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Developing a Co-operative Accountability Model

John Maddocks

This paper contributes to the discourse on co-operative accountability and interest in the potential for a distinct co-operative accounting and reporting framework. In particular, the paper develops a co-operative accountability model that draws on the non-profit model developed by Andreaus and Costa (2014) and extends this to take into consideration differences in co-operative mission and organisational structural features. By doing so, the model highlights differences between the accountabilities of social co-operatives with a wide community benefit mission compared to the more traditional member-benefit co-operative model where the organisational mission is member oriented. In addition, the model highlights the importance of non-financial resources alongside financial resources and the contribution of co-operative structural differences to non-financial resources as well as citizenship and ethical dimensions of organisational social responsibility.

Introduction

Discussion of co-operative accounting to date has been generally focused on co-operatives that have a member-oriented primary purpose or mission. There has been little discussion of the differing accountabilities of social or general interest co-operatives whose mission extends beyond co-operative member-benefit to include a wider community or public benefit. In addition, there has been limited discussion of organisational structural characteristics which sit outside of mission, but which are a feature of some co-operatives and which have implications for co-operative effectiveness and accountability. In this paper, each of these aspects of co-operative accountability, mission and structural differences, are discussed in turn, starting with the introduction of Andreaus and Costa's (2014) non-profit accountability model. An extended co-operative accountability model is then set out and following on from that a number of areas are highlighted for further exploration.

