

**EXECUTIVE SUMMARY**

**SOCIAL AUDITING AND COMMUNITY COHESION:  
THE CO-OPERATIVE WAY**

**A REPORT TO  
THE CO-OPERATIVES SECRETARIAT AND CANADIAN HERITAGE**

by

**Dr. Leslie Brown**

**Department of Sociology and Anthropology  
Mount Saint Vincent University  
Halifax, Nova Scotia  
Canada, B2T 1A4**

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## 1. Research objectives<sup>1</sup>

As reflected in the popular press and academic analyses, many people in Canada feel alienated from decision and authority centres, and there is widespread concern among citizens and their political leaders that social cohesion has been weakened. This paper is a report of research on social auditing, credit unions, and social cohesion, and explores two main themes. It is anticipated that taking co-operative values and principles seriously, and building organizations grounded in broad-based democracy, community involvement and member ownership, leads to outputs contributing to the development of strong and cohesive communities. The evidence to support this working hypothesis comes from the examination of social auditing in three case studies reported on in this paper. The data also suggest the role credit unions can play as catalysts with other community actors.

The *first research theme* addresses the role credit unions play in strengthening social cohesion in the communities in which they are based. Located squarely in the tradition of Canadian analysts of the social economy and of civil society such as Quarter (1992) and Swift (1998) my work shows that co-operatives can be seen as natural (though not the only) structures through which to build community. As one part of the social economy, and as organizations which usually have some connection to a particular geographic place, co-operatives which seek to apply Co-operative Principles are well placed to address the needs of communities. Co-operatives can contribute both indirectly and directly. They can engage people in meaningful decision making and in activities, programs and policies that strengthen social cohesion at the community level, and they can contribute to capacity building.

There are two specific objectives associated with this first theme: 1) document, and analyze the accomplishments of three credit unions in the areas of democracy and community involvement, and 2) analyze the credit unions' use of the social audit tool.

Measuring such contributions, and establishing "impacts" or "outcomes" remains a significant challenge. This research studies credit unions which have been using a tool called "social auditing" to try to better balance and integrate their social and economic mandates, and to work towards understanding community impact. A *second theme* of this research report is thus to assess and make suggestions for strengthening social audit methodology as a valuable tool for credit unions and co-operatives.

Three objectives are associated with theme two: 1) make the case for the value of social auditing as a tool particularly suited to organizations such as credit unions which have a commitment to social responsibility, member ownership, and democracy; 2) contribute to the development of social audit methodology, in part by refining indicators to measure outcomes in democratic participation and community involvement; 3) provide information useful to government and to those organizations, especially credit unions, seeking to develop policies and practices related to enhancing community.

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## **2. Context of this research**

### **1. Widespread interest in community building and social cohesion**

While often not clearly defined, community building generally incorporates notions of economic development, community capacity building, enhancing social cohesion, improving quality of life, reduction of key disparities and social exclusions, and environmental sustainability. These are interrelated and are being affected by contemporary forces of globalization, often thought to be destructive of resilient and vibrant communities.

A large literature on these forces and processes has developed, much of it looking at the question of community impacts and ways to avoid or alleviate them. Although there are those who argue that the neo-liberal global economy will meet people's needs in their communities, many offer strong evidence that the world is experiencing a crisis of community - disruption, even disintegration, in the wake of globalization and attendant processes.

The term social cohesion has recently become a matter of concern for governments (Policy Research Initiative, 1999; Comeau, 2000; Jenson, 2000; Kearns and Forrest, 2000). The Canadian government has framed the issue as one of threats to social cohesion brought about, in part, by social exclusion and the concentration of economic and social disadvantages in certain populations. Government believes that social cohesion is important not only for overall quality of life and social stability, but also because lack of social cohesion will damage economic performance. Government is exploring questions of how to foster social cohesion, how to facilitate citizen and institutional engagement, and how to determine the level and appropriate distribution of resources required to maintain a cohesive society.

Addressing these questions requires reducing disparities and social exclusion, facilitating participation in decision making, and overcoming key dichotomies of individualism vs collectivism, disassociation vs. building connections, cynicism vs. trust in others. Values of diversity, trust, honesty, and equity are being reasserted. Citizens demand more involvement in decisions affecting their lives, and more accountability on the part of the governments and private corporations that so affect their lives and their communities - a reintegration of authority and responsibility, of decision makers and those living with the consequences of decisions (Morris, 1997).

Conceptualized variously at organizational, community, and national levels, high levels of social cohesion are most likely in societies or communities where people transcend their merely private interests, and where trust levels are high (Comeau, 2000). This report looks at cohesion at the level of communities. The discussion here is situated within a discourse of democratization - calling for debates regarding the social contract, the common good, and collective interests (Comeau, 2000; Saint-Martin, 2000).

### **2. Social cohesion at the community level**

Community social cohesion is the sharing of a sense of community identity and purpose rooted in respect for diversity and a sense of the common good, supported by democratic

institutions and processes.<sup>2</sup> Lustiger-Thaler's (1994) definition of community fits well with this. He argues that communities are best conceptualized as built on "congeries of artful practices tightly tied to frameworks of action that have significant local features...Place emerges as one of several communal attachments about having something *in common*, as an ongoing practice of local solidarity, difference, and resistance" (p. 16, emphasis in the original). Thus community is not an object or concrete entity so much as a form of practice. Place is an important but not the sole basis of community.

