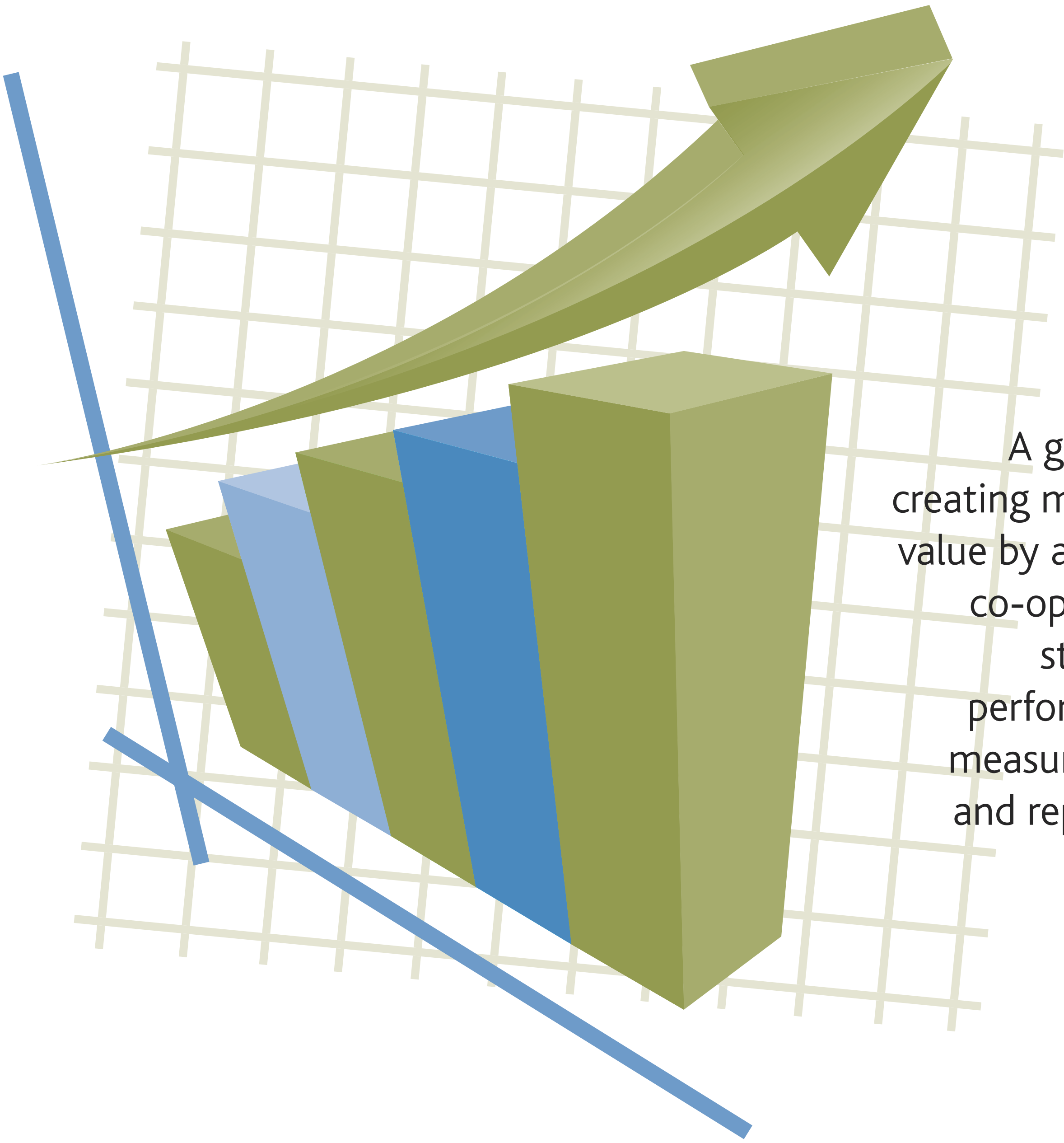
CO-OPERATIVES UK

Simply
PERFORMANCE



A guide to creating member value by aligning co-operative strategy, performance measurement and reporting

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1. Introduction

Co-operatives UK works to promote, develop and unite co-operative enterprises. It has a unique role as a trade association for co-operatives and its campaigns for co-operation, such as Co-operatives Fortnight, bring together all those with a passion and interest in co-operative action.

What this guide aims to achieve

This guide has been developed for co-operatives wishing to measure and report their performance as a clear statement of member value creation, including their financial, non-financial and sustainability impacts. This guide forms part of Co-operatives UK's established '**Simply**' series.

Simply series is a suite of resources including:

- *Simply Start Up*
- *Simply Legal*
- *Simply Governance*
- *Simply Buyout*
- *Simply Finance*

Measuring and reporting performance on value creation for members is not a new concept for many co-operative enterprises. These co-operatives understand the benefit of being better able to reflect and influence member opinions in their decisions and actions, but also inform their members about their collective impact through this process. The Co-operative Group in the UK and Van City Credit Union in Canada have been recognised through numerous awards as global pioneers in 'triple bottom line' reporting – a statement of an enterprise's financial/economic, social and environmental performance. For some other co-operative enterprises however, particularly new start-ups or smaller organisations, the measurement of their non-financial or sustainability performance may be a new concept compared to their financial performance.

There are many examples of good practice in specific aspects of performance measurement tools, ranging from Greenwich Leisure Limited's development of a form of balanced scorecard through to Lincolnshire Co-operative's application of a local multiplier tool (LM3) to gauge their local economic impact of the co-operative pound.

The production of this guide follows a recommendation by the Co-operatives UK Co-operative Performance Committee (CPC). The CPC brings together accountants and other professionals from all parts of the co-operative movement to provide recommendations and guidance to its members on best practice for accounting standards including financial, non-financial and sustainability performance. The timing of this guide is critical as the 2012 'UN International Year of Co-operatives' provided a huge platform to help make the transition to a co-operative economy. According to the Co-operatives UK Co-operative Economy 2013, more than 6,169 co-operative enterprises in the UK already contribute £36.7 billion to the UK economy and operate across all business sectors.

Mainstreaming the co-operative way of enterprise requires building the sector's capacity to measure its performance to drive improvement and allow benchmarking so that the co-operative sector can further demonstrate its enormous value to the nation.

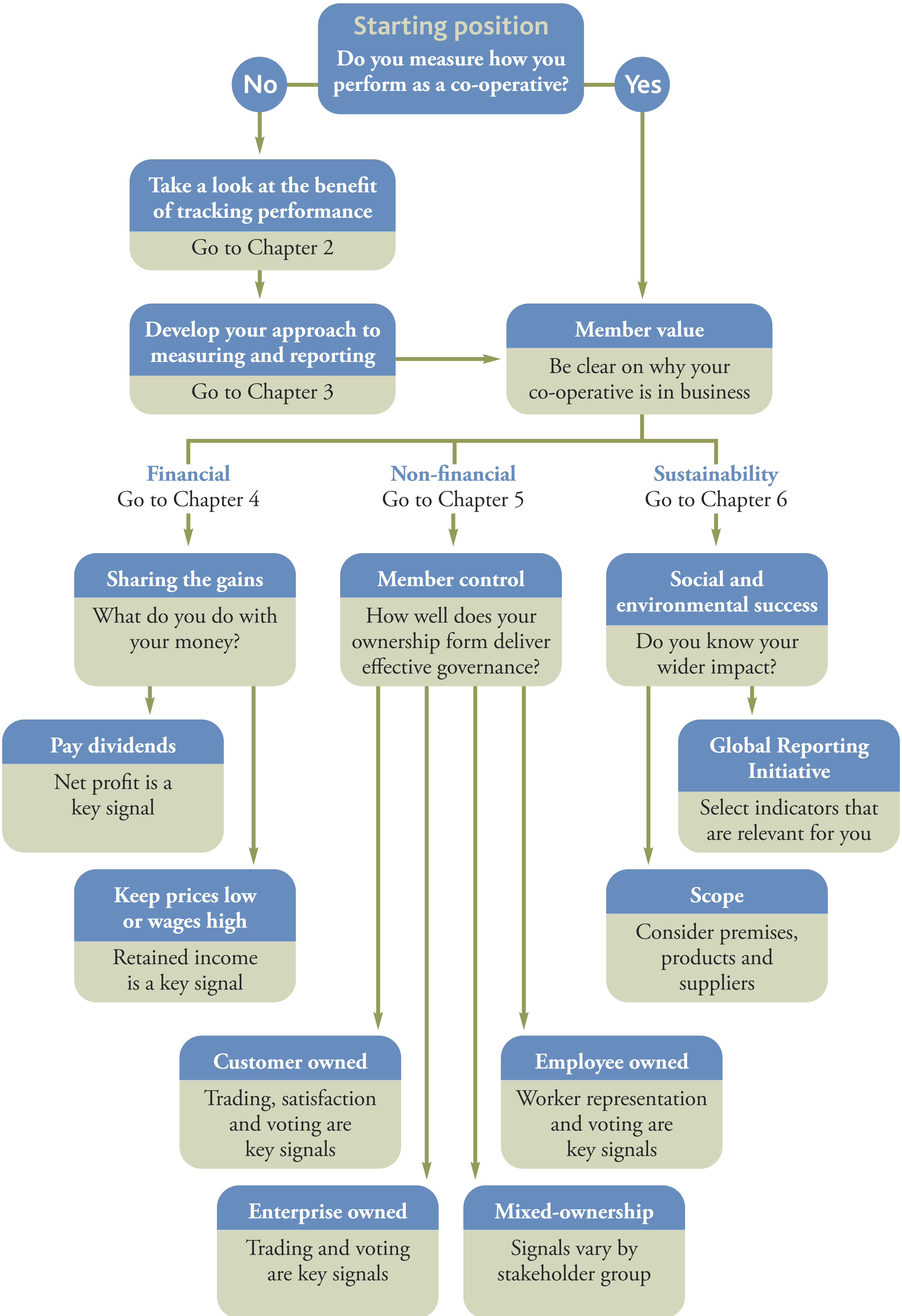
Who is this guide for?