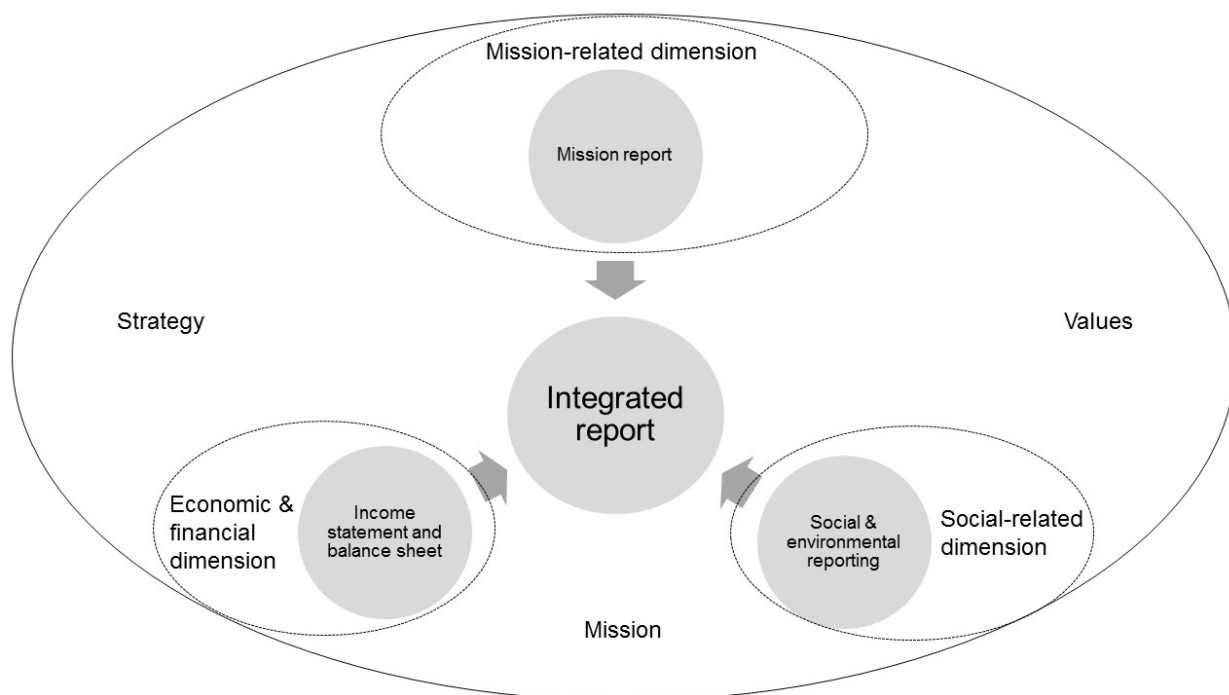
Three Dimensions of Accountability

Organisational accountability is generally associated with the idea of providing an account of an organisation's actions and inactions, and their effects (Gray et al., 1997). This can encompass being held to account by individuals and groups (Roberts, 1991), as well as a willingness to provide an account (Cornwall et al., 2000). The accountability model developed by Andreaus and Costa (2014) sets out three dimensions of non-profit organisational accountability: the economic and financial dimension, the mission-related dimension and the social-related dimension (see Figure 1 below). The economic and financial dimension is seen as supporting the organisational mission rather than being the primary purpose of the organisation. Economic and financial accountability is addressed through providing information on the generation, management, and flow of resources.

The mission-related dimension encompasses accounting for actions and activities in furtherance of the organisation's primary purpose. Those involved in governing and managing the organisation are required to account for their effectiveness in achieving the organisation's mission, including providing information on their interpretation and application of the mission to the running of the organisation.

The social-related dimension is concerned with an organisation's social responsibilities for its direct and indirect effects on a wide range of constituencies. This dimension is congruent with notions of corporate social responsibility, in that the organisation is required to consider the expectations and information needs of various internal and external constituencies with which it interacts and effects.

Figure 1: Accountability dimensions of non-profit organisations (Based on Andreaus & Costa, 2014).



In developing their model, Andreaus and Costa draw on multiple constituency theory (Connolly et al., 1980) which addresses organisational effectiveness and suggests that different individuals and groups, or constituencies, both internally and externally, can have differing perspectives on what represents an effective organisation for them and how this is accounted for and evidenced. Multiple constituency theory is utilised in this paper in examining co-operative accountabilities and in distinguishing between different dimensions and types of information and their relevance to different constituencies.

The accountability model developed by Andreaus and Costa (2014) is used as a basis for developing a co-operative accountability model. This developed model distinguishes differences in co-operative mission, as well as placing the 'economic and financial dimension' within a broader 'resources dimension' to encapsulate both financial and non-financial resources. It also takes into account co-operative structural characteristics and associated non-financial resources such as volunteer input and sweat equity. These aspects are now discussed in turn.

Differences in Co-operative Purposes: Member-oriented v Community Benefit-oriented Missions

The 'classical' co-operative model (Münkner, 2016) focuses on benefiting members through provision of goods and services. Benefits take different forms depending on the type of membership, consumer, worker, business or multi-stakeholder, and can encompass both economic and social benefits (Puusa et al., 2013). In all cases, however, the mission or purpose of the 'classical' co-operative is centred on the membership. In contrast with this, a relatively recent development has been the growth in social co-operatives with primary purposes that shift the focus from membership to include benefitting a wider community or sub-section of the public (Galera, 2017). Examples of social co-operatives include the Italian social co-operatives which emerged in the 1970s as a response to perceived public and private sector deficiencies in the provision of social services (Depedri, 2017) and have grown considerably in number so that they now constitute a substantial part of public social services provision in Italy (Pestoff, 2017). In the UK, community benefit societies which are member-based organisations but with a wider community benefit purpose, may also be considered social co-operatives. While the status of

social co-operatives as 'pure' co-operatives is contested (Münkner, 2016), the International Co-operative Alliance (ICA) recognises social co-operatives as a new form of co-operative motivated by social objectives and "working for the more general benefit of communities" (ICA, 2015).