Instead of being the single most important linchpin of order, social cohesion takes its place as one of several factors (including speed of social change, prevailing ideologies of individualism and collectivism, degrees of stratification) that make it possible for people to trust, connect, co-operate, build and maintain vibrant communities-in-process. Difference and conflict are necessarily part of even cohesive communities but, as Saint-Martin (2000:35) emphasizes, conflicts without political voice erode cohesion. Cohesion is the art of maintaining diversity while creating a basic degree of unity, political authority, and integration (Taylor, 2000).

### **3. Co-operatives and community**

There is a substantial literature arguing that co-operatives can be effective at community development. It documents the particular ways co-operative forms of organizations contribute to their communities and the potentials that exist for further contributions. Case studies and literature reviews discuss the impacts of co-operatives on communities, and argue that co-operatives are particularly suited to communities striving to meet the demands of the "new" economy. While this literature is not focused on social cohesion, community development (CD) and community economic development (CED) are thought to build, and reflect, a sense of identity, structural bases for solidarity and mutual self-help.

In this literature credit unions, the main focus of this report, are shown to affect a community's financial capital (e.g. through providing employment, products and services, purchasing policies), social capital (e.g. people working together, connecting and building bridges), and human capital (e.g. fostering learning and growth for individuals, a venue for leadership development).<sup>3</sup> One consistent finding is that accomplishing things together can further trust, a basis for cohesion. However, the empirical data to support these claims is not always as systematic and precise as we might wish. Confidence in the results of such research can be strengthened if additional assessment tools also document important contributions.

Social auditing offers a credible way of addressing the social side of co-operatives, both highlighting social commitments and assessing performance. The social audit and other data from the three credit unions studied for this paper offer evidence relevant to social cohesion. Social auditing also responds to changes in the social climate for organizations in the private for-

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<sup>2</sup> In Canada the Social Cohesion Network of the Policy Research Initiative defines social cohesion as "...the on-going process of developing a community of shared values, shared challenges and equal opportunity within Canada, based on a sense of trust, hope and reciprocity among all Canadians. The Standing Senate Committee on Social Affairs, Science and Technology (1999) and the Social cohesion Network (1999) understand social cohesion to focus on the marginalized and disadvantaged, on economic performance, and on building connections.

<sup>3</sup> It is certainly possible for co-operatives to have negative impacts too, as shown by the USDA-funded project of which Zeuli et al (1998) is a part, or by Atwood and Baviskar, 1988.

profit sector and in the social economy such as non-profits and co-operatives. Concerns about ethics and social responsibility are raised in many venues, and organizations are becoming interested in, or being pushed towards, demonstrating social responsibility in a credible way. Social responsibility to communities in which these organizations are located is stressed by a concerned public.

Both qualitative and quantitative in nature, social and ethical accounting, auditing and reporting (SEAAR) is proposed as a management tool and as a way of being accountable to stakeholders. Advocates of SEAAR also stress a connection between the financial bottom line and corporate social responsibility and auditing, appealing to enlightened self-interest (Makower, 1996; the various publications of the Institute for Social and Ethical Accountability in the United Kingdom). Done well and with integrity, social auditing can reduce levels of cynicism and build trust, while engaging citizens in the life of their communities.

Advocacy of SEAAR in Canada is carried on by associations and by individuals in the accounting or other professions.<sup>4</sup> The Panel on Accountability and Governance in the Voluntary Sector (1999) argues in favour of accountability statements. In the co-operative sector several credit unions advocate social auditing and the Canadian Co-operative Association has its own social auditing manual. Proponents of social auditing in the co-op sector in Canada include Brown (2000a, 2000b, 2000c), Bold (1991), MacLean and MacKinnon (2000), Cujes (1986), the Social Audit Task Force (1985) and Scoggins (1988). These advocates place emphasis on relationships with the community, urging something beyond the various forms of corporate philanthropy.

#### **4. Elements commonly associated with social cohesion**

The specific elements of social cohesion selected for this report are drawn from the literature on community development and community economic development. Here ideas of building community, community development, and like concepts refer to elements of community commonly associated with social cohesion: a) respect for diversity yet sense of the common good as well; b) fostering/facilitating social interaction and the development of social relationships among individuals and among organizations in the community; c) creating a context in which people are able to mobilize and work together to address common needs and goals (mutual self-help); d) increasing local control over matters significant to the local community; e) building a sense of identity that includes commitment to community and acceptance of one's share of social responsibility for the community and the environment; f) learning to handle disagreements and conflict in an equitable and democratic manner; g) sustainability of capacity and of the environment.

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<sup>4</sup> Associations include the Canadian Centre for Ethics and Corporate Policy, Centre for Innovation in Corporate Responsibility, Canadian Business for Social Responsibility; Conference Board of Canada (Choquette and Khoury, 2000). Individuals and academics include Kingston, 1998; Nitkin and Brooks, 1998; Svendsen, 1998 and see the special issues of the *Journal of Business Ethics*, 1997, 1998.

