The BC-Alberta Social Economy Research Alliance

Credit Unions and the Social Economy: Being Competitive and Building Capacity

A Research Report

by

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Acknowledgements

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1 Introduction

As participants in BALTA (the BC/Alberta node of the Canadian Social Economy Research Project), we chose to focus on the credit union as a prominent element of the social economy in the two provinces. We were specifically interested in how this key institution was or might be a prime financier for the rest of the social economy. Our over-all research question was: What sorts of financing services, if any, do CUs engage in with organizations in the social economy? So, within the limits of time available, we looked at a preliminary sample of four credit unions that would span size (large/small), setting (urban/rural), and reputation as being active or not particularly active as financiers of the social economy. We sought to extract a preliminary perspective from what they could tell us, something that might suggest further useful explorations of this topic. This paper reports our general findings.

1.1 The Credit Union Sector[1]

The CU sector occupies a significant place in both provinces. In Alberta there are about[2] 46 CUs with 728,000 members, 3300 employees, and $17B in assets. In British Columbia the figures are even larger: about 48 CUs with more than 1.6M members. The BC system employs over 8000 people and has assets of $45B. Together these figures are impressive evidence of the importance of this one element of the social economy. The formidable strength of the CUs is perhaps best illustrated by the fact that the BC system as a whole had record earnings for the 2008 year ($284M), despite the world-wide financial disaster and of course despite the fact that profits are not the central aim of this or any credit union. These data also make clear that the CU system has enormous resources that other organizations in the social economy might benefit from.

1.2 What is the Social Economy?

If we hold, as we do here, that credit unions have an opportunity and a responsibility to make investments in the social economy as an integral part of their contribution to the progress of their communities, then we need to be quite clear about the meaning of "the social economy." An extremely broad and complex term, the social economy is often thought of merely in terms of being outside both the for-profit or private sector and the public or governmental sector, functioning as the "third sector" (Kay, 2005).[3] This "third sector" encompasses numerous stakeholders, including associations, charities, foundations, trusts, mutuals, non-profits, and co-ops. Defourny and Develtere (1999) succinctly capture the potential vastness of the term, summing up the social economy as "any economic phenomenon that has a social dimension, and any social phenomenon that has an economic dimension." However, Lloyd (2007, p. 68) holds that within this third sector, only the "bodies that have an ambition to create a different sort of economy – one that has a different approach to the organisation of work and production and the distribution of surplus – constitute the formally defined social economy." His specification illustrates a basic difference in the conception as it appears among practitioners and observers, even within the

[1] This section is drawn primarily from the websites of the BC and AB Credit Union Centrals.
[2] The number of CUs will vary because of a continuing process of mergers or initiation of new CUs, and of course, assets, membership, and employees are likely to grow overall.
[3] Consider also the "solidarity economy" (Mike Lewis and Dan Sweeney, 2007).

research enterprise (the Canadian Social Economy Research Project [CSERP]) of which BALTA is one of six nodes.[4]

According to Lukkarinen (2005) the organizations and companies within the social economy are people-centred and needs-based and thus have significant job generating potential, particularly for those who are disadvantaged by the labour market. Lukkarinen also holds that social economy organizations (SEOs) may also be able to effectively meet local needs that have not been met by the market or existing government programs. He stresses that the critical element of SEOs that makes them distinct is that they are intended to serve a social purpose, which is the primary reason for their existence. SEOs tend to be closely linked to the community in which they operate and often rely on volunteer labour or funding to function (Teitelbaum & Reimer, 2002). SEOs may either issue no ownership shares at all or, as in the case of co-operatives, may entail "membership" contributions (Quarter, 1992). However, some, as co-ops or otherwise, may issue non-voting or "preferred" shares. Defourny & Develtere (1999) emphasize that any surplus generated by a SEO is used as a means to provide particular services or goods to its community and is not the main motivation behind its economic activities. This is accepted generally throughout the field.

A sub-category within the broader one of SEOs is 'social enterprises.' The term social enterprise is a relatively new one, having emerged in the last fifteen years (Defourny & Nyssens, 2006). Because of the recent emergence of social enterprises, there is also much discussion on how to define them. A thorough exploration of this debate by Defourny and Nyssens reveals that there is significant variance in the meaning of the term, depending on the geographic context in which it is being used. In the United States, the term social enterprise is rather vague, referring to "market-oriented economic activities serving a social goal" (Defourny & Nissens, 2006, p. 4). The definition therefore encompasses a wide range of organizations, including both for-profit businesses that are engaged in socially beneficial activities and non-profit organizations that provide a mission-supporting commercial activity (Defourny & Nissens, 2006). Kerlin (2006, p. 248) points out that the American understanding of the term focuses more "on enterprise for the sake of revenue generation than definitions elsewhere." [5]

In Europe, 'social enterprise' also carries wide-ranging meanings. The term can be used in the context of social entrepreneurship – both non-profit and for-profit organizations working in some way to address social needs – but can also be used in the context of the third sector – non-profit organizations and co-operatives whose primary goal it is to have a social impact (Defourny & Nissens, 2006). In the UK (as in the US) a special legal format has been established to facilitate the merging of social and for-profit goals.[6]

[4] For example, the Southern Ontario node of CSERP chooses to use the more general conception as formulated by Defourny and Develtere, while we opt for the Lloyd specification.
[5] However, in the US instances too any profit is designed to strengthen the social mission of the enterprise, and indeed a special legal format (L3C, a limited liability company, not a corporation) has been introduced to deal with tax and other issues arising from the combination of social mission and for-profit activity. (See www.americansforcommunitydevelopment.org for details on the format and history.)
[6] See Fraser Valley Centre for Social Enterprise (2008). The FVCSE is fostering an inquiry into the potential of a special legal format for Canadian social enterprises.

