Co-operative Performance Accounting and Reporting: Accounting for the Difference

Abstract:

This paper contends that unless co-operatives develop an approach to accounting that reflects co-operative business purpose, values and principles they will not achieve their full potential. The standard accounting system is designed for businesses whose purpose is to maximize the return to investors. Its focus is shaped by that business purpose. Using the standard accounting approach distorts the operations of co-operatives by using measures not suited to their business purpose and failing to measure the use of resources to achieve co-operative business purpose. The paper concludes that co-operative leaders, scholars and accountants working for and in co-operatives need to adopt a long term strategy to create an approach to accounting that ensures co-operatives use their resources efficiently to achieve their goals.

Introduction - The purpose of this paper is to reflect on the need for a systematic approach to co-operative accounting and reporting, what we have achieved to date, and to suggest a preliminary map of where we need to go and what needs to be done to get there. The intent is not to suggest a set of tools but to map out a theoretical framework and the key areas where future work will develop sets of tools to use in actual measurement. Some reference will be made to some early examples of sophisticated measurements but the intent is to leave the detailed development of the new accounting tools needed to future work by co-operative accounting specialists. It is a considerable undertaking which will hopefully result in a number of follow up papers over several years.

The paper will also not review the history of ideas around social accounting in co-operative organizations, social enterprises and private companies. Significant work has been done on this topic. See among others: Spreckley (1981),Brown (2000), Quarter (2002), Unerman et al (2007) Co-operative performance accounting is not an attempt to copy 'triple bottom line' accounting for co-operatives or even from a much more amenable approach, rooted in the environmental movement. It suggests a significantly different approach – an approach that flows from the purpose of co-operative business, its values and its principles, which predate the idea of triple bottom line ideas.[1] [See also Somerville (2007)] The suggestion here is that co-operative business needs to come at the question from its own internal logic which will avoid the pitfalls of 'green washing' and be inclusive of a powerful environmental thrust growing from co-operative values and principles.

In the late 1990's the idea that co-operatives might require a rethinking of how they did their accounting and reporting was not a point of discussion. Accounting and reporting standards were accounting and reporting standards. Accounting and reporting in a co-operative was seen as the same as for any other organization. When the Canadian Institute of Chartered

[1] International Co-operative Alliance (2012)

Accountants[2], Canada's accounting standards board, announced in its 1998 Handbook, that co-operative share capital could not be regarded as equity (CICA 1998) co-operatives found themselves in an uncomfortable position. Their balance sheets now had to show share capital not as equity but as debt. The ruling reflected the judgment that co-operative shares did not have the same characteristics as common shares in an investor owned company and that, therefore, they should not be regarded as equity. The biggest deficiency was that they were not publically traded but redeemable at par value by the cooperative. It ignored the reality that they were never-the-less at risk because they were not redeemable if the financial health of the co-operative was weak and that if a co-operative were wound up due to weak financial health the member shares would only be redeemed after all creditors were paid.

The ruling also ignored the similarity between co-operatives and partnerships. As Alan Robb, an accountant, professor and consultant specializing in co-operative accounting noted, "In a partnership, capital is contributed and withdrawn as partners are admitted and retire. In a partnership, trust in ethical standards and behaviour is fundamental. In a partnership, the members' equity can comprise contributed capital plus retained profits - and the reports recognise that what is owing to the partners is not a liability but members' equity. Partnerships are different from companies; cooperatives too are different from companies. But the IASC's standards ignored such differences.[3]

Co-operatives, never-the less, accepted the ruling and began adjusting their balance sheets. Prior to 1998 one could look at almost any co-operative balance sheet in Canada and find it quite similar to most other co-operatives balance sheets. Share capital was shown as member equity. After 1998, co-operative balance sheets began to vary. Approaching a lender, especially one with little experience with and/or little understanding of co-operatives, had become a more daunting task. Some did not change their balance sheets and others added notes. Some, with creative accountants came up with creative variations. One agricultural co-operative separated share capital held by members who had more than five years to go before retirement age, from shares belonging to members with five or less years to age 65.[4] One was counted as equity and the other as a liability.