### 3. Social auditing and community impact - three Canadian credit unions

#### **1. A study of three credit unions**

This research studies the only credit unions in Canada which have made an ongoing commitment to social auditing and which have conducted more than one social audit.<sup>5</sup> Distinctive domestically and internationally, these credit unions are among a small number of co-operative financial institutions worldwide that have conducted comprehensive, rigorous, and publicly released social audits. These credit unions believe that social auditing offers one way to promote and demonstrate accountability, and that social audits provide information which can guide credit unions' operations, strategic planning, and policy development. All have found social auditing to have had positive consequences, and are at present committed to further auditing. All promote social auditing to other credit unions.

The key questions continue to be: Are we doing what we say we're doing? Are we meeting the expectations of those involved with us? Can we offer high quality evidence to those wanting to know the answers to these questions? Because these credit unions share many characteristics with any co-operative, their experiences are likely to be relevant throughout the sector and particularly for open membership co-operatives.

Credit unions are a particularly appropriate venue for investigating issues of social auditing and community social cohesion. Credit unions exist to provide for the financial needs of their member-owners. A crucial distinction between open membership credit unions and other financial institutions is that anyone can become a member and have one vote and the opportunity to run for office or volunteer in other ways. This means that anyone in the community can become a member and promote their point of view. Hence the strong sense of overlap between members and community, especially in credit unions with a high penetration in their communities.

For these credit unions we extract from their audit reports the actual measures and indicators relevant to community and democracy, and relevant to the seven elements of social cohesion. None of the credit unions used the concept of social cohesion but all the audits report on community, member democracy, employees, and the environment. These and other germane sections of the reports will be studied. Other sources of data are used too, including informant interviews. Names of the credit unions are pseudonyms. They differ considerably from one another and are located in different provinces and regions of Canada. All are majority urban/suburban in membership, though two have rural members as well.

The research identified indicators in the social audit reports having relevance to community. The indicators thus identified were found to address each of the elements of cohesion extracted from the literature. The social audits conducted by these three credit unions, like social audits generally, are more audits of output than outcome. That is they tend to audit what the organization has done more than the impact of what has been done.

Each credit union developed its own indicators (and measures of these indicators)

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<sup>5</sup> I focus on credit unions not caisses populaires. This means that I do not speak to the Bilan Sociale process of the Desjardins movement in Québec which resulted in 1990 in almost two-thirds of the caisses producing social audit reports (Bold, 1991:98, and see Beauchamp, 1994). Church Credit Union, one of the cases studied here, was influenced by the Bilan Sociale model, having obtained detailed information on it in 1992.

independently. In all the credit unions the decisions about measures and indicators were informed by one or more of: the principles of co-operation, suggestions and guidelines from CSR contacts and materials; acquaintance with other social audit reports; the existing policies and commitments of the credit union; suggestions from others (staff, members, community groups, and so on); consultants' advice; and more. The measures used were both qualitative and quantitative. The credit unions have developed, and continue to improve upon, their "home grown" measures and indicators.<sup>6</sup> The indicators chosen tend to reflect what is being done by the credit union, not the gaps in what it might or would want to do, though these are at times mentioned in the reports. Further, the credit unions do not always have specific targets or goals against which to evaluate their achievements and shortfalls, though all are working to improve this.

## 2. Conclusions from case studies

Documentation and analysis of these three cases allows us to draw three conclusions.

*First, credit unions do contribute to building their communities.* The accomplishments of these credit unions in the areas of democracy and community involvement are considerable. From being stable and locally owned financial institutions providing important goods and services, to being catalysts and interveners in community life, these credit unions make a wide range of contributions.

The social audit reports document outputs valuable to community, and some important outcomes as well. For example, providing services (and membership voice) to increased numbers of local non-profits, documenting grants that are tracked to completed community projects, improving rates of satisfaction reported in member surveys, lending to marginal or excluded groups, philanthropic activities, providing jobs, evidence of being a good employer, promoting participation in democratic processes, leadership development, and so on. The fact that all three credit unions have shown commitment to assessing performance in both social and financial areas shows strong commitment, as does the fact that community and democracy are included in each audit.

All informants see their credit union as having some impact on their communities and as being a resource. Ten of thirteen informants reported success in community capacity building, and seven reported success in impacting social cohesion. While we must acknowledge that information from the point of view of the communities themselves was limited, coming as it did mainly from targeted surveys and focus groups (in one case), and from communications from members (in all cases), it is still possible to see a pattern of concern for community, action to support such concerns, and plans for making the contributions more meaningful.

Each credit union consciously juggles its social responsibilities (to the community in general, to its members) with its financial responsibilities as a fiscally responsible credit union. They debate the appropriate expectations for a financial institution in the area of CD and CED, recognizing that CED may be a better fit for a financial co-op. Working with others to support CD is also seen as a way to make a positive impact without distorting the nature of an

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<sup>6</sup> Those involved in social auditing are keenly aware that they are involved in a learning process, that no social audit is perfect. The field of social auditing is developing rapidly, and keeping abreast is part of the task of social auditors, whether paid (as with employees and consultants) or volunteer (as with Board members and other volunteers).



organization which is not in itself directly in the business of community development. The credit union as catalyst, an idea being promoted by the Regional Co-operative Development Centre in Moncton, would likely be an appealing one to these credit unions. Most importantly, none of these credit unions is in stasis regarding community. All are actively considering, exploring, responding, initiating.

