

## Editorial

Two themes may be said to be developed in this issue. Two of the papers explore different aspects of the issue of financial 'nous' of members and the responsibility of co-operative organisations for the education of their members and, in this context, the development of their financial awareness. The other two papers concern 'nonprofit' organisations and the so-called 'third sector'. They seek to address the definitional vagueness, which sometimes attaches to these terms, to delineate the conditions in which the different types of organisation generally included under these headings become appropriate and to identify issues for further research.

The fifth principle in the ICA's Statement of Co-operative Principles concerns the commitment of co-operatives to the education and development of their members. Rachel Evans and Nerys Broome consider the extent to which this is a core purpose of credit unions. Credit unions exist to enable their members, through mutual self-help, to strengthen their financial position. This may include enabling them to overcome financial exclusion although it should be noted that credit unions do not exist solely for the financially excluded. Financial exclusion may arise for various tangible economic reasons. However, it may also be associated with what Broome and Evans describe as a lack of financial 'nous'. The editor of this journal recalls interviewing a leading credit union activist in Northern Ireland who actually described the primary purpose of his credit union as being that of educating its members in money management. This paper recognises the importance of this function but seeks to identify the factors that have limited the ability of credit unions to perform it.

Lord, Shanahan and Robb identify another area in which those members of co-operatives who seek to play an active role in their governance may be seen to have an educational need: in their ability to read and fully understand the information contained in co-operatives' annual reports to their members. Their study parallels research into the ways in which shareholders in limited liability companies read and understood annual reports. It found both similarities and

differences in the areas of annual reports which members and shareholders considered important. Perhaps this is to be expected given the difference in the primary reason for their involvement: in one case as investors seeking a financial return and in the other to benefit from the services provided. However both types of stakeholder need to assure themselves of the financial soundness and proper conduct of their enterprise. The research involved a co-operative whose members are independent traders. Such members may be expected to have some financial 'nous', albeit with small-scale enterprises. Those members of consumer co-operatives and credit unions who play an active part in their societies may lack even this degree of financial sophistication. Co-operatives have therefore an educational obligation to equip active members with the 'nous' required to ensure that their directors are accountable.

The term 'third sector' has become a fashionable if rather ill defined one. It has sometimes been assumed that it is synonymous with 'nonprofit' or 'not for profit' organisations. If one accepts this assumption, co-operatives are excluded from the 'third sector' because they distribute a profit or surplus to their members. However, this suggests a simple dichotomy between profit seeking and nonprofit organisations. Co-operatives do not fit neatly into either category. Because they are mutual organisations, any surplus, which is not retained for the development of the organisation, is distributed to their members. However, their primary purpose is to provide goods or services to members on more advantageous terms that would otherwise be available rather than to deliver a direct return on their financial investment.

Yair Levy challenges the definitional vagueness that sometimes accompanies the current terminology and proposes a framework which, he suggests, would clarify the potential for innovative co-operative and mutual organisational solutions to social and community needs. In his paper, Vladislav Valetinov examines the distinctions between public and mutual benefit organisations within a broad definition of the nonprofit sector. He

applies a social value perspective to delineate the circumstances in which provision by public benefit nonprofit organisations becomes more relevant than provision by government or provision by 'for-profit' firms. This paper builds upon another recent contribution to this journal by this author which sought to identify, from a

social capital perspective, the conditions in which co-operative or mutual benefit organisations were favoured. (See Vol 37, No 3, 2004)

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