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How to cite this article:

Adderley, I. Mantzari, E., McCulloch, M., & Rixon, D. (2021). Accounting and Reporting for Co-operatives: a UK Perspective. *Journal of Co-operative Studies*, 54(3), 45-57.

# Accounting and Reporting for Co-operatives: a UK Perspective

Ian Adderley, Elisavet Mantzari, Maureen McCulloch, and Daphne Rixon

This paper reflects on the need for an accounting and reporting framework for co-operatives in the UK. We consider the current state of accounting in the co-operative sector and set out the arguments for a co-operative accounting Statement of Recommended Practice (SORP) at entity and sector level, broadly and in some practical detail. We argue that the development of a co-operative SORP could contribute to our understanding of whether the definition, purpose and principles of co-operatives are being met. A co-operative SORP would allow both private (member) and public benefit to be pursued at the same time, make the sector more visible, and enable cross-sector comparisons for the whole movement. Such a framework would also offer clearer means for policymakers, regulators, funders, and others to identify and target support to provide equal treatment for co-operatives. The paper concludes by offering some preliminary action points on how to take the SORP project further.

## Introduction

The question of how co-operatives do their accounting and the implications this has on aligning more effectively their economic, social, and cultural goals has been largely overlooked. Existing accounting and accountability practices fail to reflect the values and principles of co-operatives, thereby failing to support them in meeting their purposes. The aim of this paper is to discuss the need for a more systematic approach to accounting and reporting for co-operatives and the specific aspects that justify the development of a Statement of Recommended Practice (SORP) in the United Kingdom (UK). SORPs, issued by ‘SORP-making bodies’, are recommendations on financial reporting, auditing, and actuarial practices developed for specific sectors or industries, such as charities, higher education, and pension schemes (Financial Reporting Council, 2021). SORPs supplement accounting standards and other regulatory requirements to reflect the particular circumstances and transactions that are unique in a sector or industry and address issues that are addressed in accounting standards but further guidance is required (Financial Reporting Council, 2021).

We reflect on current accounting practice and developments, and the particular accounting needs of co-operatives, in order to make a case for a SORP for co-operatives. We hope that this paper will revive and encourage further discussion and action on developing co-operative accounting that would not only help express but also achieve their mandate as co-operatives. The paper is structured as follows. We start by discussing the values and principles of co-operatives and their hybrid nature; combining economic and social purposes, but also pursuing both private and public interests. We then set the background by outlining current accounting practices of co-operatives and key aspects that differentiate them from investor-oriented and public benefit organisations. This is followed by a more detailed discussion of practical accounting issues that justify the development of a co-operative SORP. To conclude, we identify some action points to support the development of the SORP project.

## Co-operative Identity and the Common Good

### Definition of co-operatives

The International Co-operative Alliance (ICA) Statement on the Co-operative Identity (ICA, 2018a) sets out what can be considered a “universally recognised” (Henry, 2012, p. 65) definition of a co-operative, subsequently incorporated in the International Labour Organisation (ILO) Recommendation, 2002, 193 (ILO, 2017), which states that a co-operative is:

... an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise (Section 1, para 2).

Co-operatives are based on a set of values they put in practice through the principles set out in the Statement. Though recognised in international law, there is no legislative definition of a 'co-operative' in the UK, albeit the word 'co-operative' has a more restricted use (see Companies House, 2021, Annex A). Unlike in many other countries, UK co-operatives are free to use any legal form they choose (Snaith, 2014, p. 736), or indeed none at all; though for present purposes, this paper confines itself to those co-operatives adopting some form of structure that creates a body corporate — a distinct legal entity subject to financial reporting requirements in its own right. Most co-operatives choose to register as what were referred to prior to 1 August 2014 as 'industrial and provident societies', and now 'registered societies'. New societies can register as either a 'co-operative society' or a 'community benefit society' (Co-operative and Community Benefit Societies and Credit Unions Act, 2010). Based on the Financial Conduct Authority's (FCA) 2020-21 Mutuals Update (FCA, 2021), there are 8,180 societies registered under the Co-operative and Community Benefit Societies Act 2014. This compares to 1,489 co-operative entities listed in the underlying data in the Co-op Economy Report 2021 as being registered with Companies House (Co-operatives UK, 2021).