This early CICA ruling did not recognize that the fundamental difference between a co-operative business and an investor driven business, the purpose of the business, was dramatically different and that this fundamental difference in purpose changed the nature and role of capital as well as what constituted 'risk'. Returns to capital in a co-operative are not the purpose of the business and this means the role and dynamics of capital in a co-operative are different. The International Co-operative Alliance Statement of Cooperative Identity adopted by the global co-operative movement states it as follows:

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[2] As a result of a recent merger CICA is now Chartered Professional Accountants of Canada (CPA Canada) The CICA guideline was part of an international push by the International Accounting Standards Committee and the International Organization of Securities Commissions.

[3] Robb, Alan, E-Mail to the author, 21 December 2013.

[4] United Farmers of Alberta (1998-2001) Financial Statements, UFA,

> “**Member Economic Participation:**
> Members contribute equitably to and democratically control the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes: a) Developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible. b) Benefiting members in proportion to their transactions with the co-operative. c) Supporting other activities approved by the membership.” (ICA 2012)

Member shares might be refundable upon demand unless the business would be put in financial difficulty, but as many co-operative members could testify, their share capital was indeed at risk. As a member of Braemore Co-operative in Antigonish, Nova Scotia, I had $800 in member shares in 2000, the year it was merged with 28 other co-operatives, all in deep financial difficulty. After the merger those shares had a value of $10. Clearly those shares were at risk. Unless the co-operative was doing well, the fiduciary responsibility of the board prevented returning share value upon request. If a co-operative were to become insolvent the share capital had last claim on the assets.

The comparison to investor owned common shares is further complicated because co-operative shares are not tradable. The role, behaviour and characteristics of capital in a co-operative are clearly different. In co-operatives, capital’s role is to serve meeting member need. That role demands different behaviour including limitations on return on capital. That said the 1998 CICA ruling was formulated on considerations based on treating capital in a co-operative as if investor owned shares were the only legitimate form of capital and the obvious basis to use when judging any other form of investment. But if co-operatives made their shares ‘just like’ common shares of investor owned firms they would no longer be co-operatives. A considerable international literature discussing the issue has emerged over the following decades, in which the Saint Mary’s Centre of Excellence in Accounting and Reporting for Co-operatives played a strong role. But this issue was simply the tip of the proverbial iceberg.

Beyond what constitutes equity, there are issues as well around raising capital. If a co-operative seeks to raise funds through an issue of preferred shares for sale to members, should it be treated the same as a share issue made on the ‘market’ by an investor owned firm? Is the relationship of a co-operative member to the co-operative whose services the member uses the same as the relationship between an investor and an investor owned firm? A clear and strong logical case can be made that the relationship is fundamentally different and that the purpose of a co-operative business poses very different and arguably lower risks. Clearly some regulation should be in place but a clear case can be made that the regulation should be different based on the nature of the risk being different.

The Wider Need for Co-operative Accounting - The Business Dictionary defines accounting as “the practice and body of knowledge concerned primarily with (1) methods for recording transactions, (2) keeping financial records, (3) performing internal audits, (4) reporting and

analyzing financial information to the management, and (5) advising on taxation matters. It is a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial information. It reveals profit or loss for a given period, and the value and nature of a firm's assets, liabilities and owners' equity. Accounting provides information on the (1) resources available to a firm, (2) the means employed to finance those resources, and (3) the results achieved through their use." (Business Dictionary.com 2013)

Perhaps a reasonable summary would be "accounting is about how a business accounts for the use of its resources to achieve its goals." [5] The key question we need to ask is "What is the purpose of the business?"

