

# Are Co-operative Principles Reflected in Key Performance Indicators?

Daphne Rixon



# Introduction



- Purpose: investigate operationalization of 7 co-operative principles as reflected through key performance indicators (KPIs)
- Birchall (2005) predicted following 10 years there would be more operationalization of values and principles into co-operative business practices
- Birchall found that insurance and financial services co-operatives did not make significant use of the identity statement at that time
- Timely to examine impact of 2008 economic crisis on reporting for 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 embedded in organizational behavior (Passey, 2005)
- Few people have the vocabulary to describe the difference (Fairbairn, 2004)
- 7 Principles can be used as a framework for evaluation (Birchall, 2005; Cote, 2000)

# Methodology



- Operationalization of co-operative principles is investigated through a case study of three insurance co-operatives (2 in North America and 1 in Europe)
- Documentary review of the KPIs published in annual reports, MD&A, letters from Board chair and CEO and websites
- Semi-structured interviews with 22 respondents who held positions ranging from managers, directors to vice-presidents

# Findings: Discussion and Analysis



- 7 principles reported on to varying degrees but were not featured prominently in annual reports and strategic plans
- Very little evidence of linkage between KPIs and co-operative principles
- KPIs that could be correlated with principles, no specific reference to the principles
- Indirect reporting of principles

# Findings: Discussion and Analysis



- Principles reported by region
  - North America 20
  - Europe: 22
- Reported in common (NA&EU) 42
- Number unique measures (9)
- 33
- Europe: 18 quantitative & 4 narrative
- North America: 10 quantitative & 10 narrative

# Findings: Discussion and Analysis



- 10 measures (30%) – concern for community
  - 6 related to environment
  - 4 community investment, volunteerism, donations, ethics
- 6 measures (18%) – voluntary & open membership
- Remaining measures spread fairly evenly across remaining 5 principles

# Findings: Discussion and Analysis



- Financial KPIs reported are specific to the insurance industry
  - Gross written premium
  - Combined ratio, loss ratio, expense ratio
  - Claims development
  - Minimum capital test
- Strategic plans emphasized financial strength
- Reflects financial nature of insurance industry and regulatory environment

# Findings: Discussion and Analysis



- Respondents indicated 7 principles not explicitly monitored and measured, but claimed they played an important role:

“...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.” (NA1)

“they'll dictate to some degree, the areas that we're reporting on....are embedded....they sort of

permeate everything that goes on” (EU2)

“...the seven principles are not heavily preached...it's not part of our nomenclature....” (NA2)

# Findings: Discussion and Analysis



- Co-operative difference - focus on member value rather than shareholder value (NA2)
- North American respondents indicated only 10% of their business is conducted with members
- Respondents believed most customers unaware they are a co-operative
- Awareness of difference, but not operationalized in KPIs
- Principles source of guidance for corp. culture

# Conclusions



- 7 principles not prominently featured in reporting or strategic plans
- Some KPIs and narrative commentary reflect 7 principles -> indirect measures/correlation
- Reporting did not emphasize co-operative difference
- Given 2008 turmoil in financial services industry, would have expected co-ops to emphasize their difference

# Conclusions



- While not operationalized as reflected in KPIs, they are embedded in corporate culture and therefore may influence business practices
- Lack of reporting does not necessarily signal the demise of the principles or make them irrelevant, but could eventually lose their profile and awareness and subsequently fail to even influence corporate culture

# Conclusions



## Scope for future research

- Investigate reporting of principles in other co-operative industrial sectors to determine if this study's findings are unique to insurance sector
- Examine extent to which members comprise customer base for other co-operative sectors – to determine if the composition of customers as members/non-members impacts on the reporting of the principles
- Survey of co-operative members to ascertain their views on the importance of the reporting on principles



Thank you



SAINT MARY'S  
UNIVERSITY SINCE 1802

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