In not having a legislative definition of 'co-operative', great flexibility is afforded to co-operatives in how they choose to structure. This has allowed for co-operatives to operate as Limited Liability Partnerships, Companies — whether limited by shares or guarantee — as well as registered societies and under other legal forms. While some protection over the word 'co-operative' exists, this is limited to those entities using the exact term in their registered or trading name. The flexibility of company law has enabled co-operatives to incorporate with enough modification to adapt to their articles of association to meet the Statement definition. In a significant minority of companies, 1,489 co-operative companies of 4,202,044 companies as at 1 August 2019, this is however a case of tailoring to make fit (Companies House, 2019).

The corollary of the flexibility is less precision and clarity. Without a clear identifiable term, or ultimate legal arbitrator of it, it follows that it must be harder to decisively identify what is, and is not, a co-operative. But it does not necessarily follow that this flexibility should be compromised (Adderley, 2018). Instead, greater clarity on co-operative definition and purpose could be achieved through the implementation of a SORP that facilitates a co-operative narrative of use to its members and the public more generally.

## Co-operative identity and principles

The Statement identifies seven key principles which put co-operative values of self-help, self-responsibility, democracy, equality, equity, and solidarity into practice (ICA, 2018a). Here, we summarise some of these principles to build the context for the discussion that will follow.

Co-operatives are voluntarily created organisations and have open and voluntary membership, i.e., they are open to all individuals able to use their services and willing to accept the responsibilities of membership (*Principle 1*). Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Members in primary co-operatives generally have equal voting rights, based on the one member one vote principle (no majority shareholders) (*Principle 2*). Members contribute by working, investing, shopping or trading with the co-operative, and any surplus they make (after all costs are covered) can be shared among the members or re-invested back into the co-operative.

The Statement also includes the principle of member economic participation (*Principle 3*):

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is expected to be the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, setting

up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership (ICA, 2018a).

Co-operatives also provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public about the nature and benefits of co-operation (*Principle 5*). Finally, co-operatives work for sustainable development of their communities through policies approved by members, following the ethical values of co-operative tradition of believing in honesty, openness, social responsibility, and caring for others (*Principle 7*).

### **Co-operatives and the common good**

As, “people-centred enterprises owned, controlled and run by and for their members to realise their common economic, social, and cultural needs and aspirations”, co-operatives “act together to build a better world” (ICA, 2018b, paras 1-4). They do this by pursuing the agreed economic, social, and cultural needs and aspirations of their members within the modus operandi set out by the co-operative principles and values. These principles and values, particularly when co-operatives are seen as part of the co-operative movement, can be seen as a framework in pursuit of the common good (Alcock & Mills, 2017; Mills, 2009). Spencer (2020) argues that the concept of the common good, which allows for private and public interests to not only support one another but to be inextricably linked, is a far more useful idea than that of public benefit or public interest, as will be discussed later. Killian and O’Regan (2020) argue that the idea of a good society is of one that is more than the sum of individual utilities; it is one in which it is possible for people to flourish. The notion of flourishing aligns with meeting economic, social and cultural needs but also aspirations. It is a people-centred concept for economic valuations (Cruz et al., 2009).

Mazzarol et al., (2018) argue that the co-operative and mutual enterprise (CME) model challenges mainstream economic thought. We would argue that this is because the CME model, through mutuality, embodies the people-centred common good. The development of a SORP for co-operatives could be a useful way to contribute to our understanding of whether the definition, purpose and principles of co-operatives are being met in individual entities. But further, it could also allow us to see the CME sector as a whole and as such as a challenge to the private/public interest dichotomy of the mainstream. It would allow the CME sector to be visible as an engine for the development of a good society in which all can flourish.