Credit unions and co-operatives (and other community-based organizations and governments) would be better able to consider if and how they could help their communities if the communities had their own development plans or had recently completed a community indicator project identifying indicators to be improved upon. Better still is the situation where the credit union is one of the actors involved in the process of developing these plans. The process of developing such schemes has positive effects on cohesion in itself. For example, Potapchuk and Crocker (1999) show that community wide strategic development planning enhances community capacity. Bislama and Mullein (1997) demonstrate that communities can use indicator projects to identify and assess progress towards shared visions and goals.

*Second, social auditing is valuable for credit unions and for those interested in community building.* Analysis of these credit unions' rationales for doing social audits shows that they believe that social auditing contributes to the objectives of maintaining a commitment to combining social and financial goals, offering a tool to help improve strategic planning and management by both managers and board members, and demonstrating credibility and accountability and social responsibility to employees, members and to the general public. Building and maintaining a market niche as a socially responsible, community-based, democratic institution was also part of the rationale for some informants. For these three credit unions social auditing is part of their commitment to taking co-operative values and principles seriously, including the value of social responsibility and the principle of concern for community and democratic control.

Social audits contribute to knowledge about the multiple relationships between co-operatives and their communities, and they foster elements generally associated with community building and social cohesion. The social audit, as tool and process, is useful to these organizations both for strategic management purposes and for identifying and promoting "the co-operative difference". Indeed, this tool is particularly suited to organizations such as credit unions which have a commitment to social responsibility, member ownership, and democracy. The principles of transparency and accountability are not as immediately threatening for credit unions as they might be for conventional corporations, whether publicly traded or private. There was no detectable philosophical opposition to social auditing in these credit unions, and there have been no negative repercussions to reporting the social audit results.

The cases studied identify both similar and idiosyncratic indicators and measures in their social audits. The indicators are generally important, measurable, simple, and provide information which can lead to action. The credit unions recognize that their indicators and measures can be improved, and they are turning to consideration of outcome/impact measures as well. When asked whether the social audit is useful in assessing community impacts seven of thirteen informants chose 1 or 2 (1=strongly agree). A further five chose the middle category, one chose four, and none chose 5 (strongly disagree).

The range of models used offers promise to other interested credit unions and co-operatives whatever their resources. Each has considerable strengths as well as weaknesses,

differing as they do in depth, comprehensiveness, nature of member participation in the process, cost, rigour, understanding of the role of stakeholders and accountability issues, dependence on volunteers, and verification (internal vs. external).

There is some possibility of future convergence in at least certain areas of the audits (e.g. democratic structures and processes, member participation, socially responsible investment, environmental responsibility), with room for divergencies as appropriate. All find their social audits useful in encouraging sustained attention to the social responsibilities of the credit union, contributing to the ongoing task of balancing the integral components of any co-operative - sound business, owner democracy, and social responsibility.

There is still much room for the credit unions to build internal support for social auditing, to develop their conceptualizations of relationships with their members and their members' communities, to deepen their understanding of democracy, and to improve upon their indicators and measures.

*Third, continuous improvement is important.* Continuous learning and improvement are important, particularly given the evolving nature of the social audit field. Both from the actual published reports and from informant interviews it is obvious that these credit unions see social auditing as a work in progress, which can be improved upon in each subsequent audit. Informants all see a need to improve both the conceptualization of the areas audited and the indicators and measures. Learning from others who do social auditing, and from the wider literature on social auditing and related subjects is advisable. For example, the credit unions' interest in finding ways to use social auditing to measure outcomes in addition to outputs is to be encouraged.

#### **4. Social audit methodology**

##### **1. Keeping abreast of the field**

There is no equivalent to "generally accepted accounting principles" in social auditing. However there is the beginning of some general agreement as to what is meant by the term. It is our contention that standard social science methodologies must be incorporated as appropriate, whatever model is chosen. These methods should be described for interested readers and this information can complement the "independent verification by a qualified social auditor" should that occur.

The most successful audits are ones that are well planned, demonstrably credible, and must occur regularly, not as a one-shot project. Audit claims must be testable by the "rule of evidence" and may be distributed mainly in house, or distributed widely. In the latter case external verification is particularly recommended. A single social audit cannot be all things to all people. It becomes unwieldy and useless if it aims to be so. Principles of comprehensiveness, inclusivity, and methodological rigour are important. However, a social audit must be framed within a context (e.g. the organization's current member concerns, management issues, and the concerns of various groups and individuals in the community), and must have some boundaries. Issues of time, cost, and balance with other priorities cannot be ignored either.

The credit unions profiled here are not acting in a vacuum. All three have shared their

reports with others, have read others' reports in turn, and are aware of AA1000.<sup>7</sup> Indeed informants and documents suggest that these credit unions see themselves as part of a small group of leaders in the social audit field. They are part of a broader world of SEAAR (social and ethical accounting auditing and reporting). This world is itself connected with the field of corporate social responsibility (CSR), with the progressive social, workplace, and environmental standards initiatives of the last decade, and with ongoing work in the areas of evaluation research, impact assessment, community social, economic, and environmental indicators, and outcome measures. There is a concerted attempt to move towards identifying key guiding principles and process standards for SEAAR, and ultimately towards some degree of standardization of measures and indicators. This last encourages exploration of evaluation research and related fields, especially as interest turns to assessing outcomes in addition to outputs.

The auditing literature is only just beginning to come to grips with the importance of methodology and research design, and generally has drawn more on accounting practices than on social science literatures. The latter is particularly important when the auditor wants a representative sampling of various kinds (as with stakeholder approaches), or wants to assess the social consequences of organizational outputs.