The target audiences for this guide are those responsible for measuring performance in co-operative businesses, and co-operative business advisors. The intention is that the guide will be useful for a variety of functions involved in creating value such as member relations, strategy, governance, resource management, auditing and accounting, and public affairs.

How to use this guide

The guide is split up into different sections relating to the different stages of the performance measurement journey from: making the business case to take action (Chapter 2); approaches to aligning strategy, performance measurement and reporting (Chapter 3); and a brief overview of indicators to measure financial, non-financial and sustainability performance (Chapter 4, 5 and 6). The learning from each of these is then brought together to propose the next steps to planning and taking action (Chapter 7). The Appendix provides a summary of sources of additional tools and information. Figure 1 sets out your route through this journey according to your particular context.

Figure 1: A decision-making path for measuring performance on member value creation



But what does Co-operatives UK mean when it refers to 'financial', 'non-financial', and 'sustainability' impacts? Essentially this means the different ways that a co-operative creates member value in terms of:

- Sharing profits (financial) e.g. distributing dividends or retained income to keep prices low
- Member ownership and control (non-financial) e.g. number of members and customer satisfaction
- Wider social and environmental successes (sustainability) e.g. staff engagement, supplier care, community development or reducing consumption of natural resources.

Chapters 4, 5 and 6 provide further descriptions of financial, non-financial and sustainability performance measures.

Critically, each of the sections share and draw upon real world examples of co-operative enterprises measuring their performance – this includes primary case studies derived from interviews with Co-operatives UK members operating with a variety of models and across sectors (as detailed in Table 1 below).

The case studies are complemented by insights from other instances of good practice from the Lincolnshire Co-operative, Midcounties Co-operative, The Co-operative Group and The Wine Society.

In each section the guide also provides instruction and signposting for the user to relevant tools and learning resources, such as the Global Reporting Initiative (GRI), Local Multiplier (LM3) and Social Return on Investment (SROI) (as detailed in Box 5 in Chapter 6).

Just as importantly, in compiling this guide and proposing indicators to measure and compare performance, Co-operatives UK has worked closely with the CPC and the Practitioners' Forum to understand what works well and less well. This included a desktop analysis of studies examining the merits of various approaches to measuring co-operative process, consulting members on the original terms of reference for this project and sharing initial drafts with them, and convening a review group of external experts to feed back on the later drafts. This approach ensures this guide is applicable across all forms of ownership and sectors, practical, relevant and evidence based.

Table 1: Member case studies from across the co-operative movement

Member	Ownership	Sector/Sub-division	Page
Anglia Farmers	Enterprise	Agriculture	22
Greenwich Leisure Limited	Multi-stakeholder	Leisure	9
Midlands Co-operative	Consumer	Retail	29
Suma Wholefoods	Worker	Food	18

2. The benefits of measuring and reporting co-operative performance

The story behind the call for enterprises to measure and report

Before even thinking about what and how to measure your co-operative performance it is vital to first understand why you should commit to taking action.

These are tough times, in terms of society, the economy and the environment. With business playing a more influential role in local, national and international life, it is not surprising that there is an interest in holding enterprises to account for their overall impact. This started as a challenge to businesses to come clean, from investment funds in the 1970s in relation to apartheid through to oil giants and clothing firms. It has now been taken up more widely, as businesses are asked about the full costs and true value of their 'doing business' and to measure, report and share their progress. Over recent decades this has led to new mandatory requirements in several countries on greater corporate disclosure to rebuild trust, ranging from stock exchange listing obligations in South Africa through to annual reporting obligations for large companies in the UK.

By 2012, according to CorporateRegister.com, over 5,500 enterprises around the world report on their triple bottom line performance.

Co-operatives start from a good place, because they were set up to meet the needs of their members and operate on a democratic basis that gives a voice to those involved with the business, rather than external investors. Why do we exist? How do we know whether we are achieving that? For co-operatives, this is about creating value for members by working together in a fair and effective way. However that does not mean that co-operatives do not have the same responsibility to consider wider issues, such as environmental and community factors, in line with international co-operative values and principles.

Measuring and reporting performance is not first and foremost about compliance though; it is about business improvement. For many enterprises, the business case for measuring and reporting on performance is linked to driving value creation. That is why many enterprises go beyond the mandatory minimum reporting. Co-operatives are no different in this regard. The best co-operatives are clear about member value creation as it demonstrates how co-operative principles are running throughout the business (rather than tokenism or 'green washing') – measuring performance follows from this.

What reporting and measuring performance can offer your enterprise

There are a variety of reasons for your co-operative to measure and report on its performance, as detailed in Figure 2 and detailed in Table 2. Ultimately, this added value can be summed up as positively influencing both *internal* and *external* opinions, decision-making and action – of your members, management and staff, customers, local communities and other stakeholders – which are invaluable to securing the standing and continued viability of your co-operative.

The co-operative movement has a proud history as a champion for a fair deal for its members, surrounding communities and international suppliers. So it makes perfect sense that robustly and openly reviewing your progress and sharing this with your stakeholders should be a core activity and one that is clearly entirely aligned to the co-operative mission. As one of the primary objectives of your co-operative is to satisfy member needs, regular interaction with members is crucial – measuring and reporting on performance can make a massive difference to this. It gives members reliable information and, crucially, the trust, accountability and ownership they need to be fully engaged with and in control of the co-operative.

Figure 2: Potential benefits for measuring and reporting co-operative performance

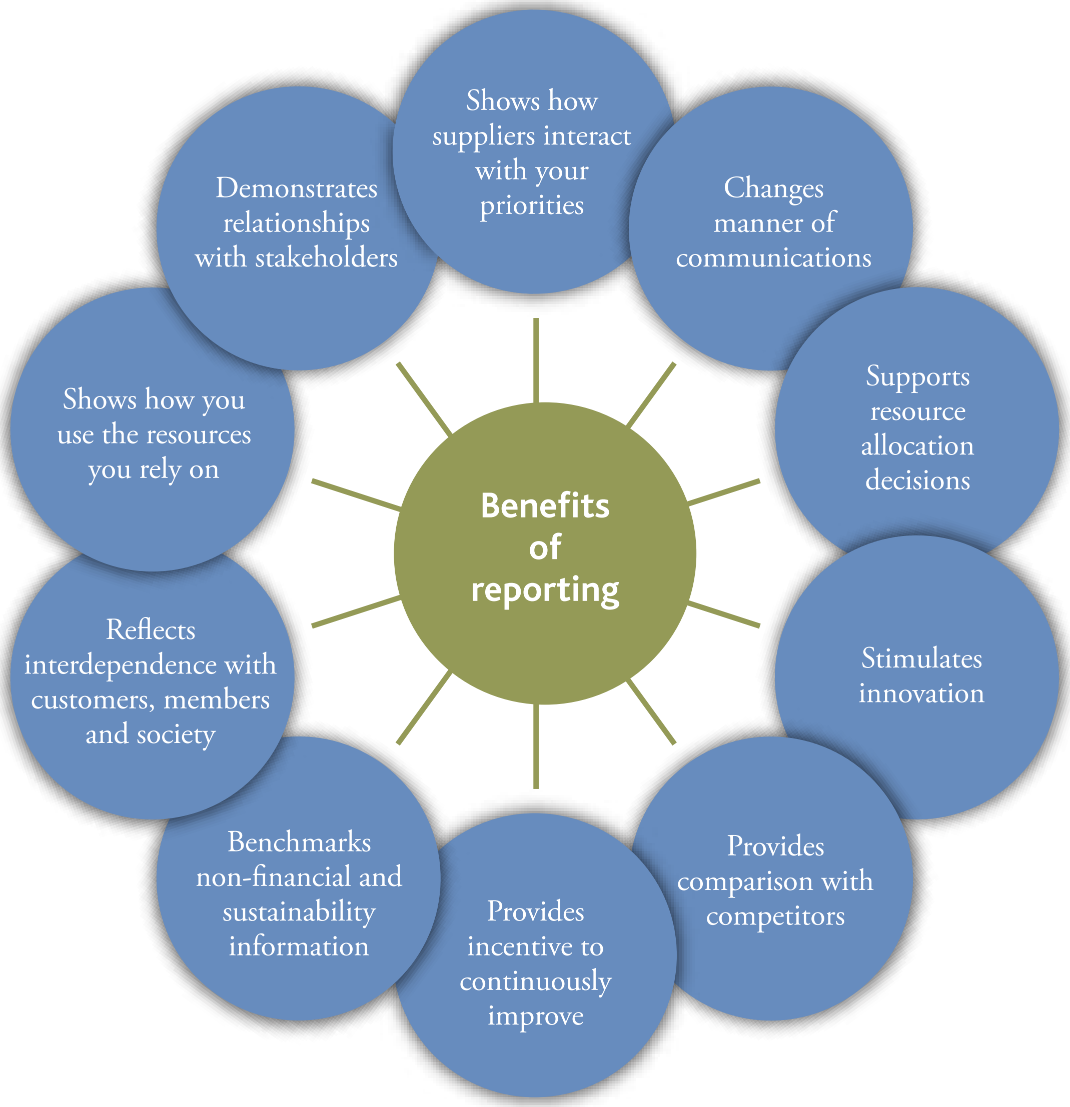


Table 2: Examples of co-operatives and others benefiting from performance measurement