## **Co-operative Accounting and Reporting: Current Practices and Accountability Issues**

### **Financial accounting and the co-operative difference**

In terms of the current accounting practices, registered co-operative and community benefit societies are required to prepare annual accounts (Financial Conduct Authority, 2015). These societies are required to file together with an annual return AR30 form with the Financial Conduct Authority. Accounts must be produced to at least the minimum standards required by the legislation and the entity’s own rules, and should comply with the UK Generally Accepted Accounting Practice (GAAP) and applicable accounting standards published by the Financial Reporting Council. Societies that have exempt charity status in England and Wales need to prepare Charity SORP accounts. We argue that co-operatives cannot report adequately within either format.

Co-operatives can perhaps be seen as hybrids, combining economic and social purposes, but their differences with investor-oriented and philanthropic organisations run deeper than simply combining, perhaps incompatible, perspectives. Co-operatives differ from state-owned enterprises in being independent from philanthropic entities and in not being for purely public

benefit, and from investor-owned enterprises in not pursuing purely financial benefits for members (Mazzarol et al., 2018).

As noted above, co-operatives are flexible as regards their legal structures; their uniting characteristic is adherence to the values and principles. Currently, co-operatives are classed as operating for private (member) benefit (generally reporting using formats designed for investor-oriented companies) or for public benefit (generally using formats designed for public benefit entities). Public benefit, in UK charity law, is defined as the absence, or minimisation of, private interest (Morgan, 2012). Maddocks (2019a, 2019c) draws attention to social or general interest co-operatives whose mission extends beyond co-operative member-benefit, which dominates discussions of co-operative accounting, to include a wider community or public benefit.

However, even in the larger member-oriented co-operatives, the principles do not turn on member (as private) versus public benefit; they are based on mutuality within a community context. Members are not just financial investors; they are seen as participating members of the co-operative. But neither are they altruists who put the interests of others before their own. They are also members of the community within which the co-operative operates (Limnios et al., 2018). Co-operatives do not see member benefit as opposed to wider community benefit. The private versus public benefit split, therefore, does not allow for private and public benefit (or the 'common good') to be pursued simultaneously.

This split can be seen underpinning the framework to classify third sector organisations undertaken by European Union's Third Sector Impact Project (TSI — see <https://thirdsectorimpact.eu/>). This project seeks to make the boundaries of the third sector, also referred to as the social economy in the project, clearer. This is in order for it to be properly taken into account in national statistics and policy development, to bring visibility to "a sector hidden in plain sight" (Salamon & Sokolowski, 2018, p. 12). However, relying on the private versus public benefit juxtaposition means that many co-operatives—those which do not explicitly exclude profit distribution — will be left out. This will make it harder to see co-operatives as a whole in national statistics. And it also makes it harder to understand co-operatives as other than variants of investor-oriented or philanthropic organisations.

Mazzarol et al. (2018), drawing on extensive international research, suggest that we need a further classification for the CME model which sits between state-owned, philanthropic and investor-oriented models. Such a model allows us to recognise the positive externalities of co-operative enterprises, i.e., their contribution to social (as well as economic) efficiency which strengthens underlying civil society. The CME model recognises that the way in which an organisation operates is as important as the purposes it pursues.

SORPs recognise different purposes for different sorts of organisations. They recognise that financial reporting can be formatted in such a way as to make these purposes, and the allocation of financial resources to their pursuit, clearer for the reader of the reports. For example, the charity SORP allows for a wide variety of objectives for charitable organisations so long as they fall within the definition of public benefit. The financial reporting ties in with the charitable objectives by showing how funds have been raised and applied against charitable activities (i.e. those in pursuit of charitable objectives). The financial reports support the reporting into the impact of the charitable activities but they do not seek to incorporate this. In this, charity financial reporting can be compared with investor-oriented financial reporting, which looks at how funds have been raised and applied in pursuit of profit for investors. However, there is a difference in that the justification for the activities in an investor-oriented firm can be found in the profit figure in the financial statements, the return on investment. The justification for activities in a charity has to be found solely in the impact the charity makes, so beyond the financial reporting, in the social return on the financial investment.