In Canada, social enterprises are more generally understood to be organizations and companies which produce goods and services for the market economy but whose profits are reinvested into social and community objectives (Bakopanos, 2004; Neamtan, 2005). Other features of social enterprises include encouraging the full and equal participation of all their members (Kay, 2005) and building the means for people to organize on the basis of solidarity (Lewis, 2006). Social enterprises are also independent from the state (Teitelbaum and Reimer, 2002).

For our purposes we choose to see social enterprises as characterized by these features as seen in Canada, and we view the social economy as being a limited part of the third sector of the economy. We exclude thereby such non-profits as hospitals, universities, charities, recreational societies, and the like, and include only those bodies that seek a different economic process of ownership, work, production, and surplus distribution, a process focused on equity for all stakeholders. As can be seen by the previous discussion, even this limited definition of the social economy and its organizations offers a very wide potential arena for the financial services that CUs can offer. Within the social economy, social enterprises – organized as co-ops or otherwise – are probably the most significant target for credit unions who would seek to expand their reach within the social economy. Thus serving the financial needs and stability of social enterprises would probably be where credit unions could make the most impact.

2 Research Process

We began our exploration with a review of literature on credit unions and an internet survey of CU sites in BC and Alberta. Thereafter, we contacted a number of leaders in the SE field for semi-structured discussions about the credit union scene and additional suggestions as to the particular CUs we might contact. (In the previous year we had contacted people from the Credit Union Centrals of both provinces for suggestions.) The perspectives of the CU Central informants and other social economy leaders in the two provinces helped us to refine our list of potential case sites, so that we ultimately chose the following: a BC urban CU for having a well-developed social economy financing program; a major urban Alberta CU, not known as being active in social economy financing projects; a small (one installation) Alberta CU in a small settlement; and a small BC credit union in a rural region. Neither of the smaller, rural CUs had a reputation for social economy financing activity. We had had a beginning assumption that a rural CU might well be a significant source of support, especially given the usual paucity of bank services in rural settings. One early informant had told us, “Credit unions played an extremely progressive role, particularly in smaller communities and poorer urban areas.” However, we did not discover a potential rural case active in the social economy in time for this project. Incidentally, however, even though three of four of our cases had not been active in furthering other social economy organizations, in each instance there was, nevertheless, some recognition of the potential role of the CU with respect to the social economy.

The three of us divided up the four cases: a large urban CU (Kristensen) and a small rural CU (Markey), both in BC; and one large urban and one small rural CU in Alberta (Perry). In the meantime, we had created an interview guide based upon the generic BALTA case study guidelines. We telephoned and/or emailed a chief contact at each CU and asked for collaboration in searching out information for our prime question in the research: “What sorts of financing services, if any, does the CU provide to social economy organizations?” We sought semi-structured personal or (if necessary) telephone interviews with at least three officers: the CEO, a board member, and a front-line loan officer. While in each case, we did indeed have a least three informative interviewees, they varied widely in responsibilities from case to case – sometimes, e.g., having specific responsibility for social economy-related activities. But we did not in the instance of the two larger urban CUs get to talk with the CEO. In all cases, however, site visits allowed us to have personal interviews and make other observations. Before any interviews, we reviewed published materials and other reports and information from the CUs, so as to be prepared with orienting information.

Our direct data-gathering is thus very constrained, limited as it is to only four CUs. However, as described, we sought to supplement such data not just by a review of others' findings as reported in the literature, but also by the interviews we had with provincial leaders in the social economy whose perceptions and experience with credit unions could extend our own experience and thinking.

3 Findings

In the following sections, we organize our findings based upon prominent themes that emerged from the research. Key points are driven by the voices of our interviewees, reflecting their understanding of the nature of the social economy and the role of credit unions in embracing and supporting this emerging sector. We have organized our results in the following categories: awareness of the social economy; credit union competitiveness; corporate social responsibility; and opportunities and barriers.

3.1 Awareness of the Social Economy

Awareness of the social economy is obviously a critical starting place for determining the level of engagement of credit unions with the social economy and social enterprise. The Canadian social economy sector received a jolt of mainstream recognition from the prominent attention in the prime minister's speech from the throne in February 2004, but our interviewees noted that after the prime minister's party was defeated some months later, broader public and government engagement with the sector has waned. This lack of attention would affect credit union involvement in two ways: First, credit unions are, after all, responsive to the marketplace, particularly as member-driven organizations, and so their if their members are not particularly concerned with social economy issues, the credit unions will not be. Yet, second, as social economy entities themselves, credit unions (in principle) are central players in representing and showcasing the social economy. And so they might be expected to take an active part in promoting the social economy. The inherent tension within these two roles – responsive agents and proactive institutions – certainly emerged in our interviews.