As a business structure or 'technology' the investor-owned corporation has only one purpose and one core goal – to maximize the return to invested capital. That is what the investor business community calls "the bottom line." There are, to be sure, boards and managers of investor owned firms who insert 'other' goals based on their personal values, but their scope of action is limited and if the pursuit of those 'other' goals is perceived to interfere with maximizing the rate of return on capital, managers or boards are removed and/or the flow of capital to them is reduced and goals adjusted to meet investor-owner expectations. In an investor-owned company pursuit of goals other than the core goal, maximization of return on invested capital, is a deviation from the purpose of the business. The fiduciary duty of the managers and boards of investor owned firms is to maximize return on investment. It is not to meet customer or community need.

It might be argued that the 'other non-financial' goals would contribute to the long-term 'return' and therefore be seen as part of maximizing return. The reality of today's financial markets is that the pressure for short-term financial return, for publically traded companies, is paramount. Mutual and pension fund investors are not asking about long-term social and environmental impacts whose driving forces they are not in a position to know or understand. They are asking for returns in the next quarter and the fund managers who want investors' money respond, for the most part, by seeking short term financial returns in response to market pressure. Modern financial market dynamics also militate against taking a 'long term view'. With computers programed to detect and react to second by second changes and the susceptibility of markets to rumors and potentially very lucrative speculation, the 'long term view' is a fragile boat that is easily swamped. Given the rapidity of trading, a long term investor might now be considered to be someone who held the shares for some months and many shares are held by funds and intermediaries with the person supplying the capital unaware of what she or he 'owns'. It might be argued that investor owned firms are really owned by no one. (Fullerton 2013 P. 80) This new pattern of ownership demands changes in accounting, reporting and regulation but not for co-operatives.

Almost the entire body of accounting practice, as we now know it, is focused on how an investor-owned company uses its resources to achieve its goal, maximizing shareholder value

[5] Brian Murray, Co-op Atlantic, Interview, October, 1998

and ensuring that reporting to shareholders on the use of resources is clear and honest. To be sure there are common concerns shared by co-operative and investor owned firms. Both can become bankrupt, or face financial problems. Both can have governance problem such as managers using their expertise to exercise undue control. Both are capable of damaging communities or the environment.

That said, co-operatives are clearly different and need a different approach to accounting and reporting. Co-operatives are created to meet member and community need, almost always in response to deficient outcomes in the so far dominant investor-owned economy. Members join with others to invest in their co-operative to have their needs and community needs met. The shares are not traded for gain but most often held for years. If investors buy publically traded common shares for profit and co-operative members buy co-operative shares to meet member and community need, should reporting or regulation be the same for both? Clearly not.

The argument is made by some that co-operative and investor owned firms are not really different because one can find examples of co-operatives that do not live up to their values and principles. It is further argued there are examples of investor owned firms that operate in a manner that respects values in addition to profit maximization. It is true that some co-operatives behave poorly and that some investor owned firms do 'good things'. The reality is that most co-operatives, while not perfect, do a reasonably good job of reflecting their purpose, values and principles. Their failings result from hiring IOF trained managers, neglecting educating them, their workers and their members, bowing to competitive pressures and from time to time poor governance and/or management. The key point is that when they do behave poorly they betray their co-operative purpose, values and principles. An investor owned firm can behave badly and still be acting in accordance with its purpose and be rated highly by the markets. In the co-operative case, the structure, values, principles and purpose push boards and management to behave in compliance. The purpose of an investor owned firm pushes board members and managers, only to produce maximum return. If an investor owned firm does behave in an admirable manner it is in spite of it's legal purpose. In such a case the board and management deserve enormous credit for their performance. When co-operative fail to live up to their purpose, values and principles, they have little excuse.

It makes little sense to blindly apply 'level playing field' accounting and regulatory approaches to co-operatives. By and large the standard approach to accounting is a set of measurement tools whose main thrust is to account for how efficiently a business uses it resources to maximize its return to its investors – its return to capital. Standard accounting distorts co-operatives' business decisions away from their purpose, meeting member and community need, fails to account for how the co-operative used its resources to meet member and community need or whether the use of those resources was in line with the values and principles that came with the choice of the co-operative business model. A different accounting approach is required.