Type of benefit	Enterprise example
Changes the *manner* in which you communicate (i.e. it demonstrates that you are doing more than just meeting compliance objectives, by showing the positive impact you have beyond pure financial returns).	Measuring and reporting has enabled Co-operative Food (part of The Co-operative Group) to show that the vast majority of its customers believe that its ethical policy has made the business more appealing (88%).
Provides the information to support resource allocation decisions that are consistent with long term economic viability.	Greenwich Leisure Limited's development of a triple bottom line form of balanced scorecard that is used throughout its internal and external performance management.
Highlights opportunities for improvement and helps to stimulate innovation.	By seeing the interconnected nature of their activities, McVitie's (part of United Biscuits) reformulated their biscuits, resulting in a significant reduction in salt and saturated fat (as well as 40% less palm oil). This was accompanied by a 9% increase in sales of HobNob and Digestive lines.
Compares your performance to competitors within the same sector (sets out a challenge to rivals); as well as raising the bar amongst other co-operatives.	Through measuring and reporting, Adnams were able to show their environmental impact was under half of that of their competitors – using only 3.2 pints of water to make their beer in comparison to the industry average of 8 pints of water.
Offers members working within the co-operative a measure of performance (and thus desire to continuously improve).	Midcounties Co-operative was able to demonstrate a massive fall in the turnover of colleagues (down from 31% to just 3.4%) through their participation in an organisation-led community volunteering project.
Benchmarks non-financial and sustainability performance as well as financial results, so you can see the impact of your hard work. Also helps to keep members informed about this crucial element of your impact.	'Grow with Esh' is an Esh Group initiative aimed at helping young people to develop horticultural projects. By measuring the benefits of this activity, the group were able to see that this had delivered them over £30,000 worth of positive press coverage.
Reflects interdependencies between the success of the co-operative and the value it creates for members, customers and society more broadly.	Lincolnshire Co-operative apply a local multiplier tool (LM3) to gauge the local economic impact of its co-operative pound.
Presents the use of, and effect on, the resources which the co-operative is dependent upon.	Adnams were able to show their investment in a new eco-efficient distribution centre reduced energy use (58% less gas and 67% less electricity per square metre compared to the old warehouse) and improved environmental impact. Energy efficiencies saved Adnams £50,000 per year.

Type of benefit	Enterprise example
Demonstrates the relationships and human capital on which the co-operative depends (namely, the relationships with its members, community and other stakeholders).	Through measuring the impact of their Sustainability Framework and Ethical Model Factories, Marks and Spencer (by working in partnership with the factories to improve process efficiency as a means to increase wages, reduce working hours and protect the quality of products) were able to see that staff turnover reduced from 10% to 2.5% and absenteeism reduced from 10% to 1.5%.
Supports supplier engagement by communicating and collating interest in how suppliers interact with the priorities you identify (e.g. re-investment in the local economy).	Pachacuti's fair trade panama hats are produced by women's co-operatives in the Andes mountains of Ecuador. The company was able to demonstrate improvements in relationships with suppliers, increased knowledge of their entire supply chain and production process through the measuring and reporting process. It resulted in a 45% reduction in quality problems.

The learning from Greenwich Leisure Limited is explored in more detail in the following case study.

Case study Greenwich Leisure Limited

Legal form:
Community benefit society and exempt charity

Organisational type:
Mixed ownership co-operative

Website: www.gll.org

Established in 1993, Greenwich Leisure Limited (GLL) describes itself as a social enterprise whose overarching aim is to deliver sustainable and affordable provision of facilities and services for public benefit for recreational, sporting and other leisure time occupation, in the interests of social welfare, healthy living and education. By 2011 GLL had a turnover of £109 million, employed more than 6,000 staff and managed more than 110 public leisure centres – attracting 35 million visits from users – in partnership with 30 local councils and other organisations.

GLL is governed by a board of trustees which includes representation from a number of stakeholders including customers, local authority members, skilled professional individuals, and most importantly the workforce. All eligible staff in GLL are encouraged to join the Society as voting members and currently 70% of staff have opted to do so. This leads to a high level of empowerment, commitment and motivation resulting in an improved quality of service to the community.

What are the Key Performance Indicators (KPIs) you use to measure your organisation's performance and how is this integrated within the business?

The range of KPIs that reflect our social difference are made up of both marketplace oriented and internally focused ones. In terms of market performance, our clients are mainly local authorities who require us to report to them both on financial results for example sales turnover and cost to income ratio, and service delivery results including social impact for example provision of concession fares, serving the full spectrum of the community (i.e. ethnic minorities, women and girls, the elderly and disabled), offering local employment and training programmes. With regards to internal performance, we benchmark quality against other services, and this includes our environmental impact for example electricity and gas consumption and waste minimisation.

These KPIs reflect the four pillars that support and drive our overarching aim to provide:

- Service excellence
- Strong business
- Motivated, engaged and well trained staff
- Social impact.

We have mainstreamed these KPIs within our business by using a balanced scorecard to track progress and ensure our charitable objectives are continuously met. This is supported by a single and central reporting system that acts as an administrative database for our risk register, management accounts and audited annual financial accounts. In addition to a Finance and Administration department we have an established Energy and Environment department and a Skills and Development department to ensure operational implementation of these plans.

How have you determined the priority/ material issues to measure?

We set a 5-year corporate plan based on the four pillars that drive our overarching aim. From this flows our annual plans. Critical to developing both is engagement with our key stakeholders. Most critically, this involves listening to GLL's Worker Board to understand what staff priorities are and Board Member breakfast roadshows to glean new ideas from staff and secure ownership for future direction. We then balance and 'marry this up' with what our client local authorities are saying is most important to them. These priorities then feed into our balanced scorecard.

How are member value and other stakeholder benefits being enhanced through measuring performance?

We understand that if we do not measure performance then we cannot demonstrate value to our stakeholders – this does not make it easy to gauge however! Motivating, engaging and training staff is one area where it is clear that measuring performance is tremendously useful for us. Through our attainment of Investors in People status and biennial staff surveys we know that staff who are aware of our social enterprise objectives also value being part of the Society. This translates into performance: we have low sickness-absence and staff turnover against the industry norm and our track record shows that when we have taken over a partner's leisure facility staff productivity increases. The value for staff is not necessarily driven by money however – yes, we offer benefits for staff who opt-in to the Society – but more important to our workforce members is their ability to govern the business.

How are you benchmarking performance and communicating performance statements to your stakeholders?

External benchmarking is not always straightforward as we trade in a competitive industry with commercial sensitivities. So we utilise a national benchmark scheme for sports and leisure produced by Sport England and Sheffield Hallam University. Issue-specific standards or labels are also valuable here – the Social Enterprise Mark (for our social impact), the Carbon Trust Standard (for the energy efficiency of our estates) and ISO 14001 (for the quality of our wider environmental management systems). These inform management decision making and position the GLL brand as the 'fairtrade' leisure and sports facility provider in the country. We also attempt to track the effectiveness of the communication of our performance statements, as challenging as this is to do. This ranges from regular staff surveys and an annual communications day (e.g. to determine if staff read newsletters) through to Google analytics on website traffic and marketing campaign evaluations to determine how this translates into product sales.

Extra value of integrated reporting: handling trade-offs and synergies

The past half decade has seen the emergence of, and interest in, so-called ‘integrated reporting’, on the basis that this provides new and additional benefits to performance measurement. Integrated reporting brings together material information about an enterprise’s financial, non-financial and sustainability progress and impacts in *one* place – with the goal of providing a clear and concise representation (and, crucially, a more simplified account) of the enterprise’s entire performance.

88% of organisations which are already undertaking or moving towards integrated reporting stated that it leads to improvements in better decision making (BlackSun, 2012).

The reason for this is twofold – firstly, reports were becoming longer and longer which made it cumbersome for report users; and secondly, as reporting had evolved in separate, disconnected strands, critical interdependencies (i.e. synergies or trade-offs) were not being made clear through the production of separate financial, non-financial and sustainability reports.

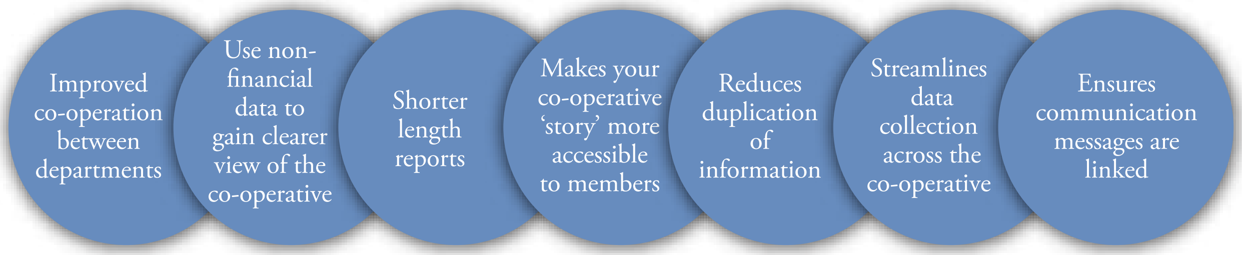
Led by new multi-stakeholder coalitions such as the International Integrated Reporting Council (IIRC), the move towards an integrated report being an enterprise’s primary reporting vehicle has been widely welcomed. For example, 84% of investors and analysts state that it is either very important or important for companies to display linkages between different aspects of performance (GRI and A4S, 2012). The extra value of an integrated approach to reporting for co-operatives is detailed in the Figure 3 below.

“In the past, we focused on economic factors for the Annual Report. Since deciding to do integrated reporting, we have started to collect more information and to change the way we collect it, particularly how the sustainability reporting process can be more ‘integrated’ with that of the annual reporting process. The assurance process has helped to increase awareness of how we need to continue to manage our non-financial data well into the future and how it may evolve over time. Integrated Reporting has also spurred us to think more about how to communicate the connections between our business strategy, processes and performance, as well as how to reflect our overall strategic objectives in a more holistic fashion.”

Clp Holdings (as quoted in *BlackSun*, 2012)

Given this, in formulating your business case for measuring and reporting on co-operative performance, it is important to consider the extra value that integrated reporting might bring. The beauty of the co-operative principles is that, for instance, they allow an enterprise to deal with any trade-offs in a *democratic* way (for example a credit union deciding how to share profits in terms of favouring both savers and borrowers). Doing so can enable the articulation of strategy and show how the co operative difference is creating value over time.

