Social value reporting in Irish credit unions.

by Dr Martin Quinn & Dr Peter Cleary

Increasingly, reporting of organisational values other than financial value is becoming more common. This article reports on one such initiative by Irish credit unions, which attempts to capture the social value generated by them. In turn, the reporting is helping credit unions reflect on their social purpose in a fast changing and highly regulated sector.

In recent years, investors have increasingly considered Environmental, Social, and Governance (ESG) factors as part of identifying firm risks. This of course requires firms to report on such items and simultaneously, there have been moves by legislators to require firms to include more non-financial information within their reporting, for example, the Strategic Report as required under Corporate Governance codes. There is also an ongoing IFRS Sustainability Reporting Standards project and initiatives such as the Integrated Reporting Framework. Such reporting recognises that firms can create (or reduce) not only economic value, but also social, civic or public value. Social value reporting typically implies assigning some form of quantification/value to the outputs/services of an organisation.

Currently, the reporting of non-financial items is mainly done within the realm of larger or public companies - to comply with regulations and/or meet investor needs. Smaller companies, or those with a not-for-profit/charitable motive have less stringent reporting requirements, or in some instances, none at all. To give an example of what is required by a charity, its Annual Report should include mention of who it has helped, how it raised and spent funds, and where the benefits of its work were felt. Such information is typically in summary form, and quite short compared to what larger for-profit companies report. It does however provide useful insights for donors and the public, and also forces charity management to monitor their performance with regard to their charitable objectives.

Recently, some Irish credit unions have embarked on a journey to report upon their social value, which prompted us to study them. This article provides some insights into the nature of the reporting undertaken and what issues may potentially arise.

The credit union sector in Ireland

Credit unions are established to serve their members financial needs. They are a cooperative organisation - the members (savers) are the owners. As members save with their credit union, these funds can be loaned to fellow members, thereby ensuring that any money deposited remains within the community or "common bond" (e.g. local area, trade or organisation) served by the credit union.

In the 1950's in Ireland, unemployment was rife. Poor social conditions and low levels of state unemployment benefit left many families living in poverty. Access to money and limited money management skills were identified as two issues afflicting the majority of the population when discussed by the three founder members of the Irish credit union movement in 1953. The inaugural community-based credit union opened in the Donore Avenue area of Dublin in 1958. In 1966, the Credit Union Act was passed and in 1972 the Irish League of Credit Unions (ILCU) was established to represent the interests of credit unions. By 2008 there were 521 credit unions on the island of Ireland with 2.9 million members[1]. A period of consolidation followed, and as of August 2021, the 326 credit unions affiliated to the ILCU have 3.63 million members, €16.3 billion in savings, loans of €4.9 billion, and assets to the value of €19.3 billion[2].

Irish credit unions are regulated primarily by the Credit Union Act(s) 1966 and 1997. The 1997 Act introduced a statutory reserve of 10% of each credit union's annual surplus, limited the types of investments they can engage in and gave powers to the regulator to determine allowable investments. Essentially, this is restricted to placing monies on deposit. However, given the social purpose of credit unions it appears that such regulation may be overly restrictive e.g. investments in social housing schemes would appear to represent a good, viable and secure investment. The Credit Union and Co-Operation with Overseas Regulators Act (2012), amongst other things, amended the provisions of prior Acts focusing mainly on the internal organisation of credit unions. For example, certain management roles and the Board of Directors were now deemed as professional roles. The 2012 Act also transferred the regulation of credit unions to the Central Bank of Ireland. This ensured that the regulation of credit unions was now being performed within the same institution as for-profit banks. All credit unions must now regularly report to the Central Bank of Ireland across four headings - prudential returns, year-end, fitness and probity and outsourcing

1 "Year" & "Key Development" table of https://www.creditunion.ie/about-credit-unions/history-of-credit-unions/

2 https://www.creditunion.ie/about-credit-unions/key-statistics/, accessed August 5th, 2021.

notifications (see https://www.centralbank.ie/regulation/industry-market-sectors/credit-unions/reporting-requirements). During the course of our study, it was repeatedly suggested that the regulatory and reporting requirements expected of Irish credit unions has resulted in an over-focus on financial performance indicators. This emphasis on financial performance indicators makes it more difficult for credit union decision-makers to reveal their social value and retain the support of the communities they serve. Consequently, this led some credit unions to explore ideas of publicly reporting their social impact or social value. We now provide some insights into the type of reporting being undertaken.