As substantial and systemic structures, credit unions are uniquely placed to play leadership roles within the social economy, a sector that is made up of mostly smaller entities despite the national presence of a number of large cooperatives. Despite this prominent institutional presence, interviewees noted, awareness of the social economy within the credit union sector is low. Even though credit unions are social economy organizations (i.e., as co-ops), that status does not appear to raise the visibility of broader principles of the social economy. The idea of the social economy is simply not part of the credit union mainstream culture. Our interviewees offered a number of thoughts to explain this apparent contradiction. We will start with presenting factors internal to credit unions and follow with the influence of the social economy sector as a whole.

First, both internal and external interviewees noted that credit union staff knowledge of the social economy is low. There is a recursive relationship here with a lack of general public awareness of the social economy. However, limited staff awareness is also a function of credit union practice: "One of the barriers to more credit union involvement in the social economy is the need for more human capital, to have people with the expertise in these areas – that deviate from traditional business model." Some interviewees noted that the internal reward system within credit unions is not oriented towards social economy objectives, but is driven by more traditional financial performance variables, by punctilious attention to what members seek from the credit union in services, and by concern for employee needs. Another factor mentioned was that staff recruiting – and then subsequent and ongoing staff training – does not include any or much attention to social economy content.

Second, generally speaking, credit union performance metrics and measurements (where they are being used) do not incorporate social economy criteria. And, generally speaking, what does not get measured does not get attention. If social economy variables are not part of the information feedback system within credit unions, then it will continue to be programmatically marginalized.

Third, it was noted by some interviewees that activity relevant to the social economy could become merely a point of competitive differentiation between credit unions, rather than an issue for collaborative potential. It is true that positive competition may play a key role in facilitating innovation and social economy program expansion[7]; however, in negative terms if credit unions avoid social economy roles in order to be different from competitors, then the sector loses. Although one very significant program, Enterprising Non-profits, is jointly funded by Canada's two largest credit unions (and other sources) and thus is an example of positive competition (and collaboration), some of our interviewees were concerned that other opportunities may be lost without constructive dialogue among credit unions on how to engage with the social economy.

However, the relationship between credit unions and the other organizations in the social economy is not merely a matter of what credit unions and their leaders may do. This relationship is also contingent upon the actions of those other social economy organizations. In this respect, it is problematic for us (and our respondents) to comment meaningfully on the social economy as a collective or cohesive sector, given that much of the social economy is grounded in the contextual nuances of specific communities and/or in highly specialized initiatives. Nevertheless, interviewees provided insightful comments on the role of the social economy sector itself in promoting or inhibiting its own development. First, interviewees noted that the language of the social economy may be alienating for those concerned with mainstream business practices (including credit union personnel). "When the words 'social economy' first started to be used, …we realized that this word or concept would be frightening to our management." Social economy leaders sometimes either unrealistically assume a familiarity with concepts and activities or situate the social economy in opposition to, or serving a higher purpose than, traditional business. Thus, to the extent that any credit union personnel are oriented to general business practices (as they indeed must be to operate a financial institution), they may find the social economy language alienating.

Second, interviewees noted that the social economy sector could be doing a better job of

[7] One of us was consulted with a major credit union to explore how it might compete on that level.

communications. There are clear challenges here in terms of resources available to spread the word; however, respondents wanted more attention to examples of successful performance and commented specifically on how the co-op sector, for instance, needs to do a better job of sharing and communicating the co-op model. Awareness of the co-op sector (even within cooperatives and members who may belong to a co-op) was stated as being very low. The social economy sector needs to be doing a better job at communicating its benefits, illustrating how it can be a value-added contribution to organizations and individuals, as well as to the economy – and not something that is going to "cost" and drain valuable and limited resources. One interviewee attributed this perception to the unrealistic expectations that are placed on emergent social economy actors/enterprises. The pressure to achieve short-term benefits and realize short-term financial viability may prematurely close what are potentially viable organizations.

Third, there is a clear consensus that too many social economy initiatives have not adopted adequate measures for financial controls and viability. They therefore present an unattractive picture for financial services: "There is a business capacity issue within the social economy. People involved carry a hippy persona and have not brought business ethos."

In offering their comments and critiques, interviewees were aware of the many good works and programs offered and supported by the credit union sector overall. However, there is a clear sense from the interviews that there are both organizational and structural barriers that are preventing the social economy from reaching a critical tipping-point of awareness and action that is capable of "creating a truly inclusive economy."

3.2 Competitiveness Within the Financial Sector

A common theme among informants in the course of our research was the pressure that credit unions experience in competing with banks and therefore a pressure to pursue a more traditional business model like the banks. Thus, any additional costs incurred for offering products and services for the social economy can raise concerns. Some social economy functions may require an increase in internal capacity, or be financially less viable or profitable. As it is, because of the sheer size of banks as compared to most credit unions, competition may be difficult for credit unions offering the usual financial products and services. An informant said, "The behaviour of credit unions has in general over three-four decades tried to mimic the competition. They see the banks as competition as opposed to having a different position in the economy; they mimic and then lose because they are not big enough." One response to this challenge has been for credit unions to merge or otherwise collaborate with other credit unions in a region to offer broader, shared services.

