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iSORP discussion paper no. 6

Co-operative non-financial reporting

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1. THE iSORP PROJECT

This discussion paper is the sixth in a series aimed at developing content for an international Statement of Recommended Practice (iSORP) for co-operative accounting and reporting. This paper focuses on co-operative non-financial reporting, including non-financial performance indicators.

You can find other iSORP discussion papers and CEARC working papers at the CEARC website: www.coopaccounting.coop. A draft conceptual framework for co-operative accounting can be downloaded from the website. The conceptual framework provides another component of a co-operative accounting framework and should be considered alongside the iSORP discussion papers.

Comments welcome

We welcome comments regarding any of our iSORP discussion papers and we do feed these in to our review process. A series of questions are included at the end of the paper. Comments will be reported to the CEARC advisory committee and CEARC board and fed into the review and revision of the potential iSORP.

The deadline for comments on this paper is 30 April 2011.

2. INTRODUCTION

Non-financial reporting provides a supplement to the information provided in the financial statements. In order for a co-operative to fulfil its purpose, that is, meet its members' needs, financial performance is important. However, without the inclusion of both non-financial and financial reporting, members will not have a full understanding of the extent to which the co-operative is fulfilling its purpose.

The history of co-operatives is one where non-financial performance is as important as financial considerations, for example:

- Consumer co-operatives were formed to provide good quality food, in contrast to the adulterated products being sold at the time.
- Worker co-operatives were created to provide employment opportunities as well as fair wages and conditions.
- Housing co-operatives were created to provide healthy, as well as affordable, living conditions.
- Savings co-operatives were formed to provide safe opportunities for modest savers whose small deposits were not welcomed by investor owned banks.

In all cases co-operatives were motivated by ethical considerations. They sought a fair deal for members and for the community in which their members lived. Today, reporting needs to include both financial and non-financial information.

It is important to avoid information overload and to remember that the non-financial reporting is relatively high level. It does not require the same level of detail or number of indicators expected when producing internal management and operational reports.

Miller[1] suggests that we should not expect anyone to successfully manage more than nine items of information at any point in time. This paper also takes the view that nine should be the upper ceiling in terms of key performance indicators included in non-financial reporting.

The paper proposes that four non-financial indicators should be reported by all co-operatives (the "common co-op indicators") and that up to five more should be reported that, in the view of the governing board, are particularly appropriate to the co-operative (the "elective co-op indicators").

The paper also proposes that:

- All non-financial indicators should be audited to enhance their credibility.
- Non-financial indicators should be consistent and comparable, both across a number of years and, in some cases, between same sector co-operatives,
- Boards are strongly encouraged to present forward-looking non-financial targets. Explanations should be given for divergences of actual from targets.
- Indicators should be transparent and explanations as to how they are derived available to members and the community.
- Indicators should also, reflecting openness and honesty, be reported on even when the results are less than desirable.

[1] Miller, George A. "The Magical Number Seven, Plus or Minus Two: Some Limits on Our Capacity for Processing Information", *Psychological Review*, 63, 81-97. 1956.

A number of factors can influence the choice of the elective co-op indicators. Such factors include:

- the sector in which the co-operative operates
- the particular activities the co-operative is engaged in
- the size of the co-operative
- the stage of development of the co-operative (certain performance measures will be viewed as more critical than others depending on the co-op's position and future aspirations)
- the nature of co-operative membership which can impact on those areas seen as most significant to members
- local, regional or national regulatory requirements

This paper does not address legal requirements to produce non-financial information in annual reports or other report formats as these will be specific to particular jurisdictions. Instead this paper looks at the elements to include in non-financial reporting in order to better reflect the true value of the organisation including its co-operative difference and potential co-operative advantages linked to member engagement in its day to day economic, social and governance activity. Note that environmental sustainability reporting was addressed on our previous iSORP paper and so is not included in this paper.

3. PROPOSALS FOR NON-FINANCIAL REPORTING

1. These recommendations are in respect of reporting to members and other stakeholders through the medium of the annual report. Their use in interim reports (half-yearly or quarterly) is encouraged.

2. Non-financial information should be subject to audit.

3. Co-operatives should report the following four common co-op indicators:

    a. Member satisfaction
    Assessed through a member satisfaction survey

    Satisfying member needs is the primary objective of co-operatives. Regular interaction with members should be practised to ensure that members are satisfied with the goods or services being supplied by their co-operative. The form and frequency of consultation is a decision for the board.

    A co-operative which is meeting its members' needs is likely to be a strong co-operative, able to survive in the market place. Periodically a co-operative may need to change direction and provide different services for its members. Meeting members' needs and adapting to changes in members' circumstances is likely to ensure that the members are engaged with their co-operative.

    b. Average percentage of members voting in elections.