Collateral Accounting and Regulatory Damage - Co-operative business also faces what may be described as a collateral damage risk. While there was no similar wave of failures similar to WorldCom and Enron, the resulting wave of new accounting rules and regulation was applied to all businesses, including co-operatives, as if they were the same. Credit unions did not produce the toxic paper or engage in the fraudulent activity that sparked the Great Recession of 2008. Should they be regulated as if they had?

It can be argued that credit unions and other co-operative financial institutions should be accountable and regulated recognizing the lower the risks which they, as co-operative financial institutions, present to the member-owners who use their financial services. One might make a case for regulations ensuring that credit union boards were able to control management, or, that reporting to members on the efficient use of resources to achieve the purpose of the business was as important as reporting on liquidity. They are financial institutions but the differences noted above remain. If the depositors and borrowers own the financial institution it is not reasonable to regulate it or use an accounting and reporting system developed as if investors owned it and it purpose was to maximize profit. This is not to suggest the accounting and reporting standards for co-operative banks and credit unions should be lower or weaker. Members have a right to know that their money is safe and that the loan they are getting is one they will be able to repay rather than one that swells the financial institution's revenue. The accounting and reporting system for co-operative financial institutions should be appropriate but even more demanding.

Accounting for Co-operative Goals

In light of the above, co-operatives and credit unions need a systematic approach to accounting that is significantly different. To be sure they seek financial health but their core purpose is to meet member and community need. They are also expected by their members and the public to contribute to the community and society by operating in a manner consistent with co-operative values and principles. If a co-operative is to be successful it must meet this different, wider range of goals.[6] Managers then logically need to account for how they use resources not only for the financial health of the business (which I will return to below) but must account as well for the efficient use of resources to achieve other goals that are co-equal. **This implies an additional requirement: co-operative managers need to have a set of tools to measure the use of resources used to achieve multiple goals, and a set of tools to assist them to keep multiple goals or 'bottom lines' in balance.**

If the system of accounting identical to that used by investor owned corporations is the sole tool box available to co-operative managers, it is clearly a source of distortion of the purpose of the co-operative business and leaves co-operative managers without the complete set of tools they require. In fact, he or she is left with accounting tools that measure how well the co-operative is using its resources to maximize its return on investment. They are thus equipped

to measure a goal that is foreign to the business but lacking tools to determine what constitutes financial health for their type of co-operative. Using these tools in a co-operative undermines the co-operative business purpose and measures performance as if maximizing return was the true purpose of the business.

If a manager is told by his board, 'We have four key goals for you to achieve but we only measure one,' the outcome is predictable. In such circumstances a manager will ensure that s/he achieves the measurable goal and, while s/he may make valiant efforts to achieve other goals, if they are seen as attractive. Neither the board nor the manager will have any solid sense of whether or not they are successful. In the absence of a sense of achievement in relation to non-financial goals both board and management interest in those goals is more likely to wane. Evidence may be gathered to support the efforts made to achieve goals that are not measured but there is at least the possibility that, the poorer the effort or achievement, the more a manager will be motivated to produce mounds of 'soft evidence' to offset declining interest, effort and performance.

The onset of a business downturn or recession will force cuts in the use of what are now scarcer resources. When cuts in use of resources are necessary, from which goals would the resources most likely be cut? The logical response is to cut the use of resources where their effectiveness is unmeasured and 'less certain' – to cut from where it does not matter. In the case of a co-operative business, using only standard accounting tools, this would mean protecting resources used to achieve a higher rate of return on invested capital and cutting the use of resources for the other goals. It often means cutting goals related to education or community impact or co-operation among co-operatives, not because they do not contribute to the long term goals or financial health, but because we do not know their impact. In many co-operative businesses this has meant cutting the other goals that distinguish a co-operative from an investor owned business. This means, that on a periodic basis, credit unions and other co-operative businesses reduce the resources devoted to those goals that make them different. If they cease to be different what would be the case for their existence? Co-operative managers and boards are then left wondering why 'members don't have the loyalty they used to have'. The result can often be a weakened co-operative business that attracts less and less member patronage and investment.