However, several informants stressed their own CU's strong capacity to provide competitive services. One informant felt that his credit union was able to do deals that, in the current economic crisis, the conventional banks were avoiding. Another informant boasted that her credit union offered the best GIC product, but she also emphasized that credit unions have the ability to go beyond the usual offerings of traditional profit-focused financial institutions. Indeed, this seemed to be a common sentiment among all of the CU informants: Namely, that although credit unions find it difficult to compete with banks in offering the usual financial services, they are often able to offer a different type of value to their customers, which they can use to compete with banks in offering the required conventional services.

Informants always stressed that although credit unions are financial institutions offering similar services as banks, there are a number of attributes and characteristics of credit unions that differentiate them positively from conventional financial institutions. Informants from both small, rural credit unions and large, urban credit unions mentioned the importance of strong community roots and an awareness of local issues as being competitive advantages over banks. Stemming from these attributes, informants also believed their credit unions could often compete with the banks, based on the ability of the credit union to personalize financial services, to step outside typical boundaries and tailor a financial product to an individual customer. They also stressed their ability to offer services to marginalized groups and communities, and finally, informants stressed the high quality of the staff members that are attracted to credit unions because they offer stable local employment opportunities – banks tend to move staff around. Each of these variables is discussed below.

3.2.1 Community Rootedness

Although credit unions must compete with banks in offering consumer and business financial services, credit unions do differ quite dramatically and advantageously in structure and mission from banks. For one, CUs are more identified with their immediate geographic location, simply because they are locally-owned by the members and because they are provincially, rather than nationally, established and regulated. Generally speaking, the majority of credit unions in Canada are set up to serve a particular rural area, town, or city – some with branches attuned to particular ethnic neighborhoods. As such, rootedness in community and a strong community identity were characteristics that were identified by our credit union informants as being not only significant to the informants themselves but to credit union customers. It is true that the largest credit unions will have a broad service area, perhaps throughout an entire province, but they never extend past provincial boundaries, thus still retaining a significant local identity. "We are Albertans."

Community rootedness is a product of the structure of the credit union itself. As a member-owned co-operative, credit unions adhere to the seven co-operative principles as set out by the International Co-operative Alliance. These principles, which include voluntary and open membership, democratic member control, autonomy and independence, and concern for community are surely what largely separate credit unions from traditional financial institutions. Anyone is welcome to join a credit union,[8] and all members have decision-making power within the credit union. In general, informants saw their credit unions as being very much in touch with the needs of their community. According to one informant, the average person may be unaware of the co-op principles but may still perceive credit unions to be community-based, thus still giving the credit union a competitive advantage over the national banks and other national financial institutions: "People expect us to be community-based; we need to be more community-based. Banks can get away with not being related to the community, but we cannot. We should have higher expectations of ourselves. It is not the [interest] rates that are of prime importance. It is the relationships. We can build on them." In our research we did not interview credit union customers, but it is clear that this community rootedness is a characteristic that credit unions can leverage to their advantage in competing with other financial institutions.

3.2.2 Local Decision-Making

[8] There are a few credit unions that are organized solely for a particular subgroup in a community—such as the employees in a particular local industry.

Credit unions' community rootedness is manifested in ways that are critical to local positioning. In terms of community involvement and investment, several informants pointed out that credit unions are able to make their own internal decisions about the kinds of community events, initiatives, charities, and activities they wish to support. Banks, however, ordinarily make these kinds of decisions, on general and national terms, at a distant head office level with the result being that sponsorships and donations may not be responding to local needs. Banks, which also make claims about their community investments, have a different vision of how to do this and are more inclined to invest in large national charities (sometimes with local units), events, and festivals, whereas credit unions are likely to support similar activities but at the local level and at more differentiated level (not just the usual charities but those of special local interest). One of the studied credit unions values community diversity enough to have created community councils of ethnic communities and smaller geographic communities within its large service area so that the credit union can be more responsive to the needs of these communities and to maintain and build relationships with these members.

The ability to make decisions that respond to local needs was seen by interviewees to be a competitive advantage, particularly in an era of economic uncertainty and at a time when there may be a general wariness about the motives of traditional financial institutions. This apprehension may result in a surge of interest in more locally-based economies, in which credit unions can play an important role as they have already established strong roots in their local communities. While credit unions strive to make a consistent profit, this aspect of their operations is tempered by the aforementioned strong commitment to their members and the communities in which they are situated, an inherent aspect of being a co-operative. According to one informant, credit unions should find it reasonably easy to pursue both an economic and a social mission, provided the two missions are balanced. "It is possible to balance the social and economic mission of the credit union – the two are not mutually exclusive. You are not jeopardizing the survival of the credit union by pursuing social objectives." Informants from both large, urban credit unions and small, rural credit unions clarified that although making profit is important and credit unions must consider the bottom-line, an important consideration is how to balance community benefit with profit-making.

3.2.3 Customized Services

The ability to offer personalized service and tailor financial services to meet individual customers' needs was a competitive attribute also mentioned by various informants in the course of the research. One informant discussed how staff at his credit union regularly meet with individual members and give financial advice, the kind of service that he believes has earned his credit union a reputation for its integrity and credibility. He noted that while banks require loan applicants to fit into a pre-defined profile, credit unions are able to be more flexible since credit union staff have the time to get to know customers well and can often find solutions to individual financial needs. In discussing loans, an informant from a rural credit union reported that although there are standard criteria to be met, staff are often able to step beyond the usual boundaries because of the solid relationships they have been able to build with customers. It was noted that credit unions are not often able to offer better loan terms or a cheaper interest rate, but do have the ability to offer loans when, on the grounds of presumed excessive risk, other financial institutions will not.

