Social Value Reporting in Irish Credit Unions

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Contents

Introduction

Recently, a small number of credit unions in Ireland and the United Kingdom (UK) have started to report their social value to the communities they serve, and in some cases assign financial values to their social outputs.

This form of voluntary reporting is becoming more prevalent in a range of socially-oriented organisations (e.g. charities), many of whom view such reporting as an opportunity to inform stakeholders about the extent and impact of the activities they engage in. Such activities are often not captured in traditional reporting outlets such as financial statements/annual reports. Indeed, as a direct consequence of the current regulatory reporting regime for Irish credit unions, which has become more onerous in the aftermath of the 2008 financial crisis, some in the sector view the development of social value reporting as a direct response to the widely-held view of an excessively financially-based reporting system.

Those credit unions who have engaged in this process, appear to be doing so in an attempt to reinforce and reinvigorate their social ethos, which in recent times, seems to have become less prevalent due to the increased focus on financial risk assessments and regulation. This research explores why Irish credit unions have engaged in (or are considering) social value reporting, what form it takes and how it may assist them in regaining their social focus.

"...why Irish credit unions have engaged in (or are considering) social value reporting..."

Aims and Objectives

The aim of this study is to investigate the motivation, process and outcomes of the recent initiation of social value reporting in Irish credit unions. Prior research conducted by McCarthy (2020) found very little evidence of any form of such reporting within the annual reports of Irish credit unions.

However, this changed in 2020, when Donore Credit Union in Dublin became the first credit union on the island of Ireland to publish a social value report. Donore used an approach called Social Return on Investment (SROI) and their report claimed that for the equivalent of every €1 invested in their credit union, approximately €10 of corresponding social value was created. Donore's report also claimed that they generated a social dividend of at least €25 million during their 2018/2019 financial year.[1]

A small number of credit unions in the UK have also engaged in social value reporting - for example, Clockwise Credit Union in Leicester.[2]

Other credit unions have engaged in a form of social impact reporting (e.g Hoot Credit Union in Bolton[3]) which is similar, but does not focus on producing a single financial value.

As a result of the pioneering work of these credit unions, there is an increasing interest in the use of such voluntary reporting throughout the credit union movement in Ireland and the UK. Therefore, the primary aim of the research study is to evaluate how this form of voluntary reporting can enable credit unions to regain/reinforce their social ethos upon which they were founded. Specifically, to address this research objective, the following research questions are posed:

- **Why have Irish credit unions initiated social value reporting?**
- **What are the specific social value reporting techniques used and why were these particular techniques chosen?**
- **How does social value reporting maintain or improve the credibility of credit unions as social entities in Ireland?**

1 https://www.donorecu.ie/social-return-on-investment

2 https://socialvalueuk.org/report/social-return-on-investment-evaluation-sroi-clockwise-credit-union/

3 https://www.wisewithmoney.org.uk/theowleffect/

Research Methodology

Between early and mid-2021, twenty-five people were interviewed via the Zoom platform. In total, just under 28 hours of interviews were conducted, representing an average time per interview of slightly over one hour.

A diverse range of interviewees contributed including credit union managers/chief executive officers, external auditors of credit unions, members of sectoral representative bodies, Government advisors and serving politicians. All interviews were recorded, initially transcribed using artificial intelligence and then manually checked for accuracy and completeness. Following this process, each transcript was reviewed manually to decipher the common themes and supporting quotes used in this report.

Collectively, the interviews conducted for this study succinctly captured the opinions of staff employed within 12 credit unions, ranging in size from small to large, primarily located in Ireland, but also including a number based in Great Britain. We initially focused our interviews on those credit unions who had already published a social value report.

However, at the conclusion of each interview, we requested each interviewee(s) to provide us with names of anyone whom they thought would be of interest to us in our research endeavours. We continued this process until either the same interviewee names were being suggested and/or we reached a level of saturation of the views being provided.