Financial Health. Every co-operative must have as a goal that the co-operative be financially healthy. Bankrupt co-operatives do not meet member need. But financial health is very different from maximizing return. The co-operative's financial health would surely include accumulation of the financial capacity to invest in technology, plant, equipment and skills to meet evolving and changing member need. **The definition of financial health will have to vary from co-operative to co-operative but there needs to be a core analytical approach.** For some co-operatives in capital intensive businesses financial health may require large capital reserves. The same provisions may exist for other co-ops where there is a high risk of predatory competitive firms. While a clear definition of co-operative financial health may exist in some co-operative somewhere, or it may exist in bits and pieces in many co-operatives, it has yet to be systematically developed and studied.

What are the proper financial goals of a co-operative if they are not to maximize the rate of return on invested capital? Co-operatives often decide they do not need the same rate of return as competitors and frequently co-operatives are created where a sufficiently high rate of return to attract investor-owned business is not possible, but a need for some type of economic activity exists. The rural electric co-operatives in the USA or Canada's natural gas co-operatives are good examples. If returns to investors in a competing firm are very high, it can often be seen as a good reason to start a co-operative. What financial performance is needed to achieve meeting member and community need? **Co-operatives need, as part of their wider set of tools, a subset of tools to determine what constitutes 'financial health'. A tentative definition might be: A co-operative is financially healthy when it financial position poses no risk to its continued operations and ability to meet member and community need and allows it to obtain sufficient capital to adapt to evolving economic and market conditions.**

This raises another issue. In an investor owned business the purpose is clearly defined. In a co-operative, where there are multiple social and economic goals, there is a need to spell out the purpose and goals with far greater clarity. Areas of potential interaction between and among goals need to be identified. Do environmental goals impact on sales? What impact do openness and honesty have on trust, member use and competitive risk? The goals when spelled out need to be measured. Because they have multiple goals, co-operatives, **far more than in IOFs, need accounting related to clear measureable goals.**

While results vary from country to country people generally view co-operatives in a positive light and significant numbers see co-operatives as outperforming privately owned business in respect to variables like trust and fairness.[7] If co-operative identity is of value and can be used as a business advantage, how can accounting help measure how efficiently resources are used to achieve that goal? How can accounting develop measures for each of a co-operative's goals? How can accounting help a co-operative determine whether it is spending the appropriate resources on adhering to its values and principles and spending those resources well? Members deserve efficiency and effectiveness.

Traditionally the non-financial goals of a co-operative are seen as 'soft' and difficult to measure. It is often forgotten that many of the measures used in standard accounting are estimates and

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[7] Opinion surveys spanning more than a decade show remarkable consistency but are now very difficult to find and most of the web links to them have ceased to function. That said the surveys include: 1993 Lincoln Co-operative Shopper Survey, UK; 1994 Gallop poll done for the NCBA in the USA; 1995 Van City survey, Canada; 1996 survey done by Penn-Schoen in the USA; Luntz Research 1997 in the USA; a survey done for Co-op Atlantic in 1999, Canada; 1999 British Columbia Canadian Co-operation survey; 1999 Irish Credit Union CCSD Study; ; 2000 West Midlands Oxford Swindon and Gloucester Marketing Our Co-operative Advantage survey, UK; 2003 NCBA Survey by Opinion Research Corporation; 2005 National Cooperative Bank, Marketing Our Cooperative Advantage Research Report; Corporate Researh (2008); Abacus Data (2012); CCA-BC (2013); Opinion Research Corporation (2012) Canadian Co-operative Association report by Ipsos Reid;[7]

that a great deal of latitude is left to the good judgment of accountants. What will the rate of depreciation be, and what impact will it have on the 'bottom line,' are questions of judgment. What is the real value of buildings, plant and equipment? The measurement of so-called 'soft goals' may in many cases be based on as hard 'facts' as those of so called 'hard goals'.