Figure 3: The added value of integrated reporting



3. How to approach the alignment of strategy, measurement and reporting

Measurement and reporting as a management process

Once you have made the business case to measure and report on your co-operative performance it is essential to establish a clear and effective management process to take action. Figure 4 sets out a five-step process for doing this. As you can see this is not a linear model, but rather, a cycle of continuous learning and quality improvement.

Figure 4: Step process for co-operative measurement and reporting

(Source: author; Credit: GRI and IFC, 2010)

When measuring and reporting your co-operative performance it is crucial to remember that your information is not just intended for one homogeneous audience – the benefits to different audiences vary. The types of information which will be of use to members (e.g. proportion retained income distributed to co-operative members) may be different to that of suppliers (e.g. targets to reduce emissions or waste through procurement), for instance. However, all may be interested in a spectrum of information that spans financial, non-financial and sustainability performance. Furthermore, different stakeholder groups may be better engaged by a different mix of communication pathways when it comes to reporting performance (e.g. annual report, website, member roadshows, customer newsletters etc), which is why engagement with your stakeholders during the whole process needs to include understanding the impact of reporting itself, as well as what impacts you choose to report on (CSR Europe & AccountAbility, 2002).

Paramount to co-operative performance measurement is understanding how the impact of your actions relate to the Co-operative Values and Principles (as detailed in Box 1).

Box 1: Co-operative values and principles

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

The co-operative principles are guidelines by which co-operatives put their values into practice.

1. Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5. Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

6. Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

One generic approach to measurement is to test the enterprise on its performance against each of the seven principles. In practice, this may not always be straightforward to do, as there are many different dimensions to each of these principles. Examples of where the principles have been used as a checklist include, in the UK, the Co-operatives UK Worker Co-operative Code of Governance and a Co-operative Identity Audit developed by the Co-operative College for schools. In Canada, the principles have been used for the development of an exhaustive and complex questionnaire driven assessment tool, the Co-op Index. The benefit of having the co-operative values and principles agreed by the International Co-operative Alliance is that it provides a framework for understanding co-operative identity. It does not solve the question of measurement and reporting, but can be a useful prompt for what matters as a co-operative.

Ultimately, it is about devising a management process to measure and report co-operative performance that is effective given your particular context. What is appropriate for one co-operative enterprise may not be useful for another. CDS Co-operatives is a good example of how to build and operate a management process that works well for management and stakeholders alike in the housing sector.

Box 2: Operationalising the CDS Co-operatives vision

CDS Co-operatives' vision is to provide high quality, efficient and financially viable services that enable and support resident control, by putting residents at the heart of its business. This includes the ambition to make a significant contribution to solving the housing needs of the nation by developing housing co-operatives and other forms of mutual tenure.

The enterprise's new Corporate Plan (CDS Co-operatives, 2012) sets out how it will operationalise its key objectives for 2012/13 – 2015/16, which are to:

- Provide great services
- Run a great organisation in terms of viability and value for money
- Be a great co-operative organisation
- Have a great service offer for potential clients
- Have a great board and staff team
- Contribute to a great environment.

Their Corporate Plan is to ensure that CDS Co-operatives refreshes its operational systems in order to better position itself to secure new business opportunities and growth. This is based on the understanding that CDS Co-operative's people are integral to the successful delivery of this strategy. For CDS Co-operatives to become more efficient and effective it is changing the way it works, including evolving information systems and infrastructure to develop flexible, mobile, scalable technology solutions and ultimately more joined-up information management.

One culture for CDS Co-operatives is considered vital to help it to deliver this strategy. In consultation with staff and its client co-operatives it has identified the six pillars which support its endeavours to achieve excellence in all it strives to achieve. These six pillars are:

1. Personal commitment to quality and excellence of service
2. Motivated, well trained and committed staff
3. A commitment to developing peoples' skills
4. Clear strategic goals and objectives
5. Policies and procedures to enable us to do things right first time
6. Striving for continuous improvement.

Based on the recommendations arising from its internal audit programme, CDS Co-operatives conducts regular service reviews in which it assesses how to improve policy and procedures and looks at ways to achieve better performance. The Resident Services Sub-committee initiates and scrutinises proposals for improvements. CDS Co-operatives regularly tests resident satisfaction using a model satisfaction survey and mystery shopping and also asks its key clients – co-operative management committees – what they think about the standard and format of its services. In order to establish how CDS Co-operatives compare in terms of standards, costs and effectiveness with other registered providers, it regularly benchmarks its performance, such as by using HouseMark services.

Given the aim of this guide, it is particularly important that determining material issues – i.e. what your priorities are and selecting appropriate indicators are approached in a thorough manner for your co-operative. After all, if you are prioritising the wrong issue or are selecting unhelpful indicators then your approach to performance measurement will be less effective or fail in driving internal and external decision making. These two steps are explored in more detail below.

Determining what your material issues are

Whatever co-operative issue is being measured needs to be material to your enterprise's local context i.e. sharing profits, member control, wider social and environmental success. That is, the choice of aspects and indicators are strategically aligned to stakeholder priorities (e.g. financial stability, member happiness, protecting the environment) and are sensitive to your enterprise's ability to respond to a concern given its unique circumstances (e.g. local geographical, demographic, cultural and economic characteristics; as well as data availability, sector standards or benchmarks and statutory duties, risk profile, available in-house resources). Essentially, a good materiality-determination process is one that allows you to filter and funnel a short list of the top *priority* issues from a long list of all possible *important* issues.

'Materiality determination' is a process or test by which an enterprise can begin to account for its impact on stakeholders through the identification of key issues that are relevant to:

- *Direct short-term financial performance*
- *Ability to deliver on its strategy and policies*
- *Best practice norms exhibited by peers*
- *Stakeholder behaviour and concerns*
- *Societal norms, particularly where there is a link to possible future regulation (AccountAbility, 2006).*

One of the key reasons that The Co-operative Group has been at the vanguard of performance measurement and reporting is that it devised and honed an innovative and highly effective approach to materiality determination (detailed in Box 3).

Box 3: Criteria for determining materiality at The Co-operative Group

Member views and democratic participation
- Ethical Plan
- Issues raised at AGM/half yearly meetings
- Issues raised via regional boards and area committees
- Issues raised via elected committees (e.g. Values and Principles Committee)
- Membership engagement strategy.

Other stakeholder views
- Customer participation in The Co-operative Bank Ethical Policy review
- Employee surveys
- Customer Satisfaction Trackers
- Food customer panels
- Customer Chip & Pin Insight surveys.

Business strategy
- Ethical Plan
- Key Performance Indicators (Annual Report and Accounts)
- Direct financial impacts as referenced through the Annual Report
- Sustainable Development Policy
- Business-specific strategies
- Issue-specific policies and codes referenced throughout the Annual Report.

Co-operative approach to business
- Co-operative values
- Co-operative principles

External reporting standards and benchmarks
- Global Reporting Initiative (GRI)
- Co-operatives UK social reporting indicators
- Social reporting and performance benchmarks
- Issue-specific benchmarks as referenced throughout the Annual Report.

Societal norms and emerging issues
- Emerging legislation/regulation/voluntary compliance relevant to co-operative, social, environmental or ethical matters
- Research (e.g. The Co-operative Ethical Consumer Report).

This materiality determination process allows The Co-operative Group to be inclusive of and respond to the six stakeholder groups on which its business is dependent – members, customers, employees, the Co-operative movement, suppliers, and wider society (The Co-operative Group, 2012).

Selecting appropriate indicators

Indicators are succinct measures used to drive improvements and help co-operative enterprises focus their people and resources on what is most important to them. Indicators communicate priorities and provide a window on performance, ethos and ambition; all important principles for emphasising the co-operative difference too. Overall, the indicators chosen should reflect and support the various strategies for all aspects of an enterprise, including financial health, market competitiveness, member and customer satisfaction, standards compliance, staff well-being and productivity, as well as other key stakeholder requirements and expectations.

The best indicators are those that are connected to **SMART** targets – ensuring that they are material, better governed and more able to positively influence decision making. SMART means that the chosen measure has a **Specific** purpose for the co-operative enterprise; it is **Measurable** to really get a value of the indicator; the defined norms have to be **Achievable**; the improvement of an indicator has to be **Relevant** to the success of the enterprise; and finally it must be **Time** phased so the value or outcomes are shown for a predefined and relevant period.

Appreciating the difference between a SMART and a poor choice of measurement means also clearly distinguishing between inputs, outputs and outcomes.

By applying SMART principles to co-operative indicators a long-term reporting structure that is resilient and flexible can be developed. To illustrate this point, Figure 5 provides a sample of possible SMART indicators – financial, non-financial and sustainability – to support integrated reporting in a co-operative enterprise (more detailed proposals and a supporting rationale are set out in Chapters 4, 5 and 6).

Once more, the great advantage of the co-operative principles is that they allow your enterprise to highlight conflicts through integrated performance measurement and negotiate any trade-offs in a democratic way – for example, is a focus on growing profits at odds with a desire to minimise emissions and waste, or is there a happy medium whereby a responsible way of doing business allows decoupling of growth from the use of natural resources?

The balanced scorecard is a strategy performance management tool – a structured report supported by design methods and automation tools – that can be used by managers to keep track of the execution of activities within their control. The scorecard monitors the consequences of actions from four perspectives: financial, customer, internal business processes, and learning and growth.

Communication of performance against SMART objectives is key to delivering change. How an indicator is reported is very important in capturing the attention and commitment from decision makers. If an indicator needs a lot of explaining then it is likely that it will not work effectively to communicate a key message or priority. Therefore, it is always essential that indicators are measured and reported in a way so that it means something important to the relevant audience. An example of good practice here is Midcounties Co-operative which, similarly to Greenwich Leisure Limited, has developed a form of a balanced scorecard which is used throughout its internal and external performance management. This allows the senior management and board of Midcounties Co-operative to clearly see how key performance indicators relate to each other and are systematically driving value creation for the business.