## **2. Improving methodology**

The term methodology is a broad one and is linked with: 1) framing the research design in relation to the questions the research is to answer and any model or theory being used, 2) planning what data is to be collected, why, how and by whom; and 3) how it is to be collated, analyzed, and presented in the report, and by whom. A central focus in each of these three processes must be the importance of meaningful data - an audit is only as good as the data generated. In the report we review what this means and then single out three related issues for further discussion: sampling, validity and reliability, and indicator choice and measurement.

For a social audit to be meaningful it must study indicators relevant to the organization. The key is to choose indicators on the basis of reasoning and knowledge of their significance, not just because they can be measured - all indicators and measures should be useful in some way.<sup>8</sup> Any projected impacts should be identified, including potentially negative ones. These projections can guide decisions about what to measure and how. The usefulness of indicators is

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<sup>7</sup> The Institute of Social and Ethical Accountability (2000) AA1000 Standards Guide suggests thirteen core principles of social auditing. Accountability is the first. The rest are listed under inclusivity, and are grouped into those relating to the scope and nature of the project (completeness, materiality, timeliness), to the meaningfulness of information (quality assurance, accessibility), information quality (comparability, reliability, relevance, understandability), and to the ongoing management of the process (embeddedness, continuous improvement).

<sup>8</sup> The concept of "indicator" is used here to refer to the translation from general concept to specific measurable parts. For example, an outcome indicator of the concept of vibrant democracy might be "participation at AGM's". However, there are many types of data that could be used to measure participation and these are called measures. For example, measure #1 could be attendance at AGM's as a ratio of membership total, #2 could be attendance at AGM's by branch memberships, #3 could be attendance across specific constituencies such as youth, #4 could be numbers who spoke up on substantive issues at the recent AGM. Another indicator of democracy could be "competitive elections", with its own measures.

enhanced when there is some way to set the information in context. For example, is there a clear rationale (a theory) about why these indicators are the ones to assess? Can the information be compared to past performance or become a baseline against which to compare future results? Can it be compared to an appropriate external benchmark? Can the information be compared to goals or targets set by the organization, or to regulatory standards?

Thus where possible there should be comparatives for each item measured, and the organization's own targets. Regarding outcomes, the investigators need to build a theory of the effects of organizational outputs on community (or other factors of interest), and how best to indicate and measure these effects. The use of multiple indicators of the same concept, and multiple measures of each indicator, is recommended. All of this enhances meaningfulness, as does attention to sampling, validity, and reliability. The full report discusses these and emphasizes that auditing organizations and their consultants need to give these issues rigorous attention.

Many commentators advocate the use of quantitative indicators, but there is also much debate concerning the benefits and drawbacks of quantifying or specifying dollar equivalents for as many indicators as possible. A quantitative approach certainly permits broader assessment of reliability and validity, and comparability to external benchmarks, attainment of targets, and so on. However, qualitative or descriptive data has strengths too, especially those related to meaningfulness and depth of information. Both are needed.

### **3. Outputs and outcomes**

For all organizations doing social auditing it is important to report on outputs - to document what the organization is actually doing and how. For example, a credit union may donate money, help set up a co-operative housing project, consult with community leaders about priorities, and so on. However, as informants in Canadian credit unions emphasize, after gaining a handle on these output questions the focus begins to shift to "so what?". In other words, what are the effects of these outputs? Can the organization claim to be accomplishing what was intended?

Governments are also shifting to an outcomes focus, evaluating selected impacts of their programs and policies (Ormala, 1994; Canada Treasury Board, 2000; Government of Nova Scotia, 1998; Government of Newfoundland and Labrador, 1996 and 1998). Non-profit organizations are making this shift in thinking too.

Several terms are used to describe the work of assessing outcomes. Some of the most common are evaluation research, impact assessment, community indicators, outcome measurement. Social auditing is one tool promoted to assess outcomes. All such techniques of measuring outcomes require considerable methodological knowledge and rigour - whether hired or in-house. There is no one right method of impact analysis (see discussion of methods in Ormala, 1994), but care must be taken to choose an appropriate approach.

Sociologists, evaluation researchers, and others have been concerned for many years about the selection of valid and reliable "social indicators" by which to encapsulate the state of a society or community, and the reign of the welfare state spurred on such work. Efforts were made to track changes in these indicators, in connection with government programs and policies. One significant challenge can be that of establishing that an impact that shows up is really a result of an organization's output, not a consequence of some other factor. Creativity in

selecting indicators is desirable and use of multiple indicators is valuable. Convergence of findings builds confidence in the data. Methods can include interviews, surveys, compilation of statistics, case studies, evaluation panels, and so on. Taking baseline measures before programs go into affect is also necessary if impacts are to be tracked.

Assessment is best if focussed on the most relevant dimensions in light of the objectives and context, and on unintended impacts which stakeholders identify - not on all possible outcomes. For example, if a housing project in which a credit union is heavily involved fills with residents from the clientele it was supposed to serve, then that is one measure of impact. Others in the community may also want measures of the project's impact on the neighbourhood. As a second example consider an indicator of successful capacity building. To measure this the credit union can measure actual instances of community activism. It may also solicit the opinions and perceptions of informed people who may also identify unintended impacts.