The justification for co-operative activities, and the raising and allocation of co-operative funds, can be found in the purpose and efficiency of operations, both social and economic. The financial reports can only deal with economic purposes and efficiency so we need a

format which can take the reader beyond the financials to the social impact, the strengthening of civil society, created by the co-operative. Under the current reporting formats it is “difficult for co-operatives to demonstrate, even to members, how different their purposes and modus operandi are to those of companies who seek primarily to make returns for their financial investors or to those of charities who are legally required to apply their resources to the benefit of others” (McCulloch, 2019, p. 5).

## **Co-operative financial reporting**

The need for a distinct accounting and reporting framework for co-operatives’ purposes has already been recognised by the co-operative sector and researchers (Maddocks, 2019c; Webb, 2017). Evidence of co-operative sector support for developing a SORP to address the unique needs of co-operatives was illustrated through the ICA’s unanimously passing a motion at its October 2019 annual meeting to develop international accounting standards for co-operatives (ICA, 2019a; see also Appendix 1). The motion builds on the work of the Audit and Risk Committee of the ICA and the Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC), at Saint Mary’s University in Canada. CEARC aims:

to be a focal point for academic and applied research on the performance of co-operatives, credit unions and mutuals. Working closely with these organisations, public accountants and academics to accurately reflect and communicate, through accounting and reporting, the unique and important roles co-operatives play in our society and economy” (CEARC, n.d.)

and has established an international SORP Committee comprised of members from the United Kingdom, Spain, United States and Canada. The Committee is responsible for developing a SORP to govern accounting and reporting for co-operatives. Since its inception, CEARC has issued six International Statements of Recommended Practices (iSORPs, (see <https://www.smu.ca/academics/sobey/cearc-isorp-project.html>). The iSORPs were issued as discussion papers and disseminated to co-operative practitioners and co-operative academics for feedback, which was incorporated into the final iSORPs. The iSORPs provide non-mandatory guidance and are designed for global application but require consideration, adaption and adoption at the local level.

As part of its mandate, the SORP Committee is in the process of drafting discussion documents and seeking input for co-operative accounting and auditing practitioners, as well as academics who specialise in co-operative research. In the initial stages of its work, for example, the SORP Committee prepared a survey to gather information from co-operatives around the world regarding their respective country’s accounting and reporting frameworks. This survey, issued by the ICA, has provided a total of 118 responses from 45 countries. Of the 112 respondents who answered the question regarding specific co-operative accounting standards, 64 (57%) indicated their country had co-operative specific accounting standards or guidance. Of the 109 who responded to the question: “Does your country have guidance regarding reporting of Environmental, Social, Governance (ESG) topics”, 62 (57%) indicated their country had guidance for ESG reporting. The work of CEARC built on the knowledge and experience of co-operators world-wide can also provide a useful source for developing a comprehensive co-operative SORP in the UK.

Next, we will discuss some more specific aspects and challenges that substantiate our call for the development a SORP specific to co-operatives.

## **Some Detailed Aspects of the Justification for a Co-operative SORP**

### **Purpose, values and definition of co-operatives**

Taking the Statement definition, co-operatives should be meeting the economic, social, and cultural needs and aspirations of their members which means that the primary user of the co-operative’s financial reports are members. A key question that is raised is how are these needs identified and met, and how do we account for this?