The first three chapters of this guide have set out a management process for measuring and reporting your co-operative performance, the next three chapters provide a brief overview of key financial, non-financial and sustainability measures to indicate performance in terms of member value. From this, a detailed overview of potential co-operative indicators will be offered for each, these cover commonly used indicators (some will be more relevant to certain co-operatives than others). These are then refined down into a shorter list of indicators which are applicable to all co-operative contexts – ownership, sector, size and available resources, history and years of operation etc – and provide a useful measure to allow benchmarking and comparison across the entire UK co-operative economy. In recommending this refined list, it is appreciated that, rightly, additional indicators will be used by co-operative enterprises where they feel are relevant to their circumstances.

4. Financial indicators

The spectrum of financial indicators you could use

Co-operatives UK, in collaboration with the CPC, has developed the 'Performance Monitor' framework, a tool which helps its members to gauge their performance over time. The tool is based on an enterprise's like-for-like results, external peer and national benchmarks, as well as compliance with CPC recommended accounting and governance standards (as detailed in Table 3). Financial indicators can relate to profitability, financial stability and growth.

Table 3: Performance Monitor financial indicators

Financial indicator	Description
Return on capital employed (ROCE) – including investment property (%) ROCE – excluding investment property (%)	ROCE is used to prove the value an enterprise gains from its assets and liabilities.
Like-for-like value turnover change (%)	Comparing last year's turnover to this year's turnover derived from activities that were in effect from last year as well (i.e. it would exclude new mergers and acquisitions).
Annual turnover (%)	The change in annual sales volume of an enterprise net of all discounts and sales taxes.
Net profit of member funds (%)	A measure of the profitability of the enterprise after accounting for all costs.
Trade profit after depreciation of sales (%)	A measure of how much, out of every £, of sales an enterprise actually keeps in earnings (after accounting for depreciation of stock, for example the reduction in the value of goods held in a warehouse for some time).
Net debt (%)	A metric showing an enterprise's overall debt situation by netting the value of an enterprise's liabilities and debts with its cash and other similar liquid assets.
Gearing (%)	A financial ratio that compares some form of owner's equity (or capital) to borrowed funds. Gearing is a measure of financial leverage, demonstrating the degree to which an enterprise's activities are funded by owner's funds versus creditor's funds.
Capital expenditure in comparison to net cashflow (%)	A ratio that measures an enterprise's ability to acquire long-term assets using free cash flow (if an enterprise has the financial ability to invest in itself through capital expenditures, then it is thought that the enterprise will grow).
Net profit distributions to members (%)	A measure of the amount of profit (after accounting for all costs) shared by the enterprise amongst its members.

Suma is another good example of a co-operative enterprise that applies some of these financial indicators in the food sector to monitor and demonstrate member value.

Case study Suma Wholefoods

Legal form:
Co-operative society

Organisational type:
Worker co-operative

Website: www.suma.coop

Suma was started in 1977 as a wholefood wholesaling co-operative to supply wholefood shops in the North of England. Today, Suma is the UK's largest independent wholefood wholesaler/distributor with an annual turnover of £30 million, specialising in vegetarian, fairly traded, organic, ethical and natural products. They have customers all over the world.

Unlike most UK companies, Suma operates a thoroughly democratic system of management that is not bound by the conventional notions of hierarchy. As a workers' co-operative employing around 150 staff the business is jointly owned and managed by its workforce. Everyone is paid at the same rate and they emphasise intensive training and multi-skilling to be able to collectively do all the jobs that need doing, whatever they happen to be.

What are the Key Performance Indicators (KPIs) you use to measure your organisation's performance and how is this integrated within the business?

Our performance measures are primarily focused on traditional signals of financial success: net profit, return on capital employed (ROCE) and the strength of our balance sheet. This does not tell the whole story however about what drives our enterprise. We have a clear vision to protect people and the planet, but we are much less explicit about how we are making a clear statement of performance in this regard. For example, our orthodox ROCE is 7%, which is low because, as a worker co operative, we are committed to paying wages well above the market rate and that shows up as a cost; if you add this wage premium to our profit line (it is effectively distributed profit) then we believe our ROCE is comparable to blue chip firms such as Apple. Suma also provides exceptional career security. You have a job for life if you want it. Our business model has proven to be resilient to recession for more than thirty years because we adopt a far-sighted and risk aware approach to enterprise planning. Traditional approaches to accountancy fail to adequately recognise this kind of benefit and so it is not properly measured.

How have you determined the priority/material issues to measure?

The priority issues for Suma are strongly shaped by what is relevant for our sector as a wholesale logistics business such as stock turn, gross margin, and food safety. Our commitment to running an ethical business also includes specific environmental, vegetarian, and fair trade obligations. For instance, in terms of the environment, we use 100% renewable electricity and have energy efficient operations such as motion sensors to switch the lights on and off; we take back plastic and cardboard packaging from our customers and what we cannot re-use, we recycle; food waste is composted; we have vehicle tracking to make every delivery mile count; we plant trees with Treesponsibility as part of pursuing carbon neutral status; and have an appointed carbon champion keeping a constant eye on our footprint. In addition, as a worker co-operative we have deep and prolonged conversations amongst ourselves as worker owners about issues that concern us, for example, we decided not to supply to one of the UK's leading supermarkets because of worries about that company's poor ethical reputation. We also respond to customer requests in this regard too, for instance, by highlighting our choices on the Suma website.

How are member value and other stakeholder benefits being enhanced through measuring performance?

Despite our success story, in many ways, value creation for Suma's members is undervalued and even taken for granted because we do not explicitly measure the non-financial benefits of our worker enterprise. At the same time we set impossibly high standards for ourselves and are very self-critical, so performance measurement would be reassuring as it would remind members we are very good at our job. For instance, although we have a 95+% industry beating fulfilment rate on customer orders, members are only happy if we are a perfect 100%.

How are you benchmarking performance and communicating performance statements to your stakeholders?

Benchmarking is important to us. We are very good at examining our timeline business performance, year on year. We have decades of sales records. We do not systematically benchmark against the sector due to a combination of the unique nature of our ownership form for a logistics business and a lack of suitable peer equivalents, and the cost of sharing this data in the marketplace. We are able to garner some sector benchmarks in certain parts of the business such as transport planning and through customer feedback on relative costs and service. We also use a number of standards to both drive quality and communicate our performance to our stakeholders – this ranges from the voluntary Co-operatives UK Worker Co-operative Code of Governance, which we co-developed, through to compliance with ethical standards for organic and fairtrade products that are legally certified by the Soil Association, Fairtrade Foundation and others. As a food business we must also comply with stringent UK food safety legislation and, indeed, that reassurance underpins the success of our export trade to the Middle East and China.

Short list of financial indicators and their application

It is appreciated that generating a profit may not be the primary motivation for all enterprises, yet retaining income is essential for re-investing in the business to allow the enterprise to grow its influence, achieve the co-operative values and principles, and to drive member value. So, for instance, for Midlands Co-operative one key signal of financial success is the net profit generated that it can share with its members through a dividend, whereas The Wine Society retains income in order to keep the prices of its products as low as possible for its members and Suma does the same to pay its workforce premium wages above the market rate. Given this, it is recommended that the three financial indicators detailed in Table 4 are measured and reported for all co-operative enterprises. These measures indicate the enterprise's growth, profitability and how is shares these gains with their members. (They are drawn from the long list of indicators above but have been de-jargonised).

Critically, much (if not all) data needed to compile the measures will be produced as part of the normal way of 'doing business' by the enterprise, as they are either required for statutory accounts under company/industrial provident society law or for regular reporting to annual general meetings (AGM). As such, they are not sector specific or excessive for smaller enterprises and so are applicable across the spectrum of the co-operative economy.

It is understood that, again rightly, many co-operative enterprises will want to maintain additional financial measures according to their particular context as it relates to trade profit, cashflow, debt and other financial and management accounting needs. Yet, not all enterprises will own property, nor incur debt, and cashflow ratios are very much sector specific (building thousands of homes across the country is quite different from running a local vegetable box scheme), and so these are not universal measures that resonate with all parts of the co-operative economy.

Table 4: A short list of financial indicators for co-operative enterprises

Indicator	Description	Rationale (relevance and applicability)	Collecting data	Sources of guidance and best practice
Annual turnover (%)	The change in annual sales or income volume of an enterprise (net of all discounts and taxes)	Alignment with CPC accounting standards Core measure for Performance Monitor peer benchmarks Required for annual accounts	End of year audited annual accounts and report prepared by an accountant and finance manager	Suma case study (Chapter 4) Simply Finance (Co-operatives UK, 2011a)
Return on capital employed (ROCE) (%)	A measure of the value an enterprise gains from its assets and liabilities. This measure is inclusive of any investment property.	Alignment with CPC accounting standards Core measure for Performance Monitor peer benchmarks Required for annual accounts	End of year audited annual accounts and report prepared by an accountant and finance manager	Suma case study (Chapter 4) Simply Finance (Co-operatives UK, 2011a)
Net profit distributed amongst co-operative members (%)	A measure of the amount of profit or, in a non-profit co-operative, retained income (after accounting for all costs) shared by the enterprise amongst its members as a dividend, lower prices or premium wages. This may be reported as a percentage of total profit – or a monetary figure where more appropriate to the co-operative.	Virtuous circle linking values and principles to commercial success Alignment with CPC accounting standards Core measure for Performance Monitor peer benchmarks Common reporting requirement for AGM	End of year audited annual accounts and report prepared by an accountant and finance manager	Suma case study (Chapter 4) Simply Governance (Co-operatives UK, 2011b)

5. Non-financial indicators

The spectrum of non-financial indicators you could use

Advocates of co-operation both in the UK and internationally constantly scrutinise the pros and cons of different types of non-financial performance measures for all kinds of co-operative enterprises. As, whilst there may be greater consensus on financial measures (which tend to be shaped by national and global accounting standards), for many members, non-financial measures may be the ultimate measure of member value creation and so may attract more debate. Co-operatives UK has developed a Worker Co-operative Code of Governance (2012) and a set of co-operative non-financial indicators (co-operative, environmental and social performance indicators, CESPI) and in Canada, the Canadian Co-operative Association has developed the Co-op Index and established the Measuring the Co-operative Difference Research Network (2012) and the Centre for Excellence in Accounting and Reporting for Co-operatives is also developing non-financial measures (CEARC, 2011).