All interviewees were initially given a common set of outline questions prior to each interview. For the vast majority of interviews, the same set of questions were used. The primary exception was that questions focusing on regulation were not asked of non-Irish based interviewees.

"...the interviews conducted for this study succinctly captured the opinions of staff employed within 12 credit unions..."

Research Methodology

Furthermore, depending on the role occupied by the interviewee, some questions were considered irrelevant and were not asked. As is normal protocol in interview-based research, some additional questions were asked during interviews in response to statements made by interviewees.

Specifically, the questions asked attempted to garner views pertaining to two main areas of interest – the existing regulatory/reporting regime of credit unions and social value reporting. Due to the specific focus of this study, detailed questions about particular social value reporting tools/techniques were not asked.

This research does not claim to represent the views of all credit unions. However, it does provide a cross-section of opinions offered by numerous credit union managers and the opinions of other interested stakeholders. It should be noted that the views of the appropriate regulatory bodies were requested, but unfortunately were not forthcoming.

However, opinions on the current regulatory regime were obtained from several interviewees. Despite such limitations, we hope that this report will provide CPA members with an increased awareness of the use of social value reporting, and indeed non-financial reporting in general.

"...credit unions are in search of new ways of reporting their non-financial performance to reflect their unique contributions and value to Irish society."

Main Findings

We now present our findings, organised according to the research questions outlined earlier. A brief outline of the context of Irish credit unions is useful first.

There are about 250 credit unions in the Republic of Ireland (ROI), with about 80 in Northern Ireland. Each credit union operates as a separate legal entity - typically a private company - and operates as a cooperative organisation i.e., it is not-for-profit.

According to the Irish League of Credit Unions[4] its affiliated members (in ROI and Northern Ireland) have a loan book of about €4.9 billion and net assets of €19.2 billion. The sector is regulated by the Registrar of Credit Unions at the Central Bank of Ireland. In addition to the normal reporting requirements of a company, a credit union must also report under four main regulatory headings, namely, 1) prudential returns, 2) year end reports, 3) fitness and probity reports and 4) outsourcing notifications.

Irish credit unions date from the 1950's, a time when poor economic conditions saw many unlicensed money lenders charging excessive interest rates. Credit unions stepped in to serve a social purpose and provide finance to members at reasonable interest rates. Since then, the financial markets have become increasingly efficient and finance is more easily accessed by formerly disadvantaged societal groups.

Thus, what was the "credit union difference" has been watered down over time. As will be shown presently, credit unions are in search of new ways of reporting their non-financial performance to reflect their unique contributions and value to Irish society.

4 See https://www.creditunion.ie/about-credit-unions/key-statistics/

Why are Irish credit unions considering social value reporting?

Based upon the interviews conducted, the primary reason why credit unions have (or are considering) the use of social value reporting is in an attempt to demonstrate the value they bring to local communities. This is in response to a widely held view amongst interviewees that credit unions in Ireland are over-regulated with an onerous reporting regime composed primarily of financial performance/financial risk measures.

This focus on financial-based information restricts credit unions in articulating how their actions contribute towards the achievement of their social ethos. One interviewee, a CEO of a large credit union recounted both sides of the story quite well:

- **On regulatory reporting:**
  The only thing the Central Bank looks at is financial information. They don't care about members, their remit is to protect member savings. If that means that credit unions close down, but no taxpayers money is used in the closure of that credit union, they'd consider that as their job done.

  They don't care about the individual. As long as we are going in the right direction in the annual revenue and regulatory reserves, they don't care about the members. Absolutely, purely it's just their monitoring metrics.

- **On the value of credit unions to communities:**
  You'll hear the stories of, 'if it wasn't for the credit union, I wouldn't be able to go to college or I wouldn't have been able to do this or wouldn't be able to do that'. So there are real impactful stories, really meaningful impacts on people's lives. Otherwise, where do they get the finance?