As earlier discussed, *Principle 5* of the Statement guides co-operatives to provide education and training to their members and other related parties, such as managers and employees, in order to contribute effectively to the development of the co-operatives and inform the general public about the nature and benefits of co-operation (ICA, 2018a). As with so much of the Statement, it looks inwardly and outwardly. One could question the extent to which the current financial reporting standards facilitate co-operatives implementing all, or any, of this principle. A SORP designed to provide the right level of pertinent information to members and elected members in co-operatives can better facilitate governance within a co-operative by holding to account and ensuring they fulfil their responsibility of membership. Investor-oriented reporting standards speak of meeting the information needs of both existing and potential investors. Perhaps co-operative reports should address existing and potential members? Financial reporting should reflect the particular types of co-operatives and what is material to the particular co-operative, including both financial and non-financial information that reflects the activities and performance of a co-operative as will be discussed later (see also iSORP 1, Maddocks, 2007, 2008). And a SORP that keeps in mind the wider public can go some way to addressing the challenge articulated by the ICA on improving public understanding of the scale and significance of co-operative enterprise (ICA, 2015).

### **Membership, capital and economic participation**

Co-operatives are businesses owned by their members. Members' rights and obligations differ from investor-owned businesses and vary between co-operatives. Co-operatives' members also join, participate in, and leave a co-operative which is different from an investor's relationship to the buying and selling of shares. Despite membership being an essential part of co-operative identity there is currently little information provided to members and other stakeholders about the process of joining, participating in and leaving the co-operative as well as on member economic and democratic participation and control (see also iSORP 4, Maddocks et al., 2009a).

Birchall (2012) argues that the difficulties of articulating the benefits of co-operative membership and participation both to members and the wider community contribute to some of the familiar problems with the co-operative form — lack of member participation leading to dilution of the co-operative purposes and principles; inefficient governance leading to organisational failure or de-mutualisation. Problems also recognised by Limnios et al. (2018) in their discussion of the potentially multiple roles open to members in co-operatives.

The role of capital in a co-operative, and particularly a co-operative society, is also conceptually distinct from that of companies limited by shares. There are several unique features, notably that societies are of variable rather than fixed shares (Financial Conduct Authority, 2015, para 6.4) reflecting co-operatives are associations of people, rather than capital. Co-operative member shares, apart from representing member equity, are also linked to membership and voting rights. Since co-operatives operate on the basis of one member, one vote, rather than one vote per share as in the case of investor-owned companies, one cannot exert greater power and influence by owning more shares. In a co-operative it is for members to control the capital, rather than the reverse (see *Principle 3*, ICA, 2018a). Shares in a society can only be transferred with the consent of the Board (earlier legislation also required consent of members in general meeting), rather than be freely tradable on an exchange (Co-operative and Community Benefit Societies Act, 2014, para 14). Again, reflecting the primacy of membership over capital. There are, therefore, certain limitations and requirements for members joining and leaving the co-operative in relation to the provision and withdrawal of member equity as they may not have, for example, a right to transfer their shares to other members or a right to the residual net assets if the co-operative goes into liquidation.

Since the main reporting responsibility of co-operatives is towards their members, members would benefit from comprehensive information on their financial contributions and distribution of surplus to members. The qualification of co-operative member shares as equity or liability has been an enduring accounting issue at an international level. For example, if equity is withdrawable, it needs to be classified as a liability for the co-operative. This accounting

treatment of members' funds undermines the co-operatives' ownership base, distorts their financial position and separates the co-operative as an entity from part of its membership (López-Espinosa et al., 2009, 2012; McCulloch, 2019). Moreover, financial contributions (either in the form of equity or liability) are currently not separated from liabilities that constitute the claims of non-members. It is also important to see the level of interest that members of the co-operative have. A detailed account of members' funds would enhance the usefulness and relevance of information for both members and non-member investors and creditors (see also iSORP 2, Robb et al., 2008).