A review of literature on measures and social auditing revealed that there are many indicators and outcome measures being used. A selection of these relevant to the elements of social cohesion is presented in the report. Any credit union or co-operative outcomes assessment can draw on these but must be aware of its own objectives, context, and theory of change, as well as to the relevant unintended impacts which stakeholders identify - not all possible outcomes indicators.

## ***5. Potential areas for federal government involvement***

### **1. Exploring the role of the federal government in setting the framework for cohesive processes at the community level**

National government has an important role to play in setting the context for equitable and democratic accommodation of disagreements and conflicts (political institutions, democratic values and a strong civic culture), respect for diversity (giving all a voice, maintaining a common polity), and developing community capacity (including financial, social, and human capacity). Polarization into haves and have-nots makes success in these efforts impossible, so governments must implement programs and policies that will reduce wealth disparities and social exclusion (Kearns and Forrest, 2000; Mumford, 2000). Governments must not abdicate responsibility to non-elected and unaccountable bodies. Important as they are, even democratic co-operatives cannot have the broad accountability that governments have. The democratically accountable State has a role to play "in providing a framework within which competing interests can be resolved, as an orchestrator of resources, as a broker between the different interests and as an investor in the capacity and assets of those who are systematically excluded..." (Taylor, 2000). Research suggests that cohesion, capacity and effective governance are all related (McGuire et al, 1994).

Part of the shift involved in addressing the problems of social cohesion is towards an emphasis on the community level of Canadian life as well as an emphasis on the relationship of local communities with the wider society. As Comeau (2000) and Kearns and Forrest (2000) remind us, social cohesion is an issue at different levels of society. Since the more negative aspects of globalization are often felt at the community level, cohesion at the community level is threatened, a problem since communities characterized by social cohesion are more able to mobilize effectively to deal with their needs.

One way to address social cohesion is for government to recognize and create capacity in the social economy - locally and nationally. Historically extremely important in Canada, the social economy is now also playing a role in the reaction and opposition to the disassociation of economic development and social cohesion, and it is expanding to fill in where downsizing governments have left off. The social economy emphasizes democratization and decentralization of economic activities, and it is predicted that this sector of the larger economy will become more important as issues of exclusion and cohesion become more urgent (Perry and Lewis, 1994; Bourque, 1999). A strength of the social economy is that it is geared toward collective needs and aspirations, an area of weakness for the private sector. Government is already working with the non-profit sector. Another sector within the social economy, that of co-operatives and credit unions, requires recognition of the distinctive role they play. Partnerships offer promising means to make contributions at the local level.

Governments can also help by encouraging organizations in the social and corporate economies to develop a socially responsible stance, recognizing that said stance will not be the same across all organizations.<sup>9</sup> This encouragement can be a judicious blend of voluntary initiatives with a minimum of regulatory standards. Government can set an example itself, using tools such as social auditing and evaluation research to provide the bases of published reports on government responsiveness and transparency. It can sponsor research on social indicators appropriate for the community level (e.g. pursue the GPI-Atlantic initiative), and sponsor broad based communication strategies about the results of this research. It can provide modest funding for umbrella organizations to work together to create a web site to provide information electronically on democratic accountability, SEAR, CSR, and related subjects. Since accountability does not really exist unless that accountability can be demanded by those being reported to, these changes involve more than just disclosure. They incorporate some redistribution of power, which fits well with democratic views of transparency and accountability (Maltby, 1997; Taylor, 2000).

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<sup>9</sup> As reported in the Standing Senate Committee (1999), the Department of Human Resources and Development is supporting projects on social responsibility, best practices, and recognition of companies which act in a socially responsible manner. These are excellent examples of moving toward a context for valuing social responsibility and acting responsibly.

## **2. Recommendations regarding potential areas for government involvement**

### **1. Federal Government -**

- 1.1 That the government give priority to its role in setting the context for equitable and democratic accommodation of disagreements and conflicts (political institutions, democratic values and a strong civic culture), respect for diversity (giving all a voice, maintaining a common polity), and developing community capacity (including financial, social, and human capacity).
- 1.2 That federal government continue and extend initiatives in the areas of accountability and governance - in particular as these relate to social cohesion.
- 1.3 That government sponsor research on social indicators appropriate for the community level (e.g. pursue follow-ups to the GPI- Atlantic initiative) and sponsor broad-based communication strategies about the results of this research.
- 1.4 That government partner with other organizations to sponsor research on SEAR and the training required to conduct high quality social audits.
- 1.5 That the government provide modest funding for umbrella organizations to work together to create a web site to provide information electronically on democratic accountability, SEAR, CSR, and related subjects. (Possibly through the Co-operatives Secretariat - see below)

### **2. For corporations in general, including co-operatives -**

- 2.1. That government work with actors in the field of corporate social responsibility to promote dialogue and to change the moral climate in which corporations operate
- 2.2 That government promote the use of accountability tools, which address the concerns of appropriate stakeholders from the communities in which enterprises do business.
- 2.3 Consulting broadly, that the federal government consider requiring a limited version of a social report (probably focusing on outputs), said report to be part of some existing reporting requirement.