The CEO of a credit union who has engaged in social value reporting related the need for such reporting to re-emphasise the purpose of credit unions, which may be less of a focus for credit union managers today given the regulatory reporting requirements:

> "I remember presentations from someone from the Central Bank saying whatever number of loans were given out by credit unions last year. So it made me think for a second, what exactly is a loan from a credit union? It's an ambition realised, it's a dream attained, it's a need met."

Taking the above example quotes, it is apparent that interviewees have a strong view on a need to look beyond financial performance and engage in reporting which highlights their value to society.

While all credit unions prepare an annual report and financial statements, few interviewees mentioned the inclusion of items in their annual reports which highlighted such value, although most indicated this would be a useful place to include more information.

What reporting techniques are in use?

While all interviewees were aware of the concept of reporting on social value, few did so. One credit union, Donore Credit Union has already produced a Social Return on Investment (SROI) report, which is described below as an exemplar of the type of reporting which can be done.

This method is also being trialled in some other Irish credit unions to determine its wider suitability, and it has been utilised in some British credit unions. The SROI approach attempts to measure an entity's social value by determining a value for their social outcomes, and by dividing that amount by the cost of the inputs required.

This generates a ratio of social outcomes to inputs (Mook et al., 2015).An advantage of SROI is that it is supported by a methodology[5] and practitioners are trained in its use.

A cited limitation of SROI is the fact that many of the costs/benefits included in its calculation can appear arbitrary, which may lead some people to question its validity and robustness as an appropriate measure. We now outline how SROI was utilised in the case of Donore Credit Union.[6]

In any SROI reporting process, what is reported depends on the nature of the organisation.

At the core of any SROI valuation are eight principles - see Figure 1.

Following these principles, an organisation - typically with assistance from a consultant or social value practitioner - engages the organisation's stakeholders to define key outcomes for each stakeholder group.

Some example outcomes from Donore Credit Union are shown in Figure 2. The outcomes are valued from current and discounted future cash flows, resulting in a present value.

The values of inputs are also calculated and an SROI ratio is generated. For Donore Credit Union, their net SROI (net present value of outputs divided value of inputs) was 10.51:1, which can be interpreted as "for every €1 equivalent invested into Donore CU, approximately €10 of social value was created".

Principle 1	Engage Stakeholders
Principle 2	Understand What Changes
Principle 3	Value the Things That Matter
Principle 4	Only Include What Is Material
Principle 5	Do Not Overclaim
Principle 6	Be Transparent
Principle 7	Verify the Result
Principle 8	Be Responsive

Figure 1 - Principles of social value

5 https://www.socialvalueint.org/guide-to-sroi
6 The full report can be found here https://www.donorecu.ie/social-return-on-investment

Stakeholders	Outcomes
Members	Reduced stress
Loyal members	Sense of belonging
Coping borrowers	Improved standard of living
Shareholders & savers	Increased income
Business loan recipients	Business development
Volunteers	Satisfaction with volunteering
Vulnerable borrowers	Cost savings
Budget account & Christmas Club users	Better able to manage money
Recipients of donations	Better day-to-day functioning
Financial education programme users	Increased financial capability
Prize winners	Prizes
Club account holders	Increased income
Scholarship recipients	Scholarships

Figure 2 - Examples of stakeholders and outcomes of Donore Credit Union

To illustrate how the SROI process determines a monetary value, from Figure 2 the example of "Vulnerable borrowers" is useful. The process started with obtaining the number of members who had certain loan types and/or consolidated loans - these were determined as vulnerable borrowers. The average rate of interest on these loans was calculated, and compared to rates charged by moneylenders and credit cards. The rate differential was calculated at €400 per loan per year, which resulted in an overall value of just under €37,000 i.e., the social value generated. A similar exercise is repeated for all stakeholders and outcomes, and in the case of Donore Credit Union "a social dividend in excess of €25 million was generated by Donore CU during its 2018-2019 financial year" (Donore Credit Union, 2020, p.48).

Donore Credit Union is but one example of the use of SROI, and as mentioned some other credit unions are also trialling the process. The next section highlights views of interviewees as to whether reporting tools like SROI may help credit unions attain an improved credibility as social organisations in an Irish context.