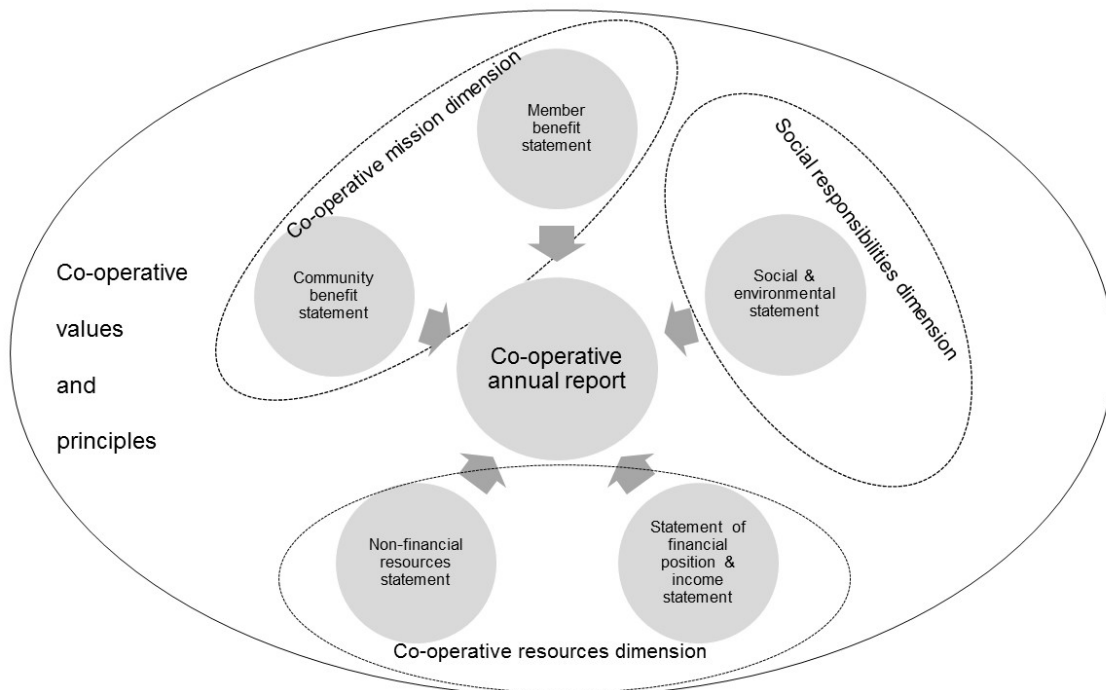
The emergence of social co-operatives with missions aimed at providing wider community benefit suggests the need for a co-operative accountability framework to consider the different constituencies that member-benefit and community-benefit co-operatives are accountable to along with their differing information needs. In the case of member-benefit co-operatives, the key constituency is the members and accountability centres on the stewardship of the co-operative by the governing body and management and provision of information on the performance of the co-operative (Centre of Excellence in Accounting and Reporting for Co-operatives [CEARC], 2008) in furtherance of its member-oriented mission. In contrast, for social co-operatives key constituencies include funders and intended beneficiaries of services as well as the members. Furthermore, for social co-operatives, there may be a loose coupling between resource providers and service users, and differing perceptions by funders, service users and members regarding what constitutes an effective social co-operative (Kanter & Summers, 1987). Such differences in constituency perspectives could give rise to conflicting information needs and would require clarification regarding who to account to, for what, and how (Brown & Moore, 2001).

The difference in primary purpose or mission and relevant key constituencies has implications for development of a co-operative accounting framework. Questions to be addressed include whether social co-operatives and member-benefit co-operatives require different co-operative accounting and reporting guidance; whether further clarification is needed regarding what constitutes a social co-operative; and what a community-benefit statement should comprise. The co-operative accountability model (see Figure 2 below) therefore distinguishes between member-benefit mission and community benefit mission, in order to recognise key differences in the nature and scope of co-operative mission.

Besides differing missions, there are also co-operative structural differences that sit outside of mission but are distinctive features of co-operatives and contribute to their organisational culture and performance. A key structural difference is member participation which can involve multiple roles. A member, for example, may be an employee or customer as well as participating in the governance and, in some cases, the operational activities of the co-operative. Additionally, in some co-operatives volunteering plays an important role. The governing body may include volunteer board members and some smaller co-operatives may rely on forms of volunteer input into day-to-day operational activities. Sweat equity, for example, is noted as a feature of smaller worker co-operatives and can be understood as a type of volunteering, where part or all of the work is unpaid in order to sustain the co-operative (Spear & Thomas, 2015).

