Accounting and reporting for co-operative purposes: insights from practitioners in the UK

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Presentation Layout

✓ Background

✓ What is the issue and why is it important?

✓ Research focus

✓ Research findings

✓ Contributions/Next steps

Background

- Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC) Project

  iSORPs (International Statement of Recommended Practice)

- International Co-operative Alliance (ICA) General Assembly Resolution October 2019, Kigali

- ESRC Funding (Impact Acceleration Account), University of Birmingham, July 2022

  Set up a **collaborative body** to produce workable **recommendations** addressing key components of a UK SORP for accounting and reporting for co-operatives

INTERNATIONAL COOPERATIVE ALLIANCE

DEVELOPING ACCOUNTING STANDARDS FOR CO-OPERATIVES

■ APPROVED BY THE ICA GENERAL ASSEMBLY OF 17 OCTOBER 2019, IN KIGALI (RWANDA) ■

This ICA General Assembly:

- Believes that a cooperative's published accounts should enable it to report to members and stakeholders on its financial position in the context of its purpose as a cooperative
- Recognises the role of financial reporting standards in encouraging consistency and accountability
- Notes that recent trends towards the harmonisation of international accounting standards are driven by an exclusive focus on the needs and perspectives of investor-led enterprises
- Cautions that as a result, accounting standards may restrict or distort a presentation of the co-operative difference, including the treatment of capital and the distribution of member dividends, and that this can prevent cooperatives from describing their financial flows in line with established co-operative values and principles
- Recognises the importance of the ongoing work of the Audit and Risk Committee of the ICA (IARAC) and its efforts over time to monitor and influence international accounting bodies
- Notes also that in some jurisdictions, certain economic sectors, such as non-profit and for-purpose bodies, have successfully developed their own reporting standards (Statements of Recommended Practice or SORPs plus other voluntary disclosure guidelines) to enable them to report in a consistent and more appropriate way
- Notes the work of The Centre of Excellence in Accounting and Reporting for Cooperatives based at the University of St Mary's in Halifax, Nova Scotia, Canada, and specifically the recommendation of its international symposium, held in London in June 2018, to explore the case for a cooperative SORP.

This General Assembly calls upon the ICA to engage with members and experts with an interest in this matter to explore the case, costs and benefits, for the potential development over time of a Cooperative SORP, designed to permit cooperatives to focus their reporting on their performance in line with cooperative values and principles.

Who is involved with the UK SORP project?

- Co-operatives UK and its Co-operative Performance Committee (CPC), UK

- Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC), Canada

- Ian Adderley, Financial Conduct Authority, UK

- Elisavet Mantzari, University of Birmingham, UK

- Maureen McCulloch, Saint Mary's University, Canada

- Patrick Morrello, Third Sector Accountancy, UK

- Daphne Rixon, Saint Mary's University, Canada

- John Sandford, Previous Independent Chair of Co-operatives UK's Co-operative Performance Committee*

- Abbas Shapuri, Third Sector Accountancy, UK

- Vivian Woodell, The Midcounties Co-operative, UK

What is the issue and why is it important? (1)

coop International Cooperative Alliance

- The International Co-operative Alliance Statement on Co-operative Identity sets out a universally recognised definition of a co-operative:

*"A co-operative is 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".*

Cooperative values: Self-help, self-responsibility, democracy, equality, equity, and solidarity.
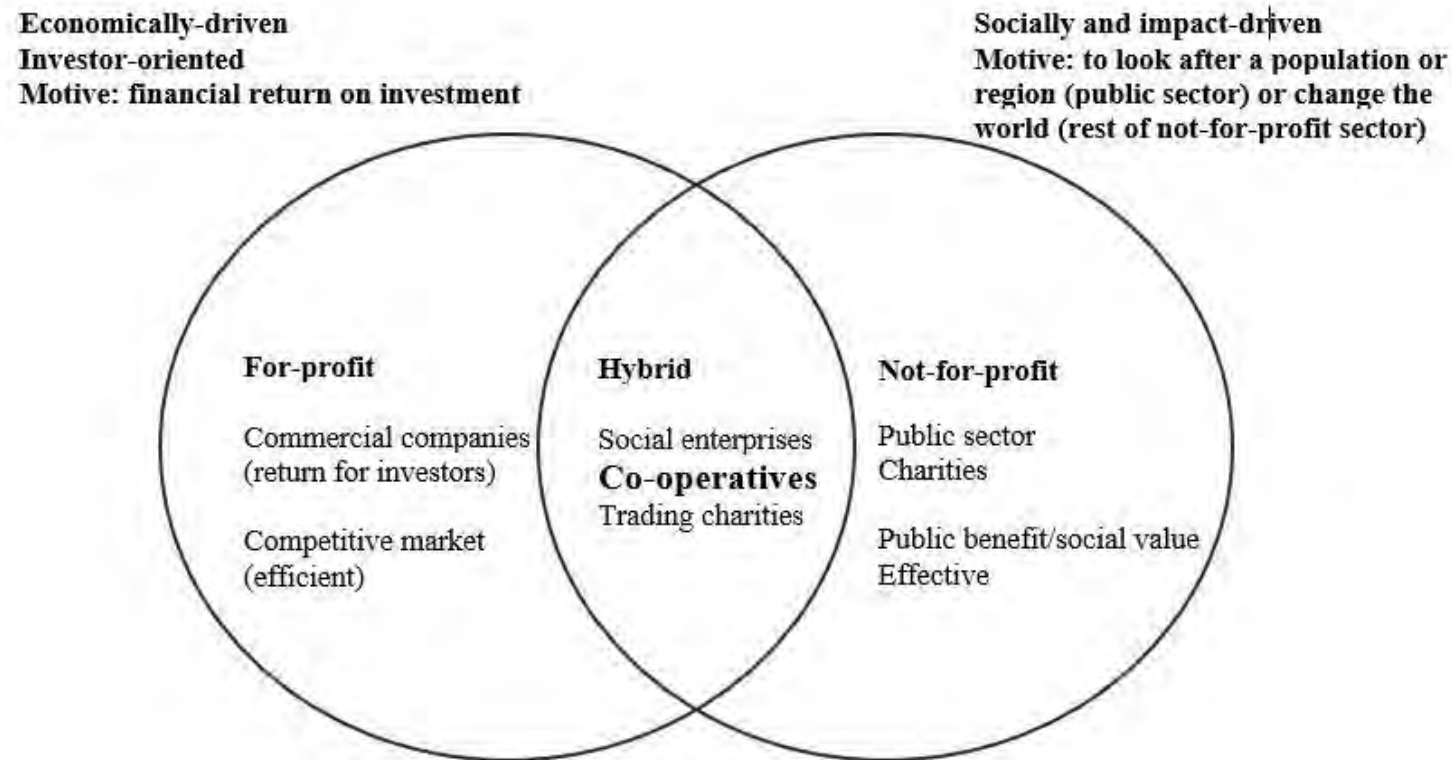
Cooperative Principles
1. Open Membership
2. Democratic Member Control
3. Member Economic Participation
4. Autonomy and Independence
5. Education, Training, and Information
6. Cooperation among Cooperatives
7. Concern for Community

'Dual' nature : combine economic and social purposes

- Not purely public benefit
- Not investor oriented (return on investment)

Traditional division of financial accounting into private (for profit) and public (not for profit) interest

Economically-driven
Investor-oriented
Motive: financial return on investment

Socially and impact-driven
Motive: to look after a population or
region (public sector) or change the
world (rest of not-for-profit sector)

For-profit

Commercial companies
(return for investors)

Competitive market
(efficient)

Hybrid

Social enterprises
Co-operatives
Trading charities

Not-for-profit

Public sector
Charities

Public benefit/social value
Effective

What is the issue and why is it important? (2)

Co-operative accounting is based on:

i)   the for-profit format which measures success by financial return on financial investment – expressed as profit or increase in share value, or

ii)   philanthropic and other "purpose driven" organisations who are legally required to apply their resources to the benefit of others

Co-operatives' financial accounting and reporting formats are at odds with the co-operative values and principles.

Research highlights…

Variation and **inconsistencies** in the **application** of and **compliance to accounting standards** among co-operatives and how to account on co-operative capital, relationship with members, non-financial contributions (e.g., López-Espinosa et al., 2009, 2012)

Need and appropriateness to develop accounting standards designed specifically for co-operatives (e.g., Adderley et al., 2021; McCulloch, 2019)

Research focus

What sort of accounting and reporting can support the pursuit of meeting the purpose, needs, interests, and aspirations of co-operatives?