### **3. Regarding the Social Economy, especially co-operatives and credit unions -**

- 3.1 That government orient new and existing programs to encourage and facilitate connections among local community-based organizations (community councils?) - consulting widely in the development of such programs.
- 3.2 That the Federal government continue to work with the voluntary sector and to monitor actions taken in response to the recommendations of the Panel on Accountability and Governance in the Voluntary Sector (the Broadbent Report, 1999), and the government's own Task Force.
- 3.3 That the federal government work with the co-operative sector to address some of the same issues explored by the non-profits (e.g. partnerships, control, accountability).

- 3.4 That the Co-operatives Secretariat:
- i) Add questions to its annual survey requesting information about contributions to community and about governance structures and practices, and request copies of any reports or audits made public.
  - ii) Work with the apex organizations to develop one or more resource centres for information on corporate social responsibility, SEAAR, co-operative CD and CED, and methodology. Copies of any public reports produced in the sector nationally or internationally should be made available too..
  - iii) Consider setting up a resource bank of people familiar with co-operatives who can be contacted or consulted on the subject of SEAAR and corporate social responsibility.
  - iv) Work with the apex co-operatives to organize and support forums within and external to government which discuss social responsibility and its relation to social cohesion and other CD issues of mutual concern.
  - v) Promote (internal to government and externally) the work of co-operative development centres and the social reports they produce about themselves or projects implemented. (e.g. RCDC Moncton)

4. For provincial regulators -

- 4.1. That they add questions to their mandated reports asking for information about contributions to community and governance structures and practices.
- 4.2 That they be kept informed about the resource centre(s) developed and about the resource bank.
- 4.3 That they place on-line any public reports produced by organizations in their jurisdictions.
- 4.4 That they work with federal and local governments to develop and pursue policies that will provide for capacity building at local levels, and stimulate efforts at CD and CED.

**6. Summary and thoughts for the future**

Two themes structured these investigations: the role credit unions play in strengthening social cohesion in their communities, and assessing and making suggestions for strengthening social audit methodology as a valuable tool for credit unions and co-operatives.

**Theme 1: Roles of credit unions in their communities**

**Objective 1.1 Document and analyze accomplishments**

The evidence from the literature and from the study of three credit unions is that by being stable, locally owned, democratic, financial co-operatives credit unions contribute to community capacity and social cohesion, while providing needed products and services. Many credit unions go much further, becoming important local philanthropists, developing programs geared toward the marginal or excluded, entering into partnerships for CED or CD, hosting community bulletin boards, supporting or providing innovative educational programs, and many other activities. Credit unions embody and promote community initiatives. Nationally and provincially in the



credit union system there are annual awards to recognize and celebrate credit unions community contributions over the past year.

The three credit unions studied here all provide leadership and other resources that are valuable to communities such as time, money, facilities, equipment, opportunities to learn about democracy, and opportunities to gain leadership experience. They all developed some CD or CED initiatives and see themselves as contributing to capacity building and social cohesion. They all want to have positive impacts on their communities and they succeed (in ways bigger and smaller) in doing so. For example, one credit union is involved in affordable housing initiatives. Another is trying to address the financial needs of the homeless, and is seeking out non-profit organizations as potential members. A third credit union is in contact with community economic development groups in each of its communities, working with other agencies to fund small businesses. One renovated and expanded a building on the town's main street, to the delight of the small community. Another has put programs in place to help people who are unable to make their regular loan installments due to circumstances beyond their control. They all pay attention to democratic processes, and the recruitment of committed volunteers. These are but a small sampling of the many contributions documented in the social audit reports or mentioned in interviews. The process of planning and conducting social audits seems only to have deepened and strengthened these various commitments, and has opened the credit unions up to other innovative ideas.

Community context is widely disparate. Contrast the credit union which is the only financial institution in a small, relatively homogeneous community with one which is in a populous, highly competitive, heterogeneous environment. Or consider the large, complex and reasonably affluent credit union in comparison with the small, less differentiated, less affluent one. The degree of formalization necessary to evolve their relationships differ.

While informal relationships are always important, formalization (e.g. official partnerships, clearly defined positions responsible to CD and CSR, policy documents, social audits) is more likely to characterize community relationships in larger, more heterogeneous urban centres. Deciding priorities and needs can also be more difficult in such settings - stakeholders may be harder to reach, and may disagree amongst themselves. In such situations formalization can help clarify choices made, and reduce misunderstanding or conflict. Social auditing, as one aspect of formalization, is valuable for such organizations.

Size and affluence are also likely to affect relations with community. Affluence opens up choice and makes it easier to emphasize social priorities. Size plus affluence brings together both financial and human resources, again broadening the possibilities. However, small credit unions can certainly have an impact whether in urban areas or small communities. In urban areas small credit unions are more likely to target very particular aspects of community involvement and to mobilize particular segments of the community. In small communities where the credit union has high penetration and strong member loyalty, the credit union may find that it can identify and respond to broad-based community concerns. Identification of external leaders and organizations to help with an initiative may be easier too. This means that the credit union will be very visible, touching the lives of a high percentage of the community's population.

### **Objective 1.2 Analysis of the credit unions' use of the social audit tool**

The case studies show the value of social auditing in documenting accomplishments in

the areas of community involvement and democratic participation. These credit unions are becoming more and more adept at social auditing and future audits can be expected to incorporate more outcome measures, in addition to output ones. Despite clear and often self-aware shortcomings in their audits, all three do quality work, and demonstrate continuous improvement. They use very different models of social auditing and vary in the scale and depth of their social audits. They have a similar sense of what should be studied, have accumulated valuable expertise and experience, and can be a resource for others. Their work provides useful examples of indicators, measures, benchmarks, and targets. Lastly, these credit unions face similar challenges of how far to go, how best to ensure quality audits, and how best to measure outcomes.