Finally, co-operatives have traditionally done a poor job of measuring the effectiveness of spending on goals such as education, the value of volunteer time contributions and their social impacts on the community. This has often been the result of a lack of accounting tools. A good documentation of a large part of this gap and a partial approach to remedy it can be found in Quarter, Mook and Richmond's ground breaking work What *Counts: Social Accounting for Nonprofits and Cooperatives*. (Quarter, Mook, Richmond 2002) They look at ways of counting the social impacts of economic activity at the organizational level. Genuine Progress Indicators Atlantic (GPI Atlantic) has also made great progress in measuring the impacts of economic activity on society, communities and nature. This kind of work has demonstrated innovative ways co-operatives can adapt to measure to measure their social goals and impacts.

Another related deficiency is not having at hand a set of tools to balance multiple goals including financial goals. The co-operative manager has to determine how to balance what may often seem to be conflicting goals of equal importance. This is significantly different from adopting a so-called triple bottom line or balanced score card approach where 'the bottom line is the primary purpose of the business. Co-operatives often undertake activities that do not produce financial rewards and in some situations will accept less than targeted financial results if it means achieving important social goals. After 2008 the Mondragon[8] group of worker owned co-operatives accepted both minimal financial results and lowered wages to avoid laying off worker members whenever possible. Co-operatives need to be able to measure how their varied goals interact with each other and how to balance them.

One can imagine a co-operative manager saying, 'If we spent what the board wants to spend on that 'co-operative stuff' we would go bankrupt.' This way of thinking springs from a conceptual gap. If neither the members nor the community valued this 'co-operative stuff' the co-operative would not exist. It would not have been created. A co-operative heavily engaged in doing things, that neither the members nor the community value, it is doing 'stuff', but not 'co-operative stuff'. It is failing to account for how it uses its resources to meet member and community need. Unfortunately there are few accounting tools that would allow boards or managers to measure the interaction between goals and what a proper balance between those goals should be. If you cannot measure the impact of spending on education, for example, how can a manager know if cutting education spending will positively or negatively impact financial health?

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[8] The Mondragon group of co-operatives and its central organizational hub are made up of more than 80,000 workers who collectively own over 275 companies engaged primarily in finance, industrial production, retail and information activities.

In one of the few examples available the Co-operative Bank in the UK made a decision in 2004 to measure the impact of its social goals on financial performance. It determined that its social goals cost the bank £6 million. The analysis also determined that the social goals contributed £30 million to revenue. This result was a pleasant surprise. If such measurements were a common practice in co-operatives would there be more pleasant surprises?[9]

The Challenge:

A key challenge facing co-operatives and credit unions is to develop an 'excellent practice' co-operative accounting system that provides a set of measures to account for how credit unions and other co-operatives use their resources to meet all of their core goals, including measures of what constitutes a financially healthy organization that can sustain itself. Such a co-operative accounting system should allow the co-operative to achieve transparent and open reporting to the board, membership and community. Finally, it should provide management with the measurement tools they need to manage the co-operative on behalf of the members.

Co-operative accounting needs to begin with the requirement of a clear statement of the purpose and goals of the co-operative. What community and member needs does a co-operative seek to meet? What are the key goals or ends the co-operative wishes to achieve as it meets those needs? What impacts are not to be permitted to occur? For example, a retail co-operative may identify its purpose as meeting the needs of members and the community for food. It might then identify a set of key goals to be met while meeting those needs:

- Encouraging the consumption of healthy food through the provision of information
- Promoting environmental responsibility
- Providing food at fair prices
- Promoting fair trade in the food supply chain
- Sourcing food from local suppliers whenever possible
- Providing workers with a fair, safe workplace and meaningful and satisfying work
- Achieving high levels of member and worker satisfaction and engagement
- Achieving financial health that allows the co-operative to achieve other goals

The challenge for co-operative accounting is how to measure these goals and how to appropriately report them to members, board members, workers and the community. Financial health must be included in such a list. Measures can be devised for each of these goals. It has been argued that financial 'performance' will always trump other goals. That is like looking through the wrong end of a telescope. The reality is the co-operative cannot put itself into significant financial difficulty and still meet other goals. As noted above, bankrupt co-operatives do not meet member need. This should be seen not as financial performance trumping other goals, but as not allowing poor financial health to undermine or destroy the ability of the co-operative to meet other goals. Viewed this way financial health and capital are understood as the servants of other goals. The purpose of the business is to meet member and community need not to the needs of capital. Co-operatives are not capitalist firms.