Some credit unions pride themselves on being open to social groups that the banks avoid identification with, such as those associated with sexual orientations. It was also mentioned by one informant that Aboriginal communities may be better served by his credit union simply because it offers better hours and more flexibility than the local bank branches. Attention to the needs of marginalized populations is exemplified in financial literacy skills training that credit unions in our research were offering to young people (high school students), micro-entrepreneurs, and economically disadvantaged clients, such as new immigrants and low-income people. These credit unions recognize that building the financial skills of current and potential customers through financial literacy skills training will create a stronger membership base for the credit union, which in turn creates a more economically viable and strengthened credit union.

One large urban-based credit union has found it particularly beneficial to support non-profit organisations that wish to start up social enterprises. The credit union provides financial advice and seed money to non-profits for this purpose as well as supportive services along the way until the social enterprise becomes economically independent. The credit union has found that this kind of longer-term support for local social enterprises has made the credit union known and visible in the community. Similarly, one informant from a rural-based credit union pointed out that because his credit union offers no-cost accounts to non-profits, most non-profits in the area are credit union members.

3.2.4 Staff as a Competitive Attribute

Many informants identified quality of credit union staff as a particular competitive advantage over banks. Informants from both large and small credit unions observed that because of credit unions' rootedness in community, it is possible to attract and retain good staff, largely because of credit unions' concern with the well-being of the local community.[9] "It is exciting not to be a bank." Our research suggests that people are also drawn to working for credit unions because credit unions offer stable, local employment opportunities, whereas out-of-town transfers are always a possibility when employed by a bank. Informants from a rural credit union went so far as to say that they don't have trouble competing with banks specifically because of the strong relationships that have been built between staff and customers. Because credit union employees live in the community and understand local issues, credit union decisions are made by local people who are invested in the community. Credit union informants also mentioned that this particular competitive advantage stems not only from attracting and retaining knowledgeable staff but also from the fact that credit unions tend to hire more staff than banks. Having more staff makes it possible for the credit union to build more personal relationships with the community and its clients. In the case of one rural credit union, four people have the responsibility for dealing with one million dollars' worth of commercial loan activity, whereas other financial institutions may have just two or three staff people for the same volume of business.

3.3 Corporate Social Responsibility and Social Auditing

Social economy policies and programs within credit unions are closely aligned with their corporate social responsibility (CSR) functions. The definitional obscurity (or emergent qualities) of the

[9] This is a common attribute and outcome associated with companies that incorporate community-based corporate social responsibility initiatives into their organizations (CBSR, 2001).

social economy presents both opportunities and barriers in terms of linking with the more widely recognized field of CSR. On the positive side, CSR may serve as a gateway – both organizationally and conceptually – to introduce the social economy more broadly within the credit union sector. Negatively, however, interviewees noted concern that CSR may be a barrier to social economy development, as the conventional CSR activities of credit unions – while serving very positive community and marketing roles – are not structurally relevant to elevating the strength and awareness of the social economy. If the social economy is confused with these "CSR-lite" activities, the broader transformative potential of the social economy is overlooked.

In 2007, Credit Union Central of Canada reported on credit union involvement in communities and their commitment to social responsibility (Credit Union Central, 2007). Drawing on a survey conducted in 2006, the report found that credit unions participated in community development in a variety of ways. They donated over $3 million in financial services to community organizations in the form of waived service charges, increased interest rates on deposits, preferred borrowing rates, free cheques, and office services. This survey also found credit unions spent a total of $34.7 million in donations, services, scholarships, and volunteerism in 2006, which equates to an average of $96,046 per credit union.

Corporate social responsibility (CSR) is not to be confused with social auditing or social accounting. CSR applies only to companies that aim to integrate social and environmental concerns into their business operations, while social auditing and social accounting are methods of demonstrating CSR (Crowther & Capaldi, 2008). Many for-profit corporations, co-operatives, and social enterprises are taking it upon themselves to conduct a broader, social audit in order to more definitively measure the various kinds of positive impacts they are having. Generally, social auditing is seen to serve three purposes. First, it allows organizations to evaluate their performance in relation to their social commitments and goals. Second, social auditing helps to respond to changing expectations in the business environment - for example, publically demonstrating a commitment to social responsibility. Lastly, it "can help the financial bottom line of an organization by positioning it favourably in the marketplace" (Brown, 2001, p. 52).

Social auditing and social accounting are still in a developmental stage, having only emerged prominently in the late 1990s (Bridge et al, 2009). While otherwise similar, the key difference between the two terms is that social accounting gathers and uses data to report to stakeholder groups, while social auditing verifies that the performance claims made in those accounts are accurate. Neither social auditing nor social accounting are external evaluations since the information is self-generated for the benefit of the organisation (Bridge et al, 2009).