Reporting the social value generated by a credit union

There are several ways to measure an organisation's social impact in monetary terms. According to Mulgan (2010), some of the ways to measure social value include Cost-Benefit Analysis, Cost-Effectiveness Analysis, Social Impact Assessment/Social Return on Investment Assessment and Public Value Assessment. In 2020, Ireland's oldest credit union, Donore Credit Union in Dublin used a Social Return on Investment (SROI) method to report on their [social] value generated.

The CEO, David McAuley, indicated to us that he has been concerned with the volume of regulatory compliance and reporting faced by Irish credit unions. He also noted that he believed that credit unions need to report more non-financial information, including the impact they have on the communities they serve. He heard a radio news item about Na Fianna GAA club in Dublin, who commissioned an SROI report in response to a proposal to use their grounds as part of an infrastructure construction project.

The resulting study noted the club generated €50 million in social value in the year to June 2018. Following this, a similar SROI report was commissioned by Donore Credit Union.

What is the process of deriving an SROI value you may ask?

What gets reported may vary depending on the nature of the organisation, but at the core of any SROI valuation are eight principles according to Social Value International - 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 - see some examples for Donore Credit Union in Figure 2. The outcomes are valued, with both current and discounted future cash flows included, resulting in the calculation of a present value. The values of inputs are also calculated, and when compared to the outputs, an SROI ratio is derived. In the case of Donore Credit Union, their report noted an SROI ratio of 10.51:1, which can be interpreted as "for every €1 equivalent invested into Donore CU, approximately €10 of social value was created".

From Figure 2, let us use the example of Budget account & Christmas Club users to illustrate how a monetary value can be attached to the outcome "better able to manage money" (Principle 2/3 per Figure 1). The process started with obtaining the number of members who used these services. The monetary value was derived by examining the costs of courses which members could take to improve their everyday budgeting skills. An average cost of such a course was used, and then multiplied by the number of members to derive an initial outcome value. This was then reduced by a "deadweight" estimate - an estimate of whether the outcome would have happened without Donore Credit Union budget accounts in this instance (Principle 5 per Figure 1).

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

Figure 1 - principles of social value (Note: Principle 8 was added in 2021)

Figure 2 - stakeholders and outcomes of Donore Credit Union (adapted)

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

The outcome value was reduced by any associated input costs - fees paid by members on budget accounts in this example.

The future

David McAuley, CEO of Donore Credit Union said of the reasoning behind their SROI report "what we were trying to determine was if the credit union ethos – not for profit, local base, community values – are deemed valuable by members? The response we got to the report was a resounding yes". This suggests that reporting social value within the credit union sector may be useful. As part of an ongoing CPA Ireland supported study we are undertaking, interviewed credit union CEOs and managers have expressed great enthusiasm to engage in more reporting which better reflects their activities and values (financial and non-financial).

They have reported that undertaking an exercise such as an SROI study would help them reflect on what is really important to a credit union - the financial wellbeing of its members, the communities in which they operate, for example. Normal financial statements and reports submitted to regulatory authorities do little in this regard, according to most CEOs/managers.

Many interviewees in our study also noted that reporting more non-financial measures to the public would be useful in portraying the value of credit unions to the communities they serve, ultimately increasing membership.

This is a classic case of non-financial performance linking ultimately to improved financial performance (more members = more income) - albeit credit unions are not-for-profit organisations.

Other credit unions are also considering following the Donore Credit Union reporting example, which will be interesting to study in the future. As accountants, we are used to more precise monetary values being reported in profit and loss accounts and balance sheets and may express some doubt in monetary values attached to social outcomes. While there are methodologies supporting the calculation of figures such as SROI, any such reports are not (yet) audited/verified. There is also the additional problem of selecting measures appropriate to an organisation - even within the small Irish credit union sector there are many differences between individual credit unions. This leads to issues of comparability.

Other issues include the regularity of reporting and the resources needed to partake in this practice. However, despite such issues most credit union CEOs/managers interviewed by us noted the value of some form of reporting of their social value to members and communities.

References and further reading:

Mulgan, G. 2010. Measuring Social Value. Stanford Social Innovation Review, Summer 2010, 37-43.

Social Return on Investment Study, Donore Credit Union, available at https://www.donorecu.ie/Social-Return-On-Investment

Social Return on Investment Study, CLG Na Fianna, available at http://clgnafianna.com/social-value-report/

The Principles of Social Value, available at https://www.socialvalueint.org/principles.

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Dr Martin Quinn

Dr Martin Quinn is a Professor in Accounting at Queen's Management School.

Dr Peter Cleary

Dr Peter Cleary is a Senior Lecturer in Accounting at Cork University Business School, UCC.