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[9] The recent failure of the Co-operative Bank was not a result of its earlier strong social goal performance.

As noted above the definition of financial health will vary from co-operative to co-operative but there will be some core elements. A preliminary list would include:

- Sound financial accounting and audit process
- Production of an operating surplus which is sufficient to
    - Build and maintain a healthy reserve fund to be able to respond to adverse business conditions and competitive threats
    - Provision of funds to invest in technologies and new operations to ensure continued ability to meet member need
    - Generation of sufficient funds to allow key goals to be met at an identified standard

This list needs to be improved and is another of the tasks facing those building a systematic approach to co-operative accounting.

Another area which needs a great deal of reflection and work is how to relate the performance of each goal to other goals. For example, most of the goals listed above require education and communication. How are these functions measured? All require resources. Are expenses in these areas 'productive' or are they underfunded? In a retail co-operative, transactions with unhappy workers are not likely to produce satisfied members. If member satisfaction levels increase what impact does it have on revenue? If worker satisfaction levels increase what impact does it have on productivity and generating a surplus? Do healthy finances increase member loyalty or do less healthy finances undermine it? These relationships are complex and developing an accounting system that helps understand them is vital.

While they may be complex they can be measured. The Co-operative Bank in the UK developed, as early as the end of the last century, sophisticated measures for complex goals. For example they measured how many grams of carbon dioxide per account the banks operations generated. They measured whether family members of employees saw the co-operative Bank as a good place for someone they loved to work. Many co-operatives and even quite a few non-co-operatives have developed sophisticated measures of performance. Many of those measures, once developed and set in place are not expensive. They are produced by computers on command with a few key strokes from information already collected but not previously used to its full potential.

Computer software can also make it much easier to develop indexes made up of a number of data points. The result can be a sophisticated measure of performance easily understood by various people to whom the co-operative performance is reported. So called 'hard data' (sales) might be combined and weighted with 'soft' data (opinion survey results or estimated book value of assets). These measures will need time to develop and to refine but that process can be accelerated by co-operatives sharing their techniques and measures.

The retail food co-operatives in the USA with brilliant leadership by Coop Metrics and Walden Swanson have pioneered ways for data from food co-operatives to be compared across the co-operative food sector. A co-operative can compare its performance and its performance standards with other co-operatives similar in size and location.[10]

Is such an accounting system simply too expensive and something beyond all but the very largest of co-operatives? There is also no reason why a co-operative has to produce a sophisticated co-operative accounting system overnight or even in a year or two. Even the smallest co-operative can over time develop a reasonably effective systematic approach to measuring the efficiency of its use of resources to achieve its goals. It should be reasonable to accept that the accounting system should be improved each year. There is also no reason why co-operatives cannot share their accounting methodology and techniques. In fact, co-operation among co-operatives beckons them to do so.

Reporting to Members

In the investor owned business model the concept of creating a pool of assets whose purpose is to serve the community or future generations is an uncomfortable fit. In an investor-owned firm the purpose of all assets to maximize the return to shareholders. A co-operative's purpose, core goals, principles and values call for some level of collective indivisible assets that result from member activity over generations and belong to a group or 'community' and future generations and which are beyond 'individualization'. Many co-operative members do not see the co-operative as belonging to them in the same way that an investor owned business belongs to its shareholders.