Credit unions use social auditing for the purposes of profiling their social objectives, measuring achievements and shortfalls, informing strategic planning, and promoting the 'cooperative difference' (Brown, 2000). A study performed by Brown in 2001 is highly relevant to our current research. Investigating three Canadian credit unions that had conducted one or more social audits or reports, she described how each credit union had developed its own measures and indicators that were guided by the principles of cooperation, by other social audit reports, and by suggestions from staff and community groups (Brown, 2001). In all three credit unions, Brown showed that there is a "high level of convergence in the areas audited." For instance, all reports showed "how the credit union invests its assets, the varieties and degrees of community support, the environment, items with an explicitly social justice orientation, and relationships with the broader credit union movement" (p. 31).

Bridge et al. (2009) point out the importance of distinguishing between 'outputs' and 'outcomes' in social auditing reports, in order to ensure that both are measured. Outputs are the wide variety of products, services, activities, donations, etc., provided by an organisation, while the outcomes are the intended benefits of those outputs. Measuring both can help determine why a project was successful or not (Bridge et al, 2009). In the three credit unions studied by Brown (2001), outputs measured by all three credit unions included: recruitment and human resources policies for members, volunteers, and employees; types and ranges of products and services offered; putting co-op values and principles into practice; promoting internal democracy; involvements in the community; partnerships with other organizations in the community; and the use of resources, recycling, and other environmental measures (p. 33). Outcomes measured by all three credit unions included: "attaining participation; growth in credit union membership; and social auditing and reporting embedded in the credit union (p. 33).

Brown (2001) identifies several problems with the social audit approaches taken by these three credit unions (which remained anonymous in her paper). For instance, it is clear that outputs are measured more than outcomes, but she notes that this is generally true of social auditing. Furthermore, indicators chosen by the credit unions reflect what the credit union is doing, ignoring the gaps in what it might or want to do. Lastly, the credit unions have not always identified specific targets or goals with which to evaluate achievements and shortfalls.

Brown's study notably revealed that although social auditing is not viewed by any of the three credit unions as a "casual, irregular process," none of the informants interviewed by Brown believed that social auditing was truly embedded in the credit unions because it is not a legal requirement and could therefore be cast aside should a board change its philosophy (Brown, 2001, p. 45). However, at the time of the study each credit union had made public commitments to perform regular audits. Brown writes that "there is still much room for 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" (p. 52).

Why have these credit unions chosen to continue doing social audits? Other research conducted by Brown (2000) revealed that credit unions experienced no significant negative consequence to doing a social audit, that their boards were receptive and found the audit useful for planning and development, and that auditing work received a positive reaction for attendees at AGMs.

Despite these benefits of doing social audits, why have so few credit unions opted to do one? Brown's 2000 study reports that just three credit unions (in her province) had completed at least one; and in our research just one of the four case study credit unions had undertaken a social audit. Similarly, MacLean & MacKinnon (2000) investigated why only five (less than 2 per cent) of the 330 cooperatives and credit unions in Atlantic Canada have performed social audits. The authors pointed out that social auditing and social reporting have become quite popular among shareholders of major corporations in Canada, including CN, Bell Canada, Shell Canada, Body Shop Canada, Tetrapak, etc., which regularly conduct social audits and publicly report the results. MacLean & MacKinnon propose several reasons as to why a co-operative might opt not to begin or complete a social audit. These reasons include lack of management support, lack of staff resources to promote and support the process even if initiated by the board, lack of experience within the organization, and the fact that the process is labour intensive and therefore can face resistance by the managers to the extra work and cost involved (2000, p. 143). The authors suggest other related issues that might also serve as barriers. If a social audit is undertaken, there would be an expectation from members that action implications of the audit would be followed out, which can put a lot of pressure on the resources of a small cooperative or credit union. There may also be a lack of volunteers who are willing and able to invest the necessary time required to collect data and sit on committees.

In our research, we did not specifically investigate the issue of social auditing, although we did inquire about measurement or tracking techniques that each credit union might do around particular donation programs or financial services, no matter how informal. In no instances were our case study credit unions tracking or measuring the impacts of their community investments, donations, scholarships, or programs, except perhaps to measure membership growth. Just one of our case credit unions has undertaken social auditing, which it has been doing for a significant period of time. It is perhaps not coincidental then that this particular credit union is recognized for initiating and implementing many progressive programs and policies.

Credit union competitors like TD Bank, Scotiabank, and RBC are using social auditing reports to advertise their CSR strategies and have published these reports on their websites. Thus it would be important for credit unions also to publicize their commitment to social responsibility. After all, social auditing may help to demonstrate the co-operative difference and contribute to credit unions' competitive advantage. Since they have a smaller membership base and fewer assets than banks, credit unions may find social auditing particularly useful in targeting investments towards their most strategic initiatives.

Social auditing may also help credit unions develop the critical long-term vision or mission that could lead to social change; such vision or mission is currently lacking from credit union strategy, according to one informant: "Credit unions play an extremely progressive role, particularly in smaller communities and poorer urban areas. But many of the credit unions have lost their mission and have focused on profit-making as opposed to mission issues." Indeed, several informants suggested that credit unions could play a more prominent role in bringing about societal change - for example, through reducing poverty, building community, and supporting youth. Some informants from the case study credit unions mentioned the importance of CSR in helping credit unions to better engage with communities, but these did not mention social auditing in particular. One informant proposed that in the absence of measurement tools, credit unions may become mired in more traditional community benefit investments. Although there is nothing wrong with those traditional investments (which often include supporting local sports teams or festivals, or education scholarships), they may not lead to the societal changes to which credit unions, as co-ops, are ostensibly capable of contributing. According to one informant, there is a general lack of understanding in how to affect social change, and contributing to community events substitutes as a simple and obvious way for credit unions to provide community benefits. This informant emphasised that there is a distinct need for credit unions to involve people who understand the role that credit unions can play in bringing about social change.