In 1884 the Rochdale Pioneers set out a good example of a clear statement of member value in the rule book drawn up when the co operative started – "The objects and plans of the Society are to form arrangements for the pecuniary benefit, and improvement of the social and domestic conditions of its members".

Table 5 provides a detailed list of non-financial indicators that aim to measure member economic involvement, member democratic participation and customer satisfaction.

Table 5: Long list of non-financial indicators

Non-financial indicator	Description
Satisfaction rate in member surveys	Asking members about their satisfaction with ownership and control in terms of their economic involvement, democratic participation or overall enterprise performance in meeting the co-operative principles.
Number of members	An indication of absolute growth in member numbers.
Rate of new members over lapsing members (%)	Membership churn.
Amount of £ trade with members of sales or income (%)	The monetary value of sales or income to customers who are members, as an indicator of economic involvement (for those activities where the enterprise is able to trade with members).
Members' wages in comparison to total wages (%)	Clarifying members' economic involvement through the ratio of wages paid to all of the workforce.
Hours of member training provided	An indication of the value the enterprise attaches to building members' technical skills and specialist capabilities to contribute to the success of the enterprise.

Non-financial indicator	Description
Record of votes for/against resolutions at the AGM	A measure of democratic participation in the form of strong leadership.
Average number of members voting in elections compared to total membership (%)/average attendance of members at general meetings (%)	A measure of democratic participation by membership in an enterprise's decision making process.
Demographic profile of members	Understanding the breakdown of member representation in terms of gender, age, ethnicity, disability, education and location to ensure the diversity of the membership assists the enterprise to develop and represent the community.
Satisfaction rate in customer surveys	Asking customers about their satisfaction with the areas/issues that are most important to them (e.g. customer service, product quality, pricing).

Co-operative enterprises such as Anglia Farmers have devised their own, tailored approach to assessing member value creation as this case study shows.

Case study Anglia Farmers

Legal form:
Co-operative society

Organisational type:
Enterprise owned agricultural co-operative

Website:
www.angliafarmers.co.uk

Anglia Farmers (AF) is the largest agricultural purchasing group in the UK with a buying power in excess of £250 million, purchasing almost 1/10th of the UK's key farm inputs. The group continues to grow, providing a highly professional procurement service for more than 3,500 members who are collectively farming over a million hectares of land in the UK.

With more than 50 years of experience working with farmer-members, AF's expert buyers secure savings across an extensive portfolio of products and services. AF members can expect to make significant savings on the main farm inputs as well as a wide range of goods and services, from vehicles and building materials to telecommunications and animal health products.

What are the Key Performance Indicators (KPIs) you use to measure your organisation's performance and how is this integrated within the business?

As an agricultural buying group we act as the principal agent in sourcing transactions for members with the primary goal of keeping prices as low as possible. We are not motivated by profitability, we aim to breakeven, with any retained income being returned to members or set aside for contingencies. The price AF buys at is the price we sell to our members at. Our business model is to charge a levy ranging from 0.05% (fuel cards) to 5% (mobile phones) through framework agreements according to the type of product or service and size of member turnover. We do not impose a credit limit on member transactions, so member registration is a long and rigorous process – prospective members must be proposed by an existing member, we then carry out detailed financial due diligence. Once a member joins they are able to access 50 specialist buyers in different areas ranging from electricity to wheat seed, thus ensuring we secure the best purchasing deals.

How have you determined the priority/ material issues to measure?

The commitment of members to our group buying is key – AF aims for a commitment rate of 80-90%. We report to the board on a monthly or annual basis on member commitment in five areas:

- Member penetration across all products and services (insurance, electricity, telecoms, etc.)
- Member churn (ensuring 20 members join each month to compensate for those who leave or die)
- Satisfaction (annual member survey)
- Member queries (tracking invoice errors with an understanding of who was at fault)
- Debt ratio (failed direct debits with a resolution, as if this happens 3 times then the member is asked to leave).

Whilst AF only deals with its members, these members have also requested that AF help wider rural communities. Consequently, AF Affinity has been established as a spin-off business, for instance working with rural charities on fuel buying.

How are member value and other stakeholder benefits being enhanced through measuring performance?

Some member value is difficult to quantify. So for AF it is primarily about money and time savings. Each of our members typically makes a saving of between 0.25 to 0.50 of a person (full time equivalent FTE) per annum. An example of this is us fronting customer queries with a supplier, acting on behalf of the member if a product is broken. Given this, every time a new member joins we estimate targeted savings – e.g. mobile phone bills (30% reduction), electricity (15% reduction), agricultural input (4% reduction), and fuel (2-3% reduction).

How are you benchmarking performance and communicating performance statements to your stakeholders?

There is no easy comparator for AF. Farmers Weekly magazine publishes average weekly fuel prices which we use as a like-for-like benchmark for one product. However there is less quality data for a peer equivalent. There are similar agricultural buying groups but they all operate slightly differently to us.

Short list of non-financial indicators and their application

The CPC has recommended that the non-financial indicators directly related to membership should, as a minimum, relate to:

i) number of members; and

ii) amount of £ trade with members as percentage of sales or income (as not all member related measures are applicable across forms of ownership).

For example, whilst measuring average attendance of members at meetings may be useful for a mixed ownership co-operative such as Greenwich Leisure Limited (which needs to mobilise member attendance), it is less helpful for a worker co-operative such as Suma (whose member workers will always be present). This guide also recommends that, as part of nurturing a virtuous circle that links co-operative values and principles to your enterprise's commercial success, customer satisfaction is a crucial key measure too.

Table 6: Short list of non-financial indicators for co-operative enterprises

Indicator	Description	Rationale (relevance and applicability)	Collecting data	Sources of guidance and best practice
Member profile (number of members)	An indication of absolute growth in member numbers, year on year – with the option of added data on gender and diversity.	Primary signal of 'strength through numbers' Core measure for the annual Co-operatives UK Co-operative Economy Common reporting requirement for AGM	Register of Members	The UK Co-operative Economy 2013 (Co-operatives UK, 2013)
Satisfaction rate in member surveys	Asking members about their overall satisfaction with the co-operative – with the option of added data on satisfaction, in terms of their economic involvement, democratic participation or the overall performance of the enterprise in meeting the co-operative principles.	Establishes normative outcomes against the co-operative principles Non-sector or ownership specific, so universally applicable	There are two options: 1. If there is a large number of members then a questionnaire approach will be needed, possibly requiring professional support. 'Net Promoter' is an example of a standardised metric for customer satisfaction and loyalty 2. For enterprises with a small number of members or with less resources: one on one or group feedback sessions timed to coincide with board meetings or AGM	The Co-op Index (CCA, 2008) Worker Co-operative Code of Governance (Co-operatives UK, 2012b)

Indicator	Description	Rationale (relevance and applicability)	Collecting data	Sources of guidance and best practice
Amount of £ trade with members as part of sales or income (%)	The monetary value of sales to customers or income to workers who are members, as an indicator of economic involvement (for those activities where the enterprise is able to trade with members)	Virtuous circle linking values and principles to commercial success Common reporting requirement for AGM	There are three options: 1. If all customers are members, take total sales or income figure 2. Use the dividend card system to distinguish members' from non-members' transactions 3. Survey to estimate proportion of customers that are members as an indication of sales attributable to members	Anglia Farmers case study (Chapter 5)
Satisfaction rate in customer or user surveys	Asking customers about their overall satisfaction – with the option of added data on satisfaction with the areas/issues that are most important to them (e.g. customer service, product quality, pricing and living up to co-operative values)	Virtuous circle linking values and principles to commercial success Variety of low-tech as well as highly sophisticated techniques to suit different needs and budgets Not required where there is a high degree of overlap between customers and members	There are three options: 1. If there is a large number of customers then a questionnaire approach will be needed, possibly requiring professional support. 'Net Promoter' is an example of a standardised metric for customer satisfaction and loyalty. 2. For enterprises with a small number of major contracts: customer service level agreements alongside regular customer contact sessions 3. For smaller enterprises with less resources: one on one or group feedback sessions timed to coincide with board meetings or AGM	Midlands Co-operative case study (Chapter 6) Greenwich Leisure Limited case study (Chapter 2) Suma case study (Chapter 4) Traidcraft website www.traidcraft.co.uk for details of AGM

A uniform approach to satisfaction ratings

This guide recommends the standardisation of satisfaction ratings of member, customer or staff satisfaction to aid comparison and benchmarking in the co-operative economy (as detailed in Box 4).

Box 4:

There are a number of scoring systems in use from the most crude three-point scale through to more sophisticated eleven-point scales.

A simple scoring range from 1 (lowest) up to 5 (highest) would provide a consistent measure for member, customer and staff satisfaction with co-operative performance. As follows:

5 – Very satisfied

4 – Quite satisfied

3 – Nether satisfied or unsatisfied

2 – Quite unsatisfied

1 – Very unsatisfied.

Given this, overall satisfaction is a score of 4 up to 5 in terms of being 'satisfied or very satisfied' about performance.

It is appreciated that some co-operative enterprises will also want to apply indicators from the detailed list of possible measures, as befits specific contexts. It is important when choosing indicators relating to membership in particular, they are reported in context – for instance reporting by customer owned and enterprise owned enterprises on membership turnover and record of votes for/against resolutions at an AGM should be done in a manner that communicates how these measures positively contribute to transparency and accountability.

6. Sustainability indicators

The spectrum of sustainability indicators you could use

In response to concern about the ethical conduct of business expressed by the media, civil society and investors (as referred to in Chapter 2) a suite of new sustainability codes, standards and tools have emerged over the past two decades to provide guidance to businesses on what to report on, how to measure what needs to be reported on, and how to verify such reports on sustainability performance (Box 5 details some of these leading initiatives).