➢ Current accounting and reporting practices and needs of co-operatives
➢ Accounting challenges
➢ Solutions to accounting challenges

Empirical evidence (…data collection in progress)

Six (6) group interviews: 16 participants (co-operatives, researchers and practitioners)

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PROUD TO BE A CO-OP

Democratic Member Control
Voluntary and Open Membership
Co-operation Among Co-operatives
Autonomy and Independence
Member economic Participation
Education training and Information
Concern for the Community

www.uk.coop

CO-OPERATIVES UK

Findings (1)

Affected groups and democratic governance

Users of financial/ accounting information

- Members/workers as users of financial/ accounting information
- Elected representatives as users of financial / accounting information
- Credit Union member-investors as users of financial / accounting information
- Other users: funders, investors, lenders, supporters, volunteers, and non-member clients

Involvement in accountability system

- Members' engagement and participatory management (e.g., 'finance circle' of elected members and providing financial training to members)

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Findings (2)

Current disclosures: How is financial/accounting information communicated and used?

- Linking financial/accounting information to the co-operative principles and other ethical pursuits

- Use of co-operative specific Key Performance Indicators (KPIs) and communicating social purpose and impact

- Producing information on trade with other co-operatives or members versus non-members

- Use of financial/ accounting information:
  - in participatory business planning
  - for critical decision making
  - to increase member understanding of how the business works and help them prepare accounts

Findings (3) - **Key accounting challenges**

- **General unsuitability** of traditional accounting practices for co-operatives
  - Diversity of the co-operative sector
- **Accounting for Capital** (equity/ members' funds)
  - treatment of member shares as debt versus equity
  - insufficient understanding of how much is derived from share capital
  - better represent co-operatives as 'custodians' of member investment
  - use of member capital for finance/growth
  - explaining and reporting on withdrawable shares/ interest paid on withdrawable member shares
  - dividend law and distributions
  - understanding net present value
  - issues related to accounting for pension schemes/labour shares/community shares
- **Accounting for membership**
  - Producing information on trade with other co-operatives or members versus non-members
- **Accounting for social impact**

  - Through narrative and other disclosures such as KPSIs and social return on investment

Findings (4) - *'The way forward'*

- **Reflect co-operative difference**
  - Linking the reporting to Co-operative Principles and values

- **Alternative ways of accounting for capital**
  - Accounting and reporting for co-operative capital and payments to members
  - Create intermediate category in-between equity and debt
  - Address various share models of co-operatives
  - Considerations of employee ownership and Employee Ownership Trusts
  - Help co-operatives demonstrate financial health to members

- **Additional disclosures**
  - Accounting for membership: analysis on member and non-member transactions, member strategy, and inclusion of a Statement of Member Benefit
  - Co-operative-specific ratios, labour productivity indicators, inclusion of data on the co-operative specific costs, social rate of return, extensive non-financial KPIs and non-financial notes
  - Narrative in plain language and accessible

- **Support co-operative governance**
  - Encourage participatory budgeting and internal oversight

- **General support for a co-operative accounting framework (SORP)**

Contributions

Empirical Contributions

- Under-investigated setting of analysis within accounting literature

Theoretical contributions

- "*Identify a space into which accounting must expand in order to adequately respond to the global crises we face*"… Call for empirical evidence of "*diverse, collaborative forms of accounting in social and financial spheres*" (Killian and O'Regan, 2020, p. 5)

- Critical dialogic accountability perspective: What accounting/reporting [and engagement] is needed for a co-operative accountability system?

- Join debates on the democratisation of accountability and the transformational role of accounting (e.g., Brown, 2017; Brown and Dillard, 2015; Tanima at al., 2023).

Policy implications

- Inform efforts towards developing accounting and reporting standards for co-operatives

Next steps…

- Report on Accounting and Reporting by Co-operatives in the UK

  - **Extend our evidence: more participants needed!**

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- Comment letter to feed into the Law Commission review on Co-operative and Community Benefit Societies Act 2014

- Wider dissemination and feedback

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Thank you!