Risk was a topic raised several times in the course of the interviews, although not from all four credit unions. Some informants were concerned about the potential adverse effects that taking a stand on social change issues may have, including alienating members. One informant pointed out that there is no method for evaluating the risk involved in engaging in social economy/social change initiatives. Although social auditing may not be able to particularly evaluate drawbacks to engaging in various investments or initiatives, social auditing may be able to help credit unions define what kinds of risks they can assume, as well as illustrate the limitations of traditional forms of community investments. However, one informant from a small-town credit union suggested that social auditing may not be as critical for smaller communities because the impacts of community investments are more clearly visible. Measurement may still be necessary but perhaps using a tool that is less complex than social auditing may be more appropriate for rural and small town credit unions.

3.4 Social Economy Opportunities and Barriers

3.4.1 Opportunities

Informants from all credit unions were eager to emphasize that credit unions are not banks, but they also recognized that allthough credit unions do differ from banks in terms of structure, governance, and objectives, these differences tend not to be obvious to the average person. As has been discussed earlier in this report, credit unions are smaller institutions than banks and as such are able to build stronger ties with their communities, as well as offer more personalized service; and because they are co-operatives, credit unions ensure that every member has decision-making power. These are important aspects that define credit unions in distinction to banks, yet some informants observed that they largely go unnoticed by the average member or other community resident. From the perspective of informants, most people are also unaware that a large percentage of CU funds is used to support local communities in various ways. Several informants felt that if this fact were better publicized – as well as the co-operative principles – credit unions would gain in their competition with banks.

These same qualities that differentiate credit unions from banks are also qualities that give credit unions a greater opportunity to invest in the social economy. Yet, outside a couple of notable exceptions, credit unions have not taken advantage of this opportunity. Although informants from all our case study credit unions discussed how their credit unions are firmly rooted in the communities they are serving and are familiar with local issues and struggles, for the most part, those same credit unions do not take advantage of their understanding of community in order to make the strategic investments directly aligned with credit union principles. This is particularly evident in the case of smaller rural credit unions that confine themselves to traditional kinds of investments as sponsors of local festivals or sports teams. Only one case study credit union currently supports and invests in social economy organizations, such as social enterprises.

Credit unions also have the opportunity to invest in other sorts of local non-profit organizations working in areas not served by the public and private sectors, such as advocating for marginalised communities. In rural and small-town communities, where local non-profit organisations have a smaller population from which to draw on for financial support, credit unions have a significant opportunity to assist such organisations in moving toward greater self-sufficiency. Such financial support may go a long way to strengthening local economies in general, which in turn strengthens the membership base of credit unions. This type of alternative investment has the potential to make real change in communities, especially those struggling economically.

Several informants saw the current financial crisis as a particular opportunity for credit unions. Informants believed that the financial crisis will lead to a general mistrust of traditional financial institutions, providing an opportune time for credit unions to show how they are different. Additionally, the financial crisis may lead to a desire to refocus the economy so that it is more locally-based; since credit unions are rooted in the communities they serve, they could play an integral role in a new locally-based economy. “I think the current economic crisis is an opportunity for credit unions because there is a mistrust of traditional business and there is a desire to look for new ways of driving the economy that are more locally-based, where we know we can retain jobs and there will be multiple benefits and impacts back to the community that aren't driven just by financial performance. At our credit union, this is certainly one of the most challenging times we've ever had financially, but it's also our biggest opportunity to tell our story and to talk about how we're different. So I think that's the same argument for the social economy: the opportunity to be engaging people to show them that there is a different way to do business and be able to promote that.”

3.4.2 Barriers

Unfortunately many of the opportunities just identified can also be perceived as barriers to both credit union growth and credit union investment in the social economy. Because they are democratic institutions and accountable to their members, credit unions may find themselves constrained by members who may prefer to support traditional causes and events. Similarly, leaders in credit unions may be restricted by the capacity and knowledge base/training of their staff or managers. Beyond the need for staff resources, the adoption of social economy principles and programs into the operations of credit unions represents a cultural shift, as organizations and as a sector.

Several informants discussed all of these barriers but went on to suggest that this reluctance to move away from traditional operations may be due in part to a lack of knowledge about what the social economy is and how investing in it may benefit the larger community and the credit union itself. Although there is some extant evidence to show the value of a strong social economy, hard and persuasive data on how the social economy contributes to a stronger economy overall is generally scarce. Because of a lack of specific data on what aspects of the social economy are successful, it is understandable that credit unions may perceive investment in the social economy as a risky venture or of little impact. Informants noted that these are risks that credit unions are unfamiliar with and do not know how to handle. That of course is even more the case with conventional financial institutions.

Again, a related barrier stems from the fear that supporting the social economy might be perceived as taking a political stand. Credit union staff are wary about the possibility of alienating members and are concerned about member backlash should the credit union support particular organizations or causes that may have broader political or cultural implications.

Finally, most interviewees suggested that credit unions are constrained because they have placed too much emphasis on trying to compete with banks. “We should have higher expectations of ourselves. It is not the [interest] rates that are important. It is the relationships.”