Contrary to businesses, in co-operatives economic benefits are related to use and there are limitations on returns to investors, which require a different approach to reporting on payments to members. For example, the primary mechanism of distribution of surplus or net operational income is via a patronage dividend to members in proportion to their transactions and trade with the co-operative, rather than in proportion to the shares held by a member. Patronage payments are accounted as an expense or a rebate, but are treated differently from trading discounts as they are subject to board approval based on the co-operative's profitability and liquidity and paid to members transacting with the co-operative. Currently, in terms of reporting, there is no distinction between patronage dividend payments (accounted as expenses) and other general operating expenses which are related to daily management decision-making. There are also different forms of payments made to members as users of the co-operative, such as payments for services and goods. It would be useful to report separately payments to members as users from payments to members as equity funders (e.g., interest and patronage dividend payments) (see also iSORP 3, Maddocks et al., 2009b). Finally, separating the disclosure of the amount of trade undertaken with members and non-members, would enhance stewardship, accountability and more informed decision-making (Robb, 2012). Identifying what is member trade and not member trade can also have tax implications. From a tax perspective in the UK, the law has long recognised that 'a person cannot trade with themselves' and there is no liability to pay tax on any profits arising from mutual trade with members. This is reflected in mutual trading and member clubs tax treatment by Her Majesty's Revenue and Customs (HMRC, 2021). While only a subset of co-operatives will benefit from this tax treatment, the constitution of the co-operative and the way in which funds are generated and used is significant. Similarly, dividends in a co-operative have specific treatment under the Corporation Tax Act 2009 (section 132).

It is a challenge to reconcile within one code of financial reporting a set of requirements covering some of these distinctions between investor-owned companies and co-operatives. Unsurprisingly, this tension has tended to be settled in favour of the investor-owned companies, who are in the majority by number. A SORP for co-operatives operating across all legal forms could facilitate co-operatives clearly articulating the unique nature of co-operative capital.

### **Sustainable development of co-operatives' communities and non-financial reporting**

In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others. However, financial reports do not tell the whole story of co-operatives' performance. Instead, to provide relevant information to stakeholders, co-operatives should also include non-financial performance information. Increasingly, stakeholders are demanding wider, non-financial information regarding the social and environmental impact of organisations. And even though several co-operatives played a key role in the early years of sustainability accounting and reporting, they have not managed to develop sufficiently sophisticated approaches in terms of recognising the value of their different model of ownership (Mayo, 2011). This is an area, therefore, where co-operatives should be able to demonstrate the co-operative difference by reporting on performance relative to the seven principles of co-operatives: 1) voluntary and open membership; 2) democratic member control; 3) member economic participation; 4) autonomy and independence; 5) education, training and information; 6) co-operation among co-operatives; and 7) concern for the community.

Several researchers have examined the importance of reporting on the seven principles of co-operatives. For example, Birchall (2005) concludes that for the principles to have an impact, people must become aware of the co-operative difference. Furthermore, a Canadian study found 60% of respondents believed their co-operative contributed to the community in a way that differed from the contributions of for-profit enterprises (Philp, 2004). However, the same respondents were unable to specifically identify the uniqueness of their co-operative (Philp, 2004). This dilemma is best explained by Fairbairn (2004) who contends few people have the vocabulary to describe the difference. In other words, there is comprehension of the difference between co-operatives and investor-owned businesses, but there is difficulty in describing it. Despite these findings, Birchall (2005) and Côté (2000) contend the principles are expected to be used increasingly as a framework for evaluation for determining the co-operative bottom line and for measuring the promises of co-operatives against their performance. These authors believe it is essential to operationalise the principles in order to fully demonstrate the co-operative difference.

In a more recent study of insurance co-operatives, Rixon (2013a) found that there was little change in reporting on the principles. Although the principles were not prominently featured in co-operatives' reporting, some of the KPIs and narrative commentary indirectly reflect the principles. Instead, her study found that senior management indicated the principles provide a source of guidance for their corporate culture. It should be noted that in addition to the seven principles, it is also important that co-operatives compare their performance to other forms of business enterprises in their industrial sector. For example, Rixon's (2013b) study on North American credit unions found that comparison to banks was just as important as comparison to credit unions.