Accounting for volunteer input has already been considered by researchers and commentators and various methods for reporting have been proposed (see for example Mook et al., 2003, 2007, 2015). It is not clear, however, if current models comprehensively address the range of types of volunteering and their differing characteristics, costs, and benefits. The social and economic benefits and costs associated with volunteer boards, for example may differ from those associated with worker co-operative sweat equity and may require differing methods for representing them in social or financial accounting and reporting. Questions for a co-operative accounting framework include what forms of co-operative volunteering need to be accounted for and how. Furthermore, recognising volunteer time and expertise as an important resource for certain types of co-operatives suggests the need to add non-financial resources information to the accountability model alongside economic and financial resources information (see Figure 2 below).

Figure 2: Accountability dimensions of co-operatives



In the co-operative accountability model above, five types of reporting statements across three accountability dimensions are identified. The co-operative mission dimension incorporates two mission-related statements: member-benefit and community benefit. A 'classical' co-operative would produce a member-benefit statement, while a social co-operative would produce a community-benefit statement and may also produce a member-benefit statement. The resources dimension incorporates two forms of resource reporting, the traditional formal financial statements and a statement of non-financial resources. Co-operatives with volunteer boards, or other forms of volunteer participation including 'sweat equity' would account for this including its relevance to sustaining the co-operative. In addition, the social responsibilities dimension may incorporate accounting for ethical and citizenship related social responsibilities of interest to a range of internal and external constituencies.

The co-operative accountability model developed here, extends Andreaus and Costa's (2014) non-profit organisation accountability model in order to differentiate two distinct co-operative mission orientations (member-benefit and community-benefit) and two co-operative resource types (financial and non-financial). Both of these additional accountability bases highlight areas that need to be considered in developing a more holistic accountability and in creating an accounting and reporting framework that embraces co-operative differences both in relation to mission, and organisational structural features. Further, the model does not ignore the co-operative identity and related values and principles. Rather the co-operative values and principles provide an underlying guiding base which informs the nature and scope of the various accountability dimensions and types of statements.

Drawing on this accountability model, the relevance of each of the five types of reporting statements included in the model can also be considered in relation to key constituencies. In particular it is useful to identify relevant primary constituencies, that is constituencies whose interactions with and interest in an organisation align closely with particular dimensions and types of information set out in the co-operative accountability model. Table one below matches up accountability information types with primary constituencies extrapolated from third sector accountability literature.

Table 1: Co-operative accountabilities and primary constituencies

Accountability dimension	Reporting	Primary constituencies
Co-operative mission-related dimension	Member-benefit statement	Members
	Community-benefit statement	Funders, members, beneficiaries
Resources-related dimension	Statement of financial position and income statement	Members
	Non-financial resources statement	Members, paid workers, volunteers
Social responsibilities-related dimension	Social and environmental statement	Various internal and external constituencies

Reporting statement types and relevant primary constituencies are now briefly discussed in turn.

Member-benefit Statement

Reporting on member benefit is, by the very nature of the content, primarily focused on meeting members' information needs regarding the co-operative's performance in meeting member needs. What is included in a member-benefit statement will depend on the nature of the social and economic relationships between members and the co-operative as well as the primary purpose of the co-operative. Worker, consumer, and business co-operatives, for example have differing relationships with their members which gives rise to differing accountabilities in regard to fulfilling mission and meeting member expectations.

Community-benefit Statement

For social co-operatives, the intended beneficiaries primarily have an interest in the co-operative's services, in terms of the quality of the services they use and the preferred outcomes of individuals (Connolly & Hyndman, 2017; Cordery & Sim, 2018; Hyndman & McConville, 2018). Accountability to the wider community of non-member beneficiaries, however, may be weak particularly where the service is free to the user and beneficiaries' transactions and relationships with a co-operative are limited to that of recipient of a service (O'Dwyer & Unerman, 2008).