Numerous co-operative enterprises are making good use of these tools. In addition, the co-operative movement has been a leader in the establishment and governance of many of these new initiatives, helping to both set an example and shape how the rest of the business community can behave more responsibly (for instance The Co-operative Group was a founding member and supporter of AccountAbility).

Box 5: The variety of sustainability codes, standards and tools

AA1000

AccountAbility's AA1000 series are principles-based standards to help organisations become more accountable, responsible and sustainable. They address issues affecting governance, business models and organisational strategy, as well as providing operational guidance on sustainability assurance and stakeholder engagement.

DEFRA greenhouse gas reporting protocol

Guidelines issued by the UK government to show organisations how to measure and report on their greenhouse gas emissions. It is intended to help the UK reduce its contribution to climate change.

GRI

The Global Reporting Initiative (GRI) is a comprehensive sustainability reporting framework that enables organisations to measure and report their economic, environmental, social and governance performance. The GRI includes Sector Supplements that provide extra guidelines for specific industries including apparel and footwear, automotive, construction and real estate, electricity utilities, financial services, and food.

ISO26000

Developed by the International Standards Organization, ISO 26000:2010 is a quality management standard that provides guidance on how organisations can operate in a socially responsible way. ISO 26000:2010 provides guidance rather than requirements, so it cannot be certifiable unlike some other well-known ISO standards.

London Benchmarking Group

An internationally recognised framework for enterprises to measure, manage and report the value, and the achievements, of their corporate community investments.

LM3

Local Multiplier 3 (LM3) was initially developed by the new economics foundation (nef) as a way of understanding the local economic impact of procurement contracts and regeneration schemes. LM3 is a tool to create a figure for an organisation's contribution to the local economy based on an analysis of financial records and a survey of staff and suppliers.

Social Return On Investment (SROI)

SROI is a framework based on social generally accepted accounting principles (SGAAP) that can be used to help manage and understand the social, economic and environmental outcomes created by an organisation. SROI seeks to include the values of people that are often excluded from markets in the same terms as used in markets that is money, in order to give people a voice in resource allocation decisions.

At the same time the co-operative movement has discussed broadening the principles of co-operation to include sustainability.

Co-operatives UK has been working to develop sustainability indicators that resonate with co-operative enterprises of all kinds. Table 7 provides details of sustainability measures related to staff well-being, ethical supply chains, local community development and environmental protection.

Table 7: Long list of sustainability indicators

Sustainability indicator	Description
Staff satisfaction (%)	Asking staff about their satisfaction with the issues that matter most to them (e.g. pay, working conditions, quality of management etc).
Staff engagement	A measure of staff's willingness to contribute, intent to stay, and referral behaviour (i.e. recommending by word of mouth that their friends/family should engage/trade with their enterprise) – all drivers of a successful enterprise.
Number of staff	An indication of absolute growth in staff numbers
Hours of staff training provided	An indication of the value an enterprise attaches to building staff's technical skills and specialist capabilities to contribute to the success of the enterprise.
Demographic profile of staff	Understanding the breakdown of staff representation in terms of gender, age, ethnicity, disability, education and location to the enterprise
Equal remuneration for women and men	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation. Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken.
Occupational health and safety	Rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and gender.
Amount invested in or benefiting local communities and co-operative initiatives (£)	An indication of how an enterprise is giving back to surrounding communities and like-minded co-operators.
Business units analysed for risks related to child labour or corruption (% and total number)	Demonstration of an enterprise's commitment to anti-corruption and non-use of child labour in its supply chain.
Contribution to biodiversity	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
Reduction in greenhouse gas emissions and waste (%)	A measure of how an enterprise is minimising its use of scarce natural resources and the adverse effects of pollution, whilst reducing operating costs through resource efficiency.

Midlands Co-operative is a good example of an enterprise well adept at monitoring and managing its sustainability footprint in this regard and realising the business benefits of eco-efficiency.

Case study Midlands Co-operative

Legal form:
Co-operative society

Organisational type:
Consumer co-operative

Website: www.midlands.coop

Midlands Co-operative is one of the largest independent retailers in the UK with an annual turnover of £993m. The Society's principal business activities are food, fashion, home retailing and funeral services. In addition, the Society has interests in travel, motor dealerships, specialist vehicle construction, florists and farming, and it manages a significant investment property portfolio that underpins the returns from trading activities.

Although independent from The Co-operative Group, Midlands Co-operative works with it and other enterprises in the co-operative movement to strengthen its buying power through economies of scale.

What are the Key Performance Indicators (KPIs) you use to measure your organisation's performance and how is this integrated within the business?

As a high street retailer key signals of financial success include gross sales and trading profit. At the same time, as a co-operative the Society aims to operate its business in accordance with co-operative values and principles and use ten performance indicators, as previously defined by Co-operatives UK, to monitor our year on year performance as a responsible business, owned by our members (with the latest figures disclosed in our annual report).

We believe that corporate responsibility (CR) is integral to the long term sustainability of Midlands Co-operative. During 2012, the Society put in place plans to build on existing environmental, social and ethical projects by developing a new CR Policy and by continuing to work in partnership with Business in the Community (BiTC). As an ethical retailer, the Society has chosen to adopt the leading UK corporate responsibility standard, BiTC's Responsible Business Framework, to help manage and assess four environmental and social impact pillars:

- Workplace
- Marketplace
- Environment
- Community.

We have now established a CR Delivery Framework to ensure the new policy is properly embedded. This includes an executive CR steering group that is chaired by the Society's CEO and is comprised of heads of departments, under which there are working groups across each of the four impact pillars.

How have you determined the priority/material issues to measure?

Our aim is to focus our efforts on areas of real need and where we can have the greatest impact and/or influence across the four social impact pillars. So for instance, in terms of the environment, since 'Zero to Landfill' was achieved in all of the Society's food stores in June 2011, the initiative has been rolled out across the entire Retail business and the Business Support Centre in Lichfield is planned to be 'Zero to Landfill' by Spring 2013. In addition to the 'Zero to Landfill' initiative, waste prevention has been identified as a key objective for the Society. Preventing waste not only helps to preserve natural resources it is also far more cost effective to prevent waste occurring in the first place. As part of this, Midlands Co-operative has been working in partnership with one of its key fresh food suppliers, Fyffes, on preventing waste in the supply chain via a cross industry project led by the Institute of Grocery Distribution (IGD) in collaboration with the Waste Resources Action Programme (WRAP). Working on this project has delivered a number of benefits to the Society: finding innovative solutions for waste prevention; preserving natural resources; reducing impact on the environment by reducing carbon emissions from waste; reducing costs and sharing best practice across the grocery sector. It is intended to roll out the key learnings across the Society's fresh produce supply chain throughout 2013.

How are member value and other stakeholder benefits being enhanced through measuring performance?

It helps us to achieve our aim to focus our efforts on areas of real need and where we can have the greatest impact and/or influence, especially in relation to actions that affect surrounding communities.

How are you benchmarking performance and communicating performance statements to your stakeholders?

BitC's Responsible Business Framework includes access to a Corporate Responsibility Index that allows us to benchmark the Society against the sector and other best practice. Peers include the John Lewis Partnership, Kingfisher, Sainsbury's and The Co-operative Group. We also look to learn from leading neighbours in the mid-counties region of the UK, such as Jaguar Land Rover, because they are local and we are able to speak with them directly.

Short list of sustainability indicators and their application

Co-operatives UK believes that given emerging consensus on sustainability reporting standards through the GRI (referenced in Box 5) that its members should be encouraged to use GRI measures or equivalents to report on their general social and environment impact, instead of developing or maintaining individual or specific indicators in this area. That said, the GRI sustainability reporting guidelines list more than 50 indicators in total and so it is helpful to provide a steer for a smaller list of measures.

Table 8: Short list of sustainability indicators

Indicator	Description	Rationale (relevance and applicability)	Collecting data	Sources of guidance and best practice
Staff profile (number of people)	Total number of employees – with the option of added data on the male/female ratio and the ethnic background of employees – and of governance bodies. Where possible data should be further broken down according to occupational grade, although this may be inappropriate for smaller co-operatives.	The diversity and scale of an organisation's workforce can be a positive force for equality and performance Co-operative Women's Challenge affirms the goal of gender equality in the workforce, on the board and in the wider economy Equalities legislation helps to frame a range of obligations in terms of employee diversity that a good business needs to consider	Internal records Where staff surveys are required, use comparable questions to national surveys e.g. census data/ Labour Force Survey.	GRI – Indicator LA1 and LA13 (2013) Suma case study (Chapter 4) Guidance on monitoring staff diversity is available from the Equalities Commission.
Amount invested in or benefiting local communities and co-operative initiatives (£)	An indication of how an enterprise is giving back to surrounding communities and like-minded co-operators, including how they do things differently in their daily business to enhance positive social impacts and prevent negative social impacts.	Co-operatives emphasising the co-operative difference by investing in your neighbours and peers Virtuous circle linking values and principles to commercial success Variety of low-tech as well as highly sophisticated techniques to suit different needs and budgets	The amount of pre-tax profits that a co-operative donates or invests into the community; and/or in other co-operatives over a one-year period There are further options to look in more depth at the impact of core operations and procurement, including an analysis of financial records and a survey of staff and suppliers	GRI – Indicator EC1 (2013) London Benchmarking Group and SROI toolkits LM3 – evaluating the local economic impact of the co-operative pound (Co-operatives UK, 2012d)

