

An Examination of KPIs Reported by credit unions in North America by Daphne Rixon



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Agenda

- Research Project
- Methodology
- Findings: interviews
- Findings: documentary review
- Conclusions
- International Integrated Reporting Framework

Research Project

- Funded jointly by Filene Research Institute and Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC)
- Purpose
 - Identify KPIs reported by credit unions
 - Explore why and how KPIs are chosen

How was the research done?

- Case study comprised of semi-structured interviews and documentary review of annual reports, performance reports and websites of CUs
- Interviews held in person with 20 senior officials from CUs in every province during 2011-2012

Findings: Interviews

7 Principles

Strategic
Plans

Benchmarks

Regulations

Stakeholders

7 Principles of Co-operatives

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Co-operation among co-operatives
7. Concern for community

7 Principles: What Respondents Said

“..part of our corporate culture, but we don’t measure them”

“..we became more bank-like, but are now getting back to our co-operative roots”

“..we talk more about them than we did historically”

“..I don’t know the 7 principles...I looked them up a month ago...they are not top of mind”

7 Principles: What Respondents Said

“..I can't see 7 principles governing everything”

“..our market research found concept of being an owner was not important for members...they just want a financial institution to meet their needs”

“..co-operation among co-operatives falling by wayside due to increased competition among CUs”

Strategic Plans

- All participants had strategic plans and used Balanced Scorecard to report
- Some added 5th category: corporate social responsibility (CSR)
- KPIs developed to monitor/measure plan
- Developed by senior management and approved by Board
- Few solicited input from employees
- No input from members in development

Benchmarking: CUs vs. Banks

“..we compare efficiency ratio to banks because we compete against banks”

“..we are different, but we play in the same sandbox, so banks are relevant”

“..difficult to compare net income to banks... we don't have wealth management”

“..CUs don't have the same profit motivation”

“..when CUs are big, they look more like banks”

Benchmarking: Sources

Internally Generated

- Monitor Annual Reports & Websites CUs and Banks
- Hire research consultants

Externally Generated

- Centrals
- Confidential peer exchange

Benchmarking: KPIs

- Predominant focus → Financial
- Most important and most frequently monitored → profitability and efficiency ratio
- Other KPIs:
 - ROI, ROA
 - Growth in loans, deposits
 - Growth in members
 - Return to members

Regulation

- Minimal impact on externally reported KPIs and little impact on strategic plans
- Regulators concerned with capital adequacy and risk management
- Most set targets > required by regulator
- One CU – audit committee monitored regulatory metrics

Regulation: Other Issues Raised

- Creates costs for smaller CUs: “increased costs with no benefits...it is onerous and a complete waste of time”
- “..we are concerned about CUs growing through increased commercial lending”
- “..we want the regulator to watch smaller CUs to make sure they are solvent and to encourage consolidation”

Stakeholders

- Primary users: CEO, senior management and Board of Directors
- KPIs reported to employees (most CUs)
- KPIs reported to members at annual general meeting
- KPIs included in annual report, websites, newsletters

Stakeholders: Member Interest

“..average member not interested in strategic plans and KPIs”

“..members don't care if we are a CU...they just want free benefits not offered by banks”

“..our members said: stop telling me you're a co-operative, just tell me the financial benefits”

“..members interested in profit sharing and interest rates”

Findings: Documentary Review

Non-financial KPIs: Human Resources

Non-financial KPIs: Other

Financial KPIs

KPIs: Human Resources

Diversity Women

- Women in management
- Women in senior management
- Women in non-management

Diversity Minorities

- Visible minorities
- Visible minorities in non-management and management
- Employees with disabilities

Diversity Other

- Male versus female
- Age

KPIs: Human Resources

Other HR KPIs

- Employee engagement
- Employee turnover rate
- Ethical scores – employees
- Benefits and training → most widely reported

Other Non-Financial KPIs

Key Performance Indicator	Percentage Reporting
Number of members	68%
Number of branches	68%
Community donation	63%
Member loyalty scores	47%
Greenhouse gas emissions	16%
Community leadership and reputation	11%
Trust – environmental & social responsibility	11%