The credit unions wisely tailor their audits to their own circumstances, while bringing in more standard indicators and measures as appropriate. This means that the process of social auditing helps the credit unions identify and measure indicators that are truly meaningful for them.

They approach social auditing with a blend of strong value commitments and enlightened self-interest, recognizing that the advantages of social auditing include the potential to increase member commitment and loyalty, and attracting new members. Social auditing also helps in the effort to balance, though with a shifting balance point, social and economic priorities. The informants (1999) report that social auditing offers considerable advantages in heightening awareness of social commitments and consequences for the community. It contributes to living up to stated commitments, enhancing the reputation of the credit union, to accumulating knowledge of the organization, and to planning and decision making.

## **Theme 2: The value of social auditing, methodology**

### **Objective 2.1 Particular suitability of social auditing for organizations with a commitment to social responsibility, member-ownership, and democracy**

Social auditing is demonstrably a significant advance in efforts to link organizational performance to evolving organizational priorities and actions. Social auditing also addresses contemporary concerns about accountability and transparency. The analysis of these three credit unions, together with the social audit and related literatures, shows that social auditing is a valuable tool for credit unions and co-operatives, which have a philosophy and structures different from conventional businesses. Social auditing helps keep track of the range of social commitments including that of accountability, and can help prevent goal deflection. Disclosure and accountability are likely to be less threatening to credit unions.

Social auditing can help protect the financial bottom line too, as many claim that co-operative business success is related closely to maintenance of the co-operative difference. Further, any organization which makes public claims about its social responsibility and its impacts on community is well advised to make policies and practices explicit, to set targets of criteria for success, and to engage in social reporting.

Since much of the work being done on social auditing standards and methods is being done with conventional corporations in mind, it is important that co-ops and credit unions work together regarding social auditing within their sector, taking part in the development of sector appropriate social auditing models and standards. ISEA is already working with an international

group of corporations, non-profits, credit unions and co-operatives to develop general standards (for all businesses) and accreditation for auditors.

### **Objective 2.2 Contribute to the development of social audit methodology**

The indicators and measures considered in the social audits done by the three credit unions studied here are useful for anyone wishing to audit community contributions and democracy. The review of literature also yielded valuable examples of measures relevant to the elements of social cohesion. As an evolving method of assessment social auditing needs to continue to improve in a variety of ways. The three credit unions offer insights for those wishing to move in the direction of social auditing. For example, it is important to take time to conceptualize (and re-conceptualize as appropriate) terms such as community, output, outcome, desired community impact, and relationship with community. Observations and suggestions emerging from this research can be itemized as follows:

- Social auditing is less effective when used as a “stand alone” tool, outside of any larger context for considering an organization’s social contributions.
- The stakeholder concept as developed by the New Economic Foundation has significant value, though is not the only route to an effective and high quality social audit. Questions about stakeholders (priorities, balance, sampling, etc.) all need to be addressed.
- Related to the above, issues of power, control and accountability need to be addressed.
- The methodology of social auditing is becoming more sophisticated, and subject to greater demands for rigor (e.g. conceptualization of concepts and processes, selection of indicators and measures, sampling, validity and reliability). It needs to be more closely informed by the literature on social impact assessment, evaluation research, and sociological research methods generally, especially as the emphasis shifts to include documentation of outcomes as well as outputs.
- Every piece of information in an audit should be there for a clear purpose. Under-conceptualized measures (unless there for a reason), and extraneous data. must be avoided..
- Sharing experiences, developing some common standards, sharing measures and indicators, while leaving room for appropriate individual tailoring of social audits is important. Organizations and the communities they are part of vary considerably.
- The larger social audit literature (including others’ social reports) offers useful examples of measures and indicators.

Amidst the many challenges for co-operative sector organizations in putting their principles into practice is that of conceptualizing community and the place of the credit union in it. This research shows that this is often not a subject of explicit attention, and that even when attended to it is rarely adequately so. To adequately conceptualize community is to consider issues such as: a) The relationship of member-owners to the working conception of community (e.g. in an community bond credit union, for example, what are the implications of the fact that members come from the community(ies) in which the credit union is located). What about taking decisions to amalgamate, downsize, reduce geographic presence, and so on? b) What is the most appropriate relationship between a particular credit union and its community(ies)? Do they serve them, do things to them, do things with them, are they embedded in them, and so on? c) What

does the credit union want to accomplish in relation to community? What does the community want and how does the credit union determine that? What happens when expectations are diverse and even conflictual, or take the organization away from its core business? d) What about issues of power and accountability? For fully open-membership organizations such as consumer co-operatives and credit unions, how accountable should the organization be to non-members when anyone, and any organization, can become a member-owner? For all co-operative sector organizations, how are the interests of various “stakeholders” (including members) balanced? Is it even appropriate to draw heavily on stakeholder theories designed primarily for nondemocratic contexts?

### **Objective 2.3 Generate useful information**

This report presents detailed information from the case studies and the relevant literature. This information should prove useful for governments and other organizations interested in developing policies and practices related to enhancing community. The extensive list of references provided in the full report is also a useful resource.