CEARC is also in the process of working on a pilot project, known as Co-operative Performance Indicators (CEARC, 2021), with participants representing small, medium and large-sized co-operatives in a range of industries across Canada to develop common metrics to measure the seven principles of co-operatives. The project participants have identified 36 metrics to report on the seven principles. It is interesting to note that when asked how co-operatives could best demonstrate their co-operative difference, they unanimously selected the seven principles. Clearly, there is interest in demonstrating the co-operative difference as illustrated through performance relative to the seven principles. What is needed is a robust framework with guidelines that provides relevant, valid and reliable information.

At the same time, the development of corporate social responsibility based on the perspective of investor-owned and commercial businesses does not promote a suitable accounting framework for co-operatives. As a result, there are examples of co-operatives moving towards developing their own standards, such as in the case of the Co-operative Group in the UK that launched in 2011 an ethical operating plan, with 47 distinct targets on aspects of sustainability designed to be integrated fully in its overall performance reporting. The UK Co-operative Performance Committee (CPC) made up of senior finance leaders from the co-operative sector provides strategic direction and best practice guidance in matters of accounting, financial reporting and business performance monitoring (Co-operatives UK, n.d.). The CPC has developed a narrative reporting framework to provide guidance on the format and content of co-operatives' narrative reporting based on three core pillars that demonstrated the 'co-operative difference': 1) member value; 2) member voice and; 3) co-operative values (Co-operatives UK, 2017). The framework, rather than replacing, builds on the guidance already provided by regulators such as the Financial Reporting Council, but emphasises the unique ownership model, relationship with stakeholders and the articulation of the 'co-operative difference'. The CPC has also developed over the years a framework and guidance of how to measure co-operative performance against the co-operative values and principles and helps co-operatives set meaningful Key Performance Indicators (KPIs) (Co-operatives UK, 2019). These KPIs include both financial and non-financial indicators of co-operative values and principles. Although the non-financial indicators reflect current sustainability and accounting and reporting practice, they include additional indicators such as membership economic engagement, democratic participation and training and education for members and staff.

Maddocks (2019c) has also contributed to the discussion on the need for a co-operative accounting and reporting framework by suggesting a co-operative accountability model that integrates three dimensions of accountability: economic and financial; mission-related, and; social-related. This framework acknowledges the differences in co-operative mission and features of organisational structures, and the differences in accountabilities and information needs, especially in light of the growth of general purpose or social co-operatives (beyond co-operative member-benefit) (see also Maddocks, 2019a). The model underlines the importance of (reporting on) financial alongside non-financial resources, such as volunteer input and sweat equity (Maddocks, 2019b), and “the contribution of co-operative structural differences to non-financial resources as well as citizenship and ethical dimensions of organisational social responsibility” (Maddocks, 2019c, abstract). Overall, non-financial performance is as important as financial considerations. Reporting on the seven principles and non-financial performance is an important mechanism to demonstrate the co-operative difference to external stakeholders and to provide internal stakeholders with assurance that the organisation is fulfilling its mandate as a co-operative.

All this sets the groundwork for a more comprehensive SORP for co-operatives that integrates, reporting of non-financial performance with financial considerations to help members and other stakeholders have a full understanding of the extent to which the co-operative is fulfilling its purpose and adhering to the values and principles. For example, the charity accounting SORP in the UK, since its inception in the 1980s, has had a unifying effect on the sector, has helped it develop its understanding of itself and has contributed to growing understanding of the not for profit sector internationally (Crawford et al., 2018). We argue that a SORP for co-operatives will enable cross-sector comparisons for the whole movement. With a SORP available for any co-operative, there could be a clearer means for policymakers, regulators, funders and others to identify and target support to provide equal treatment for co-operatives without having to upend the current legislative landscape.

## Conclusion

This paper has set out the arguments for co-operative accounting SORP at entity and sector level, broadly and in some practical detail. Whilst it is very important that we, and the members of co-operatives, are able to understand how an individual co-operative aligns with the co-operative values and principles whilst pursuing their stated objectives, it is even more important that we are able to see the work of the co-operative sector as a whole. And that we, and wider society, can draw from it an understanding of the co-operative world-view.