Indicator	Description	Rationale (relevance and applicability)	Collecting data	Sources of guidance and best practice
Resource use: reduction in greenhouse gas emissions and waste (%)	A measure of how an enterprise is minimising its use of scarce natural resources and the adverse effects of pollution, whilst reducing operating costs through resource efficiency. This is a combined measure of two components of equal weight – emissions and waste (but can be separated out if preferred)	Co-operatives setting the standard by focusing on a resource minimisation approach to prevent waste or emissions being created in the first place (e.g. reducing the need for recycling) Virtuous circle linking values and principles to commercial success Benchmarking performance against oneself over time or against the sector norm is helpful, especially if an organisation already has low levels of emissions or waste (i.e. narrative to accompany the figure that explains the context) Variety of low-tech as well as highly sophisticated techniques to suit different needs and budgets Each enterprise will need to prioritise primary footprint areas given the sector or business model, i.e. own premises (Tier 1), products (Tier 2), or supply chain (Tier 3). E.g. for a bank a major impact area is lending policy, whereas for a grocer it is the manufacturing supply chain	Carbon dioxide (CO_2) is a proxy for greenhouse gas emissions and calculated from kWh energy consumed i.e. electricity and gas (meter readings used for standardised conversion factors) Waste reduction can be measured by weight or volume (Kg or m^3). Minimisation signals can include the amount of product packing or office stationary used, the number of local authority wheelie bins collected etc. Where possible, specify the breakdown of this indicator into the separate elements of greenhouse gas emissions and waste.	GRI – Indicators EN16 (emissions), EN22 (waste) plus relevant Sector Supplement Refer to Midlands Co-operative case study (Chapter 6) DEFRA greenhouse gas reporting protocol Carbon Trust (energy) and WRAP (waste) checklists on resource efficiency

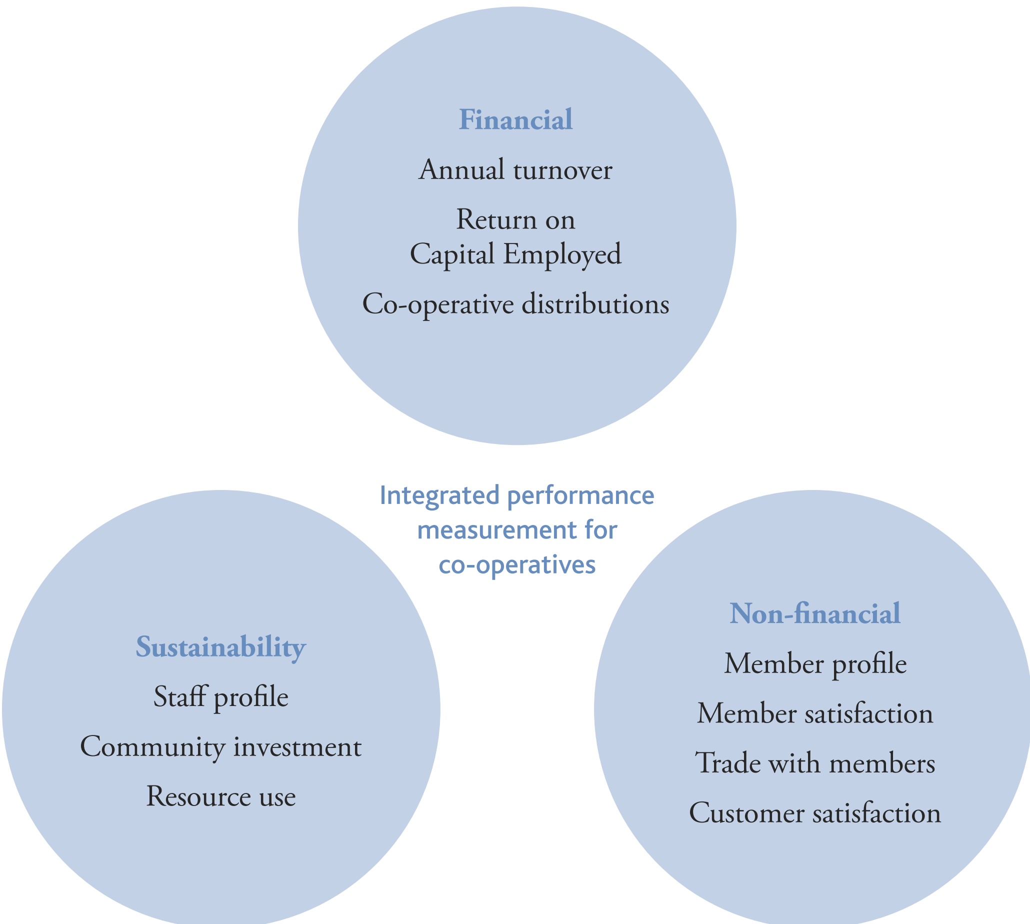
It is appreciated that for some enterprises, measuring and reporting on sustainability performance is a well-established discipline, where deeper alignment with the full GRI guidelines is the norm. However for others, especially new or smaller enterprises, it can be a daunting challenge. Learning from your peers and testing and experimentation of the variety of sustainability tools in the marketplace is recommended. Lincolnshire Co-operative is an example of a co-operative enterprise already applying some of these measures but also trialling the use of new tools such as LM3, which calculated that for every £1 spent by a customer the enterprise generates an additional 40 pence for the Lincolnshire economy, equivalent in just six months to £50 million.

7. Next steps

The best co-operatives have a clear understanding of how they generate value for members, and performance measurement follows from this. The guide has set out how your enterprise can measure and report performance as a clear statement of member value creation in terms of financial, non-financial and sustainability impacts. This includes managing your performance in an integrated way that allows you to identify synergies and handle trade-offs.

This guide also recommends a short list of indicators that all enterprises – regardless of ownership form, sector or size – should use as a minimum to allow benchmarking across the UK co-operative economy to demonstrate its collective strength. These indicators are summarised in Figure 5.

Figure 5: Complete short list of co-operative performance indicators



Appendix
Sources of further information

AccountAbility

The AA1000 series is a principle-based standard to help organisations become more accountable by providing guidance on stakeholder engagement and sustainability assurance.

www.accountability.org

Accounting for Sustainability (A4S)

Set up by HRH The Prince of Wales to develop practical guidance and tools for embedding sustainability into decision making and reporting processes to help build a sustainable economy.

www.accountabilityforsustainability.org

Carbon Trust

The Carbon Trust Standard helps organisations to accelerate the move to a low carbon economy through carbon reduction, energy-saving strategies and commercialising low carbon technologies.

www.carbontrust.com

CEARC

The Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC) was created out of the identifed needs of the Master of Management – Co-operatives and Credit Unions program at Saint Mary's University.

www.coopaccounting.coop

Department for Environment, Food and Rural Affairs (DEFRA)

The UK government produces a number of guidelines and related publications to help organisations improve their environmental performance, including a greenhouse gas protocol.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69282/pb13309-ghg-guidance-0909011.pdf

Forum for the Future

The Sustainable Business Model Tool helps organisations to identify potential impacts (positive and negative) associated with a new business idea in the supply chain and in the end-user stage.

www.forumforthefuture.org/project/sustainable-business-model-tool/overview

GRI

A sustainability reporting framework to help organisations measure and report on their social, economic, environmental and governance performance.

www.globalreporting.org

Infrangilis

Established to help organisations embed resiliency thinking into their policies, strategies and performance frameworks to accelerate the transition to an inclusive and green economy.

www.infrangilis.org

IIRC

The IIRC Pilot Programme underpins the development of the International Integrated Reporting Framework on value creation for businesses and investors.

www.theiirc.org

London Benchmarking Group

An internationally recognised framework for enterprises to measure, manage and report the value, and the achievements, of their corporate community investments.

www.lbg-online.net

Measuring the Co-operative Difference Research Network

The Network is committed to conducting research on the social, economic and environmental impact of co-operatives on Canadians and their communities.

www.cooperativedifference.coop

new economics foundation

LM3 was initially developed by NEF to help organisations under the local economic impact of procurement contracts and regenerations schemes.

www.neweconomics.org

ISO26000

An ISO quality management standard that provides guidance to help organisations operate in a socially responsible way.

www.iso.org/iso/home/standards/iso26000.htm

SROI Network

The SROI Network has developed the SROI framework to help organisations around the world understand and manage their social, economic and environmental outcomes.

www.thesroinetwork.org

Third Sector Research Centre

The centre aims to enhance knowledge of the sector through independent and critical academic research and to better understand the value of the sector and how this can be maximised.

www.tsrc.ac.uk

WRAP

Set up to work with organisations to understand and manage waste as an asset with value that is used more sustainably, devising resource strategies to prevent waste.

www.wrap.org.uk

Further reading and guidance

ACCA (2012) *Re-assessing the value of corporate reporting*, London.

AccountAbility (2006) *The materiality report: aligning strategy, performance and reporting*, London.

Business in the Community & The Doughty Centre for Corporate Responsibility (2011), *The Business Case for being a responsible business*, London.

BlackSun Plc (2012) *Understanding Transformation: Building the business case for integrated reporting, London.*

Canadian Co-operative Association (2008) *The Co-op Index*, www.cooperativedifference.coop/page/44-atlantic-a2-coopindex, website accessed April 2013.

CDS Co-operatives (2012) *Corporate Plan 2012-2016*.

CEARC (2011) *Co-operative non-financial reporting*, Nova Scotia.

Co-operatives UK (2011a) *Simply Finance*.

Co-operatives UK (2011b) *Simply Governance*.

Co-operatives UK (2012a) *CESPI report*.

Co-operatives UK (2012b) *The UK co-operative economy 2012*.

Co-operatives UK (2012c) *Worker Co-operative Code of Governance*.

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CSR Europe & AccountAbility (2002) *Impacts of reporting: the role of social and sustainability reporting in organisational transformation*, Brussels.

Forbes (2013) '12 Companies considered best for the world', www.forbes.com/sites/susanadams/2013/04/17/12-companies-considered-best-for-the-world/, website accessed May 2013.

GRI & A4S (2012) *The value of extra financial disclosure: What investors and analysts said*, London.

GRI & IFC (2010) *Getting more value out of sustainability reporting*, Washington, DC.

GRI (2014) *G4 – Sustainability reporting guidelines*, Amsterdam.

The Co-operative Group (2012) *Inspiring through Co-operation – Sustainability Report 2011*, Manchester.

Simply Performance: A guide to creating member value by aligning co-operative strategy, performance measurement and reporting

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