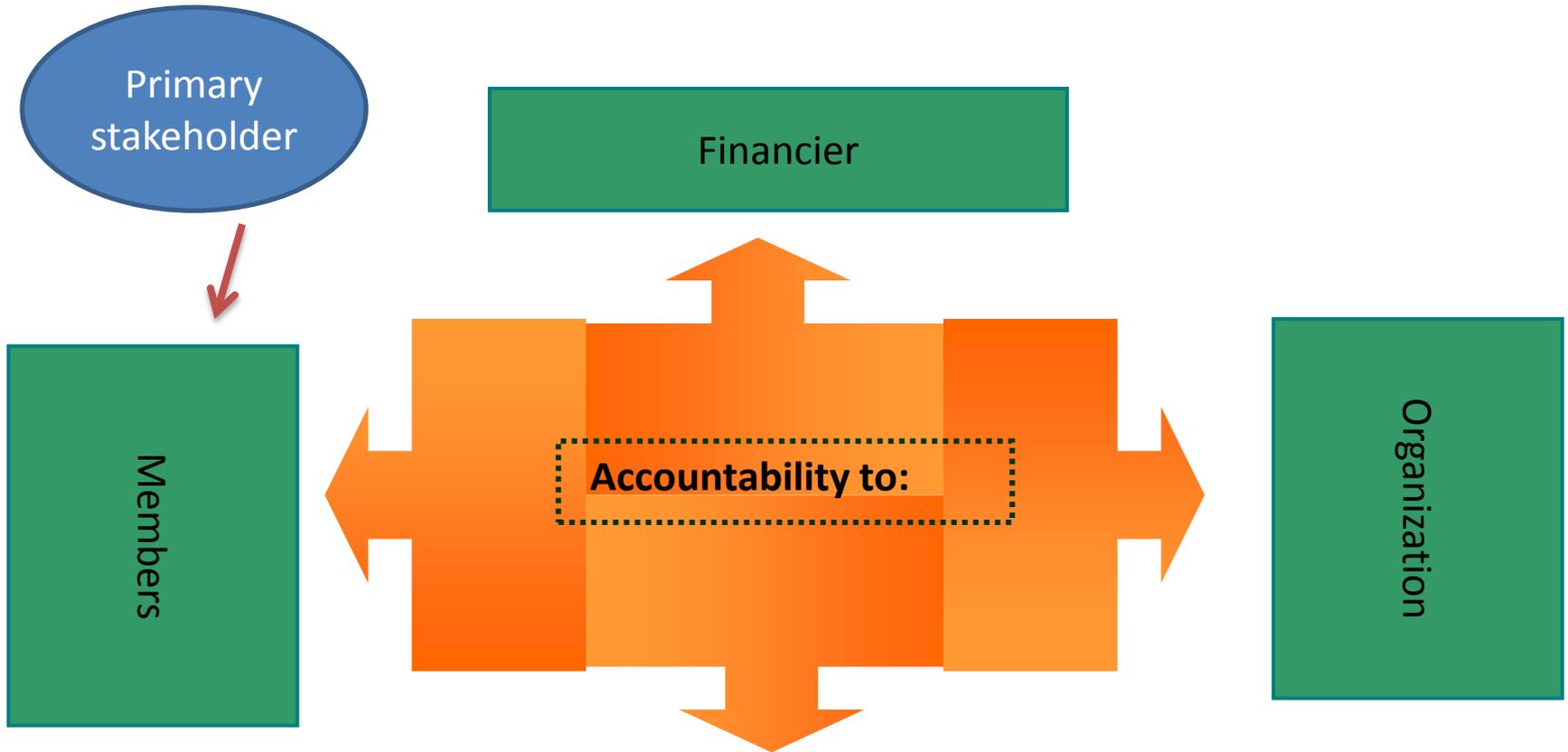
Accountability and NGOs

(Najam, 1996)



Accountability and Cooperatives

(adapted from Najam, 1996)



SEAR as a tool for evaluate the impact?

- Yes if
- The organization must have clear which is its institutional goal
 - Mission
 - Actions
 - Evaluation through correct KPI
- The organization is aware to be accountable to all stakeholder, not just to primary one, but to each, in a multistakeholder approach

Some good practices from Italian social sector

- Cadiai: social services cooperative, located in Bologna since 1974, over 1,300 employees and 844 members (any employee can become member)
 - [Mission](#)
 - [Social Report](#)
- Cooperativa Sociale ACLI

Some good practices from Italian social sector

- Cooperativa Sociale ACLI: located close to Pordenone (north-east area, close to the borderline with Slovenia) since 1983. It is a social services cooperative. 212 (of which 164 members) employee, 576 customers, 4.2 €/million turnover
 - [Mission](#)
 - [Social Report](#)

Conclusions

- Accounting for cooperatives is often weak
- Need more accountability
- Different goals = different performances
- Multistakeholder approach
- Could be a powerful management tool

Thank you for your attention

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