Financial KPIs

Key Performance Indicator	Percentage Reporting
Growth of total assets	63%
Efficiency ratio	37%
Return on assets	26%
Return on equity	21%
Dividends	21%

Linkage to 7 Principles

Principle	Correlating KPI
1. Voluntary and open membership	Number of branches, number of members
2. Democratic member control	Member loyalty
3. Member economic participation	Dividends
4. Autonomy and independence	Ethical employees, trust environmental and social responsibility
5. Education, training and information	Benefits and training expenditures
6. Cooperation among cooperatives	
7. Concern for community	Community donations, community leadership and greenhouse gases

Conclusions

- KPIs influenced by strategic plans
- Virtually no influence from 7 principles, regulators and stakeholders
- KPIs reported were statistical in nature and less outcome-oriented
- Many KPIs monitored internally only and not published
- Member perception: not interested in CUs as co-operative form of business

Conclusions

- Wide array of views re appropriate benchmarks (banks vs. CUs) and size of referent
- CUs best kept secret – “need to create a national vision and national brand – we need to emphasize co-operative principles in marketing”
- If CUs not using the 7 principles to differentiate from banks, how are they demonstrating the co-operative difference?

International Integrated Reporting Framework

- Global initiative to develop new way of reporting to incorporate non-financial and financial information
- It is highly critical of the existing reporting frameworks
- Pilot project – Vancity participating
- Organisations such as IASB, FASB and GRI are involved – it may succeed!

International Integrated Reporting Framework

Guiding Principles

- Strategic focus
- Connectivity of information
- Future oriented
- Responsiveness and stakeholder inclusiveness
- Conciseness, reliability and materiality

Content Elements

- Organizational overview
- Operating context, risks and opportunities
- Strategic objectives and strategies to achieve them
- Governance and remuneration
- Performance
- Future outlook

What is CEARC?



- Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC) was formed in 2007 and is located in Sobey School of Business
- Formed subsequent to 2006 International Symposium on Accounting and Reporting for Cooperatives with participants from five countries.

Funding/Support



- Canadian Institute of Chartered Accountants (CICA) invited a proposal for the establishment of a centre of excellence to develop reporting for co-operatives
- Subsequently a number of co-operatives from Canada and the United Kingdom also provided support for the Centre.
- We're always looking for new sources of funding

Mission and Mandate



- **Mission:** a focal point for policy development, academic and applied research, and critical reflection on industry practices in the area of accounting for cooperatives and credit unions.
- **Mandate:** conduct research into issues about how accounting and reporting systems should best be designed to fit the unique nature of co-operative businesses around the world.

Research Focus



- Accounting principles
- Application of accounting standards
- Accounting for the co-operative purpose and multiple bottom lines
- Integration of financial and non-financial reporting
- Content of annual reports
- Accounting for co-op members' funds
- Financial statements for co-ops
- The characteristics and behavior of capital in co-operative

Governance



- The Centre's work is overseen by a Board of Directors, with an Executive Director managing the day to day work
- Board is comprised of Tom Webb, Chairperson along with academic researchers, a senior representative from a credit union and myself as an ex-officio member (Executive Director)
- Research Advisory Committee – evaluate research proposals and recommend funding

What have we done?



- Published papers and reports on various aspects of accounting and reporting
- Attended over 40 conferences and made presentations
- Developed International Statements of Recommended Practice
- Journal of Cooperative Accounting and Reporting – 1st issue just released!
- Call for proposals for research grants – deadline December 1st!

international Statements of Recommended Practice (iSORP) for Accounting & Reporting by Co-operatives



1. Objectives, scope and purpose
2. Reporting co-operative members' funds
3. Reporting payments to members
4. Reporting on membership: joining, participating in and leaving the co-operative
5. Environmental sustainability reporting guidelines
6. Co-operative non-financial reporting



Thank you



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