    Member democratic ownership and control governance is a distinguishing characteristic of co-operatives. An indication of the strength of member participation in voting can assist in understanding the extent to which the members' voice is present within decision making and governance.

    c. Employee remuneration multiple.
    Report the highest annual salary/wage and benefits as a multiple of the lowest annual salary/wage and benefits paid by the co-operative.

    A basic co-operative value is equity. This is often expressed by limiting the range of salaries that may be paid. The Mondragon Co-operative is well known for expressing this principle. Wilkinson and Pickett[2] (2009) have shown that societies which are more equal almost always perform better on indices of quality of life, wellness, and deprivation.

    The employee remuneration multiple can show the extent to which the co-operative has acted equitably in rewarding all its employees; whether it is therefore contributing to a more equitable society or whether there is increasing inequality.

    d. Co-operation with other co-operatives.

    Co-operatives should show the number of other co-operatives they deal with regularly (for finance, insurance, transport etc).

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[2] Wilkinson, R., & Pickett, K. (2009). The spirit level: Why more equal societies almost always do better. London: Penguin.

Co-operating with co-operatives is important. Supporting those who share your values and principles strengthens the individual and the co-operative.

4. Each co-operative should report up to five elective co-op indicators most relevant to them at any particular time in their development. The choice should reflect:

    - the sector in which the co-operative operates,
    - the particular activities the co-operative is engaged in,
    - the size of the co-operative,
    - the stage of development of the co-operative,
    - the type of co-operative member ownership (e.g. employee led, consumers, businesses, multi-stakeholder),
    - the country, community, culture and environment in which it operates
    - their current strategic priorities

5. While detailed levels of performance measurement and reporting would be expected internally, the member and outward facing form of annual report is relatively high level and should not be expected to go into the same level of detail as that found in management and operational performance measures and reporting.

6. Co-operatives should indicate targets for non-financial indicators. An explanation should be given of any material divergences of actual from target.

7. Non-financial reporting information should be connected, where possible, to financial reporting information. Where a non-financial indicator is reported on, there should also be related financial information included alongside.

8. Non-financial content can be expressed in absolute terms but, where appropriate, should also be expressed in percentages to assist with comparison.

9. Each indicator should include a brief narrative providing:

    a. a description of the approach taken in compiling and calculating the KPI and
    b. an explanation of the reported performance including, for example: impacts, trends and measures being taken to correct and improve performance.

10. Comparative data should be provided for the previous five years if available. This historical data to be built up over time as each annual report is produced.

11. Where applicable, information on relevant future goals and targets should be included in the report.

4. THE CO-OPERATIVES UK - KEY SOCIAL AND CO-OPERATIVE PERFORMANCE INDICATORS (KSCPIs)

These indicators were published in 2005 and are included here as an example of existing work in this area. They were developed over a period of three years in a process that included full consultation with Co-operatives UK member organisations. The indicators are quantitative and are intended to capture the co-operative, social and environmental performance of a co-operative, based on the International Co-operative Alliance values and principles. For more information go to the Co-operatives UK website: http://www.uk.coop

10 KSCPIs

1. Member economic involvement
2. Member democratic participation
3. Participation of employees and members in training and education
4. Staff injury and absentee rates
5. Staff profile – gender and ethnicity
6. Customer satisfaction
7. Consideration of ethical issues in procurement and investment decisions
8. Investment in community and co-operative initiatives
9. Net carbon dioxide emissions arising from operations
10. Proportion of waste recycled/reused

5. QUESTIONS FOR FEEDBACK

CEARC is keen to receive feedback concerning any aspect of this discussion paper and including the ideas and views presented. In particular we would be interested in your views on all or any of the following:

1. *Do you agree with the view taken by the paper on the role of non-financial reporting that no more nine non-financial indicators should be reported?*
2. *Do you agree that the common co-op indicators should comprise (a) member satisfaction, (b) average percentage of members voting in elections, (c) salary and benefits multiple, and (d) co-operation with other co-operatives?*
3. *Do you agree that the following factors should influence the choice of elective co-op indicators*

    a. the sector in which the co-operative operates,
    b. the particular activities the co-operative is engaged in,
    c. the size of the co-operative,
    d. the stage of development of the co-operative,
    e. the type of co-operative member ownership (e.g. employee led, consumers, businesses, multi-stakeholder),
    f. the country, community, culture and environment in which it operates,
    g. the co-operative's current strategic priorities?

4. *Are there any additional items to include in the common co-op indicators?*
5. *Are there any items currently listed that you feel are inappropriate for inclusion?*
6. *Are there any revisions you would recommend regarding the existing wording, structure and/or order of items?*
7. *Do you agree that the non-financial information should be audited?*

Please send comments in writing by e-mail to:

daphne.rixon@smu.ca

or by mail to:

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Please include your name and your organisation's name and address and indicate the paper you are commenting on.

The deadline for comment is 30 April 2011

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