

Performance Measurement Cooperative Financial Services Sector, Daphne Rixon, PhD, FCMA



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Agenda

- Research Project
- Methodology
- Findings: interviews
- Findings: documentary review
- Conclusions

Research Project

➤ Purpose

- Identify KPIs reported by co-operative financial services sector – comprised of credit unions and insurance co-operatives
- Explore why and how KPIs are chosen
- Reflection of 7 Principles of Co-operatives
- Illustration of the co-operative difference

Prior Literature

- Birchall (2005) contended that the following 10 years would see more emphasis on the operationalization of values and principles into co-operative business practices
- Birchall (2005) found that insurance and financial services co-operatives did not make significant use of the identity statement
- Timely to examine impact of 2008 crisis on reporting of co-operatives in the financial services sector

Prior Literature

- Studies have found little emphasis on the 7 principles in financial and performance reporting (Brown & Hicks, 2007; Novkovic, 2005)
- Co-operative principles and values viewed as something separate (Spear, 2000)
- Principles may be embedded in organizational behavior (Passey, 2005)
- Few people have the vocabulary to describe the difference (Fairbairn, 2004)

Methodology

- Case study comprised of semi-structured interviews and documentary review of annual reports, performance reports and websites of CUs and insurance co-ops
- 45 interviews conducted with senior officials from 23 credit unions (19 Cdn and 4 US) + 22 interviews with three insurance co-operatives in Canada, United States and UK.

Findings

7 Principles

Benchmarks

Co-operative
Difference

Reporting: Correlation to 7 Principles

Voluntary & Open Membership

- Elected female members
- Average age members
- Ethnic minority members and outreach
- Membership satisfaction
- Customer advocacy
- Number of branches CUs
- Number of members

Democratic Member Control

- Democratically active
- Committee elections
- Corporate governance
- Member loyalty
- Voter turnout for AGM
- Number board seats contested
- Number members run for a seat on BOD

Reporting: Correlation to 7 Principles

Member Economic Participation

- Members earning share of profits
- Dividends
- Claims paid policyholders
- Discounts on loans
- Premium on deposits
- Reduced fees

Autonomy and Independence

- Stand against mgmt
- BOD independence
- Transparency fin. Reports
- Ethical employees
- Social and environmental responsibility
- Financial stability

Reporting: Correlation to 7 Principles

Education, Training and Information

- School programs
- BOD education
- Driving safety tips
- Staff benefits
- Staff training expenditures
- Members financial literacy

Cooperation among co-operatives

- Partnerships with coops
- Support among coops
- Related party transactions
- Insurance provided to other coops and CUs
- Affiliations with trade associations

Reporting: Correlation to 7 Principles

Concern for Community

- Community investment
- % pre-tax profits donated
- Staff volunteerism
- Unethical business declined
- Decreased personal bankruptcy
- Decrease in predatory lenders

Concern for Community

- Development loans
- Energy used
- Renewable energy used
- Total mileage
- Waste Recycled
- Environmental award
- Tonnes of CO₂

7 Principles: What Respondents Said

“..part of our corporate culture, but we don’t measure them” (CU)

“..I don’t know the 7 principles...I looked them up a month ago...they are not top of mind” (CU)

“...the seven principles are not heavily preached...it’s not part of our nomenclature....but our board understands it’s a cooperative”. (Insurance)

7 Principles: What Respondents Said

“..our market research found concept of being an owner was not important for members...they just want a financial institution to meet their needs” (CU)

“..co-operation among co-operatives falling by wayside due to increased competition among CUs”

“...it forms part of our values....we don't have a specific section in our strategic plan that would tie back to each one of those. If you look at the seven principles, they're more behavioral.” (Insurance)

Benchmarking – Insurance Cooperatives

- Each is largest in their respective countries
- Claimed no other insurance cooperative large enough to compare to
- Believed they were too different from equally large cooperatives in other countries to have suitable benchmarks

Benchmarking – Credit Unions

“..we compare efficiency ratio to banks because we compete against banks” (CU)

“..we are different, but we play in the same sandbox, so banks are relevant” (CU)

“..difficult to compare net income to banks...we don't have wealth management” (CU)

“..CUs don't have the same profit motivation”

“..when CUs are big, they look more like banks”

When they did compare to other CUs, they wanted to compare to their own size

Benchmarking: Sources

Internally Generated

- Monitor Annual Reports & websites

Externally Generated

- Centrals – credit unions
- Hire consultants to provide industry data

Co-operative Difference

- In interviews, respondents attributed co-operative difference to focus on member value rather than shareholder value, meeting needs of members, curtailing power of management and emphasizing corporate sustainability
-being a co-operative you still need to compete head to head with those who aren't and then add something else. We need to have products and services that people need, regardless of whether we're a co-operative. Being a co-operative should be an added benefit". (Insurance)

Co-operative Difference

- Very little effort focused on marketing the cooperative difference
- Comparison to investor owned companies
- KPIs driven by strategic plan and benchmarking to investor owned companies
- Differences not measured, monitored and reported

Conclusions

- By not monitoring and measuring principles, may eventually lose their profile and awareness among members, managers and employees.
- Once the awareness of the principles is reduced and are no longer ‘top of mind’, it is possible that eventually they will no longer even influence the corporate culture.

Reminders

- Call for papers for JCAR – Journal of Co-operative Accounting and Reporting
- CEARC – call for research proposals Fall, 2014
- **Save the date – Sept. 26 - 28:** Inaugural Co-operative Studies stream at the Atlantic Schools of Business Conference, Mount Saint Vincent University, Halifax – best papers will be published in JCAR or Workplace Review