Can social value reporting improve the credibility of credit unions as social organisations?

Through social value reporting and quantifying their social value, interviewees held a view that the credit union movement generally could realise several benefits. Collectively, the realisation of these benefits may improve their status, not only as providers of credit, but also demonstrate their credibility in delivering upon their original social ethos. Specifically, interviewees reported that engaging in social value reporting, and subsequently promoting the outcomes, would help them reinvigorate their historically strong association with their respective local communities. These particular points were articulated by the CEO's of two separate credit unions as follows;

- **On the need to highlight the social value of their activities:** We'd be involved with, you know, local clubs and groups. And we forget about it. We do it because we want to help put our values in action.
- **On the impact on marketing:** social value does allow you to refocus on what your marketing message is.

Interviewees also suggested that the process of social value reporting should enable credit unions to reconsider how they currently operate, and whether more efficient operational approaches could be used to the benefit of both the credit union and members into the future. According to one credit union director, the use of social value reporting (or equivalent);

> [It] does lead you to rethink your purpose and what you're doing, whether you're achieving. [...] It isn't just about marketing, it is about strategic planning and the development of the organisation. So social value measurement is absolutely closely linked to your purpose. Because that's how it begins.

> You have to clarify what is your purpose, what needs are you trying to respond to, in what way and what are your objectives? And then how do you bring that about? And are you successful in doing that, over and above, you know, the numbers of the provision of loans and savings or what difference they are making to people's lives and in the communities.

"Interviewees also suggested that the process of social value reporting should enable credit unions to reconsider how they currently operate"

The ability to use social value reporting results to influence/lobby the political and regulatory establishments for a more considered reporting/regulatory regime - more cognisant of the critical role that credit unions occupy in their local communities - was also cited by some interviewees as a possible outcome.

There was a general perception amongst interviewees that the fundamental differences and objectives (financial and otherwise) between banks and credit unions should result in a reduced reporting/regulatory regime for credit unions. This view was succinctly captured by a credit union auditor, who suggested that the use of social value reporting could:

> ... enhance [the] relevance and awareness of the values of a credit union. And I think the regulator is effectively the people's policeman.

And so it can't but be welcomed from a regulatory perspective as it would build confidence in the system. I would think it would be embraced by all.

"...there are some challenges that will need to be overcome before the potential benefits of this form of reporting can be realised..."

Based upon the sample of comments from interviewees above, it seems clear that the appropriate use of social value reporting has the potential to enable credit unions to improve (or regain) their credibility as social entities.

However, there are some challenges that will need to be overcome before the potential benefits of this form of reporting can be realised throughout the credit union movement. Interviewees mentioned the need for some standard reporting format and lack of resources (staff, time) as two key challenges.

Conclusion

As revealed by this study, the use of social value reporting in Irish credit unions is novel. However, there appears to be a desire for a voluntary reporting mechanism to demonstrate the social value generated within the respective communities that they serve.

By proactively engaging in this process, credit unions should be invigorated to redirect some time and energy towards their social ethos - one of the foundation pillars upon which the credit union movement was originally established and one which differentiates them from other financial institutions.

Although satisfying current reporting and regulatory regimes was cited as particularly onerous, the use of social value reporting techniques such as Social Return on Investment (SROI) may provide credit unions with the impetus to explore new opportunities that heretofore they were reluctant to consider.

Perhaps the role of credit unions is best articulated by one of our interviewees, a politician who stated that; "they actually serve a need. And I'll put it like this. They are a bit like [Saint] Vincent de Paul with their social character, they help people who need help".

Whether the use of social value reporting ultimately contributes to regulatory change remains uncertain, but if credit unions' use of social value reporting enables them to do more for their communities, it seems like a very worthwhile endeavour to pursue. CPA members, with their strong analytic training, no doubt can have a role in helping credit unions with such reporting.

References and further reading

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