It is proposed that Co-operatives UK, as the umbrella body for UK co-operatives, would be the lead organisation for the development of a UK Co-operatives SORP, working closely with the international project co-ordinated through CEARC (McCulloch, 2019). Co-operatives UK was the proposer for the resolution passed by the ICA General Assembly in Kigali in October 2019, that the co-operative movement supports research into a dedicated SORP for co-operatives (ICA, 2019b, p. 66; Appendix 1). There is sound precedence in UK accounting practice for SORPs to be developed for particular sectors and then enacted into law governing those sectors.

An international survey has already been undertaken by CEARC, through the ICA, as noted above. It is proposed to take this research deeper leading to an international comparison of accounting for co-operatives. This could serve as a context within which a detailed proposal for a SORP could be drawn up.

The next steps would be to ensure that there is sufficient interest within the co-operative movement in the UK for the development of a UK SORP and then to highlight the issues with which co-operative accounting practitioners are most concerned.

If a co-operative accounting SORP is to be established, the co-operative movement will have to be responsible for its development and implementation. The SORP committees for other sectors

are drawn from, and financed by, those sectors. The charity SORP Committee, for instance, operates under the auspices of the Charity Commission which is the regulator for the sector in England and Wales, funded by government. There is debate about the independence of the regulator because of this dependency on government. A co-operative SORP committee would, by its nature, need to be independent. The question as to financial support, therefore, needs to be addressed.

Co-operatives have long been marginalised in economics and business studies (Kalmi, 2007; Mazzarol et al., 2018). The establishment of a Centre for Co-operative Accounting in collaboration with other third sector research centres in the UK would contribute to reversing this situation. It would also be a support for the work on developing a co-operative SORP.

In conclusion, co-operatives do not fit comfortably into either the investor-oriented or philanthropic funder-oriented formats because co-operatives propose a radically different world-view to that which underpins the private/public interest dichotomy. In this, they offer a challenge to the current business as usual investor/funder paradigm. The co-operative philosophy can address many of the problems of our age, if it is understood as based on mutual interest in pursuit of the common good. This is obscured by current accounting and reporting regimes for co-operatives but could be expressed much more clearly through a specifically designed co-operative accounting and reporting format. We argue that it should be.

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## Appendix 1

### 15a. Motion: DEVELOPING ACCOUNTING STANDARDS FOR CO-OPERATIVES

Motion approved by the ICA General Assembly of 17 October 2019, in Kigali, Rwanda (ICA, 2019b, p. 66).

This ICA General Assembly:

- Believes that a cooperative's published accounts should enable it to report to members and stakeholders on its financial position in the context of its purpose as a cooperative.
- Recognises the role of financial reporting standards in encouraging consistency and accountability.
- Notes that recent trends towards the harmonisation of international accounting standards are driven by an exclusive focus on the needs and perspectives of investor-led enterprises.
- Cautions that as a result, accounting standards may restrict or distort a presentation of the co-operative difference, including the treatment of capital and the distribution of member dividends, and that this can prevent cooperatives from describing their financial flows in line with established co-operative values and principles.
- Recognises the importance of the ongoing work of the Audit and Risk Committee of the ICA (IARAC) and its efforts over time to monitor and influence international accounting bodies.
- Notes also that in some jurisdictions, certain economic sectors, such as non-profit and for-purpose bodies, have successfully developed their own reporting standards (Statements of Recommended Practice or SORPs plus other voluntary disclosure guidelines) to enable them to report in a consistent and more appropriate way.
- Notes the work of The Centre of Excellence in Accounting and Reporting for Cooperatives based at the University of St Mary's in Halifax, Nova Scotia, Canada, and specifically the recommendation of its international symposium, held in London in June 2018, to explore the case for a cooperative SORP.

This General Assembly calls upon the ICA to engage with members and experts with an interest in this matter to explore the case, costs and benefits, for the potential development over time of a Cooperative SORP, designed to permit cooperatives to focus their reporting on their performance in line with cooperative values and principles.