4 Conclusion and Recommendations

It is not in question that credit unions have a distinct history from banks and are founded on different values and principles. The question is whether these qualities are expressing themselves in terms of offering tangible and measurable facilitation of the social economy. Credit unions certainly have a mandate and the resources available to be able to finance the social economy more effectively than banks, based on community rootedness characteristics, the democratic nature of credit unions, and the fact that credit unions themselves are a part of the social economy. But can credit unions overcome the strong compulsion to compete with banks on traditional grounds, which may detract from the overall credit union mission and mandate? Our interviewees suggested that most credit unions are struggling to find a niche for themselves, recognizing that they are unable to compete with banks solely on the charges for financial services; but the same CUs can be constrained by members who may not recognize the value in supporting, e.g., environmental initiatives or less mainstream traditional investments that could lead to both a strengthening of the local economy and the credit union itself. Informants suggest that in order to be successful and meaningful in their communities, credit unions must resist the pull to compete on the basis of financial products alone and instead look for ways to support people, local organisations, and communities. It was recognized by many interviewees that the social economy may provide a balanced way (i.e., appealing on both enterprise and social dimensions) to pursue competitive advantages that are still rooted in the principles and practices of the credit union ideal.

We have reviewed our inquiry to consider how credit unions can be adequately competitive in the financial world while taking advantage of their central position as potentially powerful members and actors in the social economy. We intend to follow up on the directions in which our exploration has pointed. Most especially we will seek to inquire further into the potential role of the smaller locally-based credit union, but we review here some of the opportunities for the entire CU sector to take a more powerful role as leaders in the co-op world and thus as leaders in the social economy.

Stressing the Co-operative Difference
Most important is the need to highlight and publicize the co-operative principles that make credit unions unique from banks and that make them significant as part of the social economy. This applies both internally and externally. Internally, credit unions will need to remind themselves, both staff and board, of the co-operative principles upon which they have been historically established; externally, residents of the community, both CU members and non-members, can be made more aware of these significant aspects of credit unions. In short, CUs need to value, both for themselves and others, their special role for the way people can live productively together.

Staff and Board Orientation
CUs need to bring staff and board together around a common understanding of the concept. Since credit union leaders and staff have special knowledge as community members, social economy workshops are likely to uncover creative ideas about how the credit union can invest more strategically and address specific community needs. Long-serving participants will be exposed to fresh ideas, and newer ones will be able to share their perspectives from the changing world.

Learning from Other Credit Unions
Credit unions that have little experience with community investing and investing in the social economy can learn from the experience of other credit unions about what works and what doesn't. Naturally this sort of knowledge transfer must recognize the sensitivities of such a relationship and build on existing common concerns and experience. The provincial credit union centrals can take an important role in this process.

Balancing Profit-making with Community Investment
The central and critical task of all social economy initiatives and institutions is the meshing of social goals and economic goals. For credit unions the task is specifically how to expand their social reach within the constraints of the need for deposit growth and the generation of surpluses that are critical to a viable financial institution rooted in its community. This requires deliberate and careful calculations, and it will begin with specific board and staff attention to where they want to go and what they want to achieve.

Creating a Long-term Vision
More generally, credit unions will need to engage in deliberate strategic planning with staff and members in order to create a long-term vision for the direction of the credit union with respect to their social economy concerns and progress in their communities. Long-term visioning and long-term planning exercises will help the credit union to figure out the priorities of its members and staff and focus its investments accordingly.

Measuring Success with Social Audits
For credit unions that are just beginning to be strategic and thoughtful with what, where, and how they want to invest in community progress, social auditing is something they may engage in by stages, as related to the goals and objectives they have adopted. However, all credit unions need to establish methods of tracking and measurement for each individual program initiated. Such methods will help find out what aspects of the program are working, what are not, and where any gaps may be discovered. Reports generated from tracking and social audits can, of course, also be used to more effectively advertise the credit union difference and commitment to community.

Providing Financial Literacy Training
At the most fundamental level, a credit union survives on the capacities of its members to properly use financial services. Financial literacy programs will allow credit unions to reach out to potential members, such as new immigrants and refugees, and support existing members to become better managers of their own money. In addition offering such services is a way of gaining greater institutional visibility. But most importantly, the increased capacity of members means a strengthened credit union and a credit union that can take the needed risks in financing the social economy.

Targeting the Needs of the Social Enterprise
Within the social economy sector, the institution of the social enterprise is key. While the credit union itself is a social enterprise, it has a special responsibility to deal with the financial constitution of other social enterprises in its community. That is, these too must be able to balance the need to generate surpluses with the need to achieve the social ends that the enterprise addresses. There are and must be a wide variety of ways in which the credit union assists this balancing act, far beyond any grants that may or may not be appropriate at one or another point.

Where the credit union may be of most assistance is in offering the kinds of services that are appropriate to its special functions. These can include a kind of financial literacy orientation or education for the board and staff of the social enterprise; equity investments; loans at favourable terms (not necessarily lower rates); loans with partial guarantees by other parties; business planning services; etc. Generally speaking, credit unions will find such assistance to be strengthened by partnerships with other community leaders/organizations, such as foundations, business firms, social welfare groups, and other financial institutions like Community Futures or even banks.

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