For example, on a recent visit to a large co-operative in Italy, SACMI[11], with a group of students, it was noted that while the co-operative employed several thousand people and had hundreds of millions in assets, it had only 234 were members. Why, the co-operative president was asked did the members not just sell the co-operative and walk away as multi-millionaires. "It is not ours to sell," responded the President, "It belongs to our grandfathers and to our grandchildren. It belongs to the community." The state needs to understand and encourage the contribution the co-operative business model can make to society. The financial health standards and standards for protection of co-operative capital need to be carefully developed. For example there is a need for strong protection against the 'hijacking' of collective capital that properly belongs to past, present and future co-operative members. The objective of co-

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[10] CoopMetrics was founded in 1996 to provide benchmarking tools for natural food co-operatives in the USA. See: http://www.coopmetrics.coop/About_Us/Our_History

[11] SACMI

SACMI is an international group manufacturing machines and complete plants for the Ceramics, Packaging (including Beverage and Closures and Containers), Food and Plastics industries - markets in which it is a recognized worldwide leader. It is located in Imola Italy where 60% of the city's economy is co-operative.

operative accounting is not to seek and promote weaker accounting but strong, appropriate accounting standards and regulatory protection. Strong co-operative accounting will make it far easier to design appropriate regulatory standards and public policy.

It can be argued that existing standards of reporting did not adequately protect the owners of the Saskatchewan Wheat Pools, Farmland or Agway, all major farm co-operatives which no longer exist as co-operatives. One could also argue that member owners of failing community level consumer co-operatives in Atlantic Canada were not adequately advised of the decline in the value of their share capital. Members were surprised to learn that as a result of prolonged annual losses the real value of shares on wind up or merger had in many cases become negative. In publically traded corporations share prices may not tell you the value of the firm but they do tell you what you might expect to get by selling a share. In a co-operative, where shares are not traded, members need a reporting mechanism that estimates the value of shares and indicates whether, on wind up, after all liabilities were met, member shares could be redeemed at par value. Clearly the reports to members need to provide them with an understanding of whether the value of their member shares and the value of collectively owned assets are increasing, declining or remaining the same.

Conclusion

Co-operative purpose, values and principles are the compass that needs to guide the creation of a systematic approach to accounting and reporting for co-operatives. In the introduction we noted that a shaping question in the MMCCU Program is, "If that is how it is done in an investor owned business how would it be done differently in a co-operative?" It is not possible to respond to that question without constant reference to and reflection on co-operative purpose, values and principles. The development of co-operative accounting without constant reference to co-operative purpose, values and principles is not possible to imagine. This paper is not a call for weaker accounting and reporting standards for co-operatives but rather for a rigorous and robust but appropriate approach.

The development of new co-operative accounting tools will be a daunting task which will vary from one type of co-operative to the next. Yet there are examples of how it can be done. Perhaps the best was the UK Co-operative Bank's efforts in the mid-1990s, prior to its merger with either Co-operative insurance or the Britannia building Society. This was the nadir of the Co-operative Bank, when under the inspired leadership of then Chief Executive Terry Thomas, it provided leadership and inspiration for the UK co-operative movement that helped spur a co-operative renewal in the UK as the new millennium began.

During the last half of the 1990s The Co-operative Bank developed it superb "Partnership Reports". The Bank identified its partners as: past and future generations of co-operators; shareholders; customers; staff and their families; suppliers; local communities; and national

and international society. The Bank set out goals and policies to guide its relationships to these partners and began to measure performance.

Over several years The Bank developed a series of measures and indices to account for its performance in relation to its declared partners. They created innovative measures such as tools for measuring worker satisfaction and even questions directed at worker's family members such as 'rate the Co-operative Bank as a place for someone you love to work?' For example, they developed computer driven indices on environmental impacts that linked information in their data bases on worker travel claims and heating costs to determine the cubic centimeters of waste per account and Kg of carbon dioxide per account. In one of its later reports, prior to the two mergers, it included a cost/benefit analysis of its value based partnership approach. The cost was £6 million and the benefits £30 million. Unfortunately its management leadership deteriorated especially after the Britannia merger in 2009.

What co-operatives need to emerge from persistent work on their accounting systems over the next few decades to come is what we might call Co-operative Performance Accounting. It can be done and it can inspire not just the organizations that develop it. It can inspire an entire movement. Without it co-operatives risk mediocrity. With it co-operatives have the possibility to play a leading role in reshaping the global economy and creating a better world.

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