Financial Statements

Accounting professions and academics have identified co-operative members as primary users of co-operative annual financial reports (Canadian Institute of Chartered Accountants [CICA], 1984; Hyndman et al., 2002; Hicks et al., 2007). However, for social co-operatives receiving funding from public bodies, trusts, or individual donors, they will also have funders as a primary user of annual financial reports (Edwards & Hulme, 2002). As such, account giving may be more externally funder driven for social co-operatives than for member-benefit co-operatives. If this is the case, it may be that social co-operative financial reporting diverges from member-benefit financial reporting to have more in common with, in a UK context, the Charities SORP. This is clearly an area for any co-operative accounting framework to consider.

Non-financial Resources Statement

The non-financial resources statement is likely to be of interest to paid workers and volunteers as well as members. There can be some overlap between these three constituencies. A member, for example may also be a paid worker and/or a volunteer, and consequently, their constituencies' interest in non-financial resource use may differ. For example, the worker or volunteer may be concerned with the level of recognition and support given to their engagement

with and participation in the co-operative whereas the member in a consumer, or business co-operative may have a differing interest in the use and benefits arising from non-financial resource management.

Social Responsibilities Statement

Accountability for social responsibilities refers to those social-related aspects not addressed in the other accountability dimensions and statements, but which represent important actions, activities and effects of a co-operative on constituencies (Andreaus & Costa, 2014). This statement would address citizenship and ethical responsibilities (Carroll, 1991, 2016) that will be of importance to various internal and external constituencies. Organisational culture could also be considered in this dimension. Organisational culture and social responsibility could be factors in worker, volunteer or member participation in the co-operative (Brown & Moore, 2001; Molyneaux, 2004). Externally, customers and funders may have an interest in working with organisations that evidence a more socially responsible business model.

Final Remarks

The above accountability model and identification of primary constituencies suggest the need for any co-operative accounting framework to consider the extent to which these constituencies share a common understanding of the organisation's purpose and economic and social responsibilities and, where views differ, whether their differing interests and expectations can be accommodated into guidance on annual co-operative reporting. The common thread throughout all five dimensions is, perhaps unsurprisingly, members as a primary constituency and user of reported information. A wider range of constituency interests and information needs must be considered, however, in deciding what should be reported in relation to community-benefit, non-financial resources, and social responsibilities.

Following on from this and in furtherance of discussion on co-operative accounting and reporting, two areas that will be considered further in additional papers are: what constitutes co-operative community-benefit in a UK setting, and accounting for volunteering and sweat equity as non-financial resources.

The Author

John Maddocks is a community accountant researching identifying and reporting on social value. He is Treasurer for the UK Society for Co-operative Studies and ex-director of the Centre of Excellence in Accounting and Reporting for Co-operatives and was a policy and technical manager (third sector and sustainability) for the Chartered Institute of Public Finance Accountants.

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lectures, libraries, educational fellowships, youth groups, weekend schools, travel opportunities, publication of periodicals and pamphlets, and musical and social events (Twigg, 1924, pp. 40-43).

From the 1880s, the Co-operative Union supported the work of societies with education programmes, preparing the syllabus, suggesting qualified and experienced tutors who could run the courses locally to societies, publication of textbooks and organisation of exam centres. The first course offered was bookkeeping – a subject of equal importance to employees and to committee members. By the 1921-2 academic year, there were 891 classes on a range of subjects from co-operative history to shop window display and involving just over 26,000 students, 5,176 of them being successful in their exam (Twigg, 1924, p. 63).

By 1919 the co-operative movement, after decades of discussion, was ready to move education to a new level, with the formation of the Co-operative College. The Co-operative Congress resolution included:

... a Co-operative College is essential to the welfare and development of the co-operative movement
... no worthier memorial of those co-operators who have served and fallen in the war could be established than an institution for the dissemination of the principles of co-operation and harmony in industrial and international relationships (Co-operative Union, 1919).

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