

An Examination of Key Performance Indicators Reported by Credit Unions in North America

In partnership with



**Credit Union
Central of Canada**

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Progress is the constant replacing of the best there is with something still better!

— ***Edward A. Filene***

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process.

The Filene Research Institute is a 501(c)(3) not-for-profit research organization dedicated to scientific and thoughtful analysis about issues affecting the future of consumer finance. Through independent research and innovation programs the Institute examines issues vital to the future of credit unions.

Ideas grow through thoughtful and scientific analysis of top-priority consumer, public policy, and credit union competitive issues. Researchers are given considerable latitude in their exploration and studies of these high-priority issues.

The Institute is governed by an Administrative Board made up of the credit union industry's top leaders. Research topics and priorities are set by the Research Council, a select group of credit union CEOs, and the Filene Research Fellows, a blue ribbon panel of academic experts. Innovation programs are developed in part by Filene i³, an assembly of credit union executives screened for entrepreneurial competencies.

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This research is supported by Credit Union Central of Canada, the Filene Research Institute, and the Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC) at Saint Mary's University in Halifax, Nova Scotia.



Credit Union Central of Canada

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by Ben Rogers,
Research Director

ROA. Net Promoter. Efficiency ratio. Loans to assets. Employee turnover. Satisfaction. Asset growth. And so on.

Spend enough time in any organization and you're likely to trip over the idea that "what gets measured gets done." It's well worn, but it's also true. Managers shy away from the negative version of the principle, even though it's equally true: "Measure the wrong things and you will get the wrong behaviors."

Professor Daphne Rixon does two things well: She surveys the key performance indicator (KPI) practices of two dozen medium to large credit unions, and she uses that analysis of KPIs to imagine what credit unions should be measuring. Most credit union managers are so devoted to their established and well-considered KPIs that they don't stop to imagine what metrics are right for measuring a credit union's values and its value to members. A fundamental question suffuses this research: Are we measuring the right things?

What Is the Research About?

Rixon interviews credit union leaders across North America to understand which KPIs they use and why. Not surprisingly, she finds that most talk about a balanced scorecard approach, which pits financial, customer, learning, and process behaviors against each other. Digging another level down, however, Rixon finds that financial measures dominate. Efficiency ratios, profitability, return on investment, and income growth are the common denominators. Credit unions' trade is financial services, so shouldn't the principal measures be financial? Yes, but that's not enough, Rixon argues.

Even though credit unions measure these and other common financial indicators, something is missing from a cooperative that obsesses about financial metrics while ignoring other important points. Credit unions have to consider strategy, regulation, their own users, and industry benchmarks. But what about community engagement and social responsibility? What about engaging stakeholders, not just shareholders? What about meaningful reporting to shareholders and stakeholders? Rixon illustrates these challenges with a discussion of the seven cooperative principles. The interviewees report familiarity with the principles, but few use them to shape their metrics. The credit unions argue that the principles are interesting but not necessarily the right baseline for running a modern financial business, which highlights the broader challenge of building nonfinancial KPIs.

What Are the Credit Union Implications?

Financial KPIs are so prevalent because they are the easiest to measure, the easiest to aggregate, and the easiest to compare. But they do not address credit unions' identity crisis—the need to formulate and describe a business model that is somehow different from noncooperative financial institutions. The critique is not about ignoring competitors but about comparing to the wrong ones. Rixon offers several suggestions:

- **Address the identity crisis.** Credit unions are very often living many of the seven principles, but sophisticated and unsophisticated credit unions alike struggle to measure and, equally important, report on activities that are fundamental to cooperative credit unions.
- **Develop appropriate benchmark data.** With confusion about how best to compare credit unions, we are left with measuring and comparing only financial results. Rixon recommends creating national committees (in Canada and the United States) to investigate and sponsor no more than 10 KPIs and calculate methodologies for each. She further recommends a two-year pilot with anonymous reporting from a cross section of credit unions to gauge the effectiveness of the KPI system.
- **Encourage stakeholder engagement.** One of the key challenges faced by credit unions is the apathy of member owners. Credit unions may not be able to solve that in one stroke, but Rixon encourages credit unions to get beyond tokenism at annual general meetings and in board elections. Incentivizing member and employee groups (beyond just the board) to actively participate in setting strategic priorities would lead to more authentic involvement.

Figure 1: KPI Linkage to the Seven Cooperative Principles

Principle	Correlating reported KPI
1. Voluntary and open membership	Number of branches, number of members
2. Democratic member control	Member loyalty scores
3. Member economic participation	Dividends
4. Autonomy and independence	Employee ethics scores, trust—environmental and social responsibility
5. Education, training, and information	Benefits and training
6. Cooperation among cooperatives	
7. Concern for community	Community donations, community leadership and reputation, and greenhouse gas emissions

- **Monitor the International Integrated Reporting Council (IIRC).** An international group is already working on KPIs that would apply well to the varied priorities of credit unions. The IIRC's pilot project concludes in 2013; credit unions should note the results and consider adopting or modifying the suggested KPIs for their own use.

Finally, Rixon argues that the seven cooperative principles are actually alive in many of the indicators that credit unions currently track. Simply refocusing the principles through metrics that are already in broad use is a good start for improving KPIs.



Daphne Rixon, PhD

Dr. Daphne Rixon is associate professor of accounting at Saint Mary's University in Nova Scotia. She is also the executive director of the Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC) at Saint Mary's, where she is responsible for the overall administration of CEARC, coordinating research projects, and overseeing the development of international statements of recommended practice for cooperatives. She has a PhD in accounting from the University of Warwick in the United Kingdom and is a certified management accountant (CMA). She has over 20 years of experience in the private and public sectors as controller and director of finance. Dr. Rixon's very productive research program has resulted in over 30 peer-reviewed publications and conference presentations. She is a member of the editorial boards for *Managerial Finance* and the *Journal of Co-operative Accounting and Reporting* and is a frequent reviewer for *Public Management*.

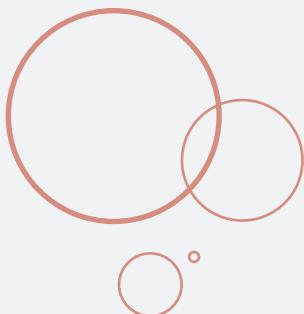


CHAPTER 1

Introduction



Understanding a credit union's use of key performance indicators (KPIs) provides stakeholders insight into the organization's focus, major initiatives, and success in achieving its goals. As part of a larger study to develop and pilot a common set of benchmarks often reported by most credit unions, this report identifies the KPIs used by 23 Canadian and US credit unions of varying asset sizes and seeks to understand why and how such KPIs are selected.





The purpose of this report is first to identify the KPIs reported by credit unions (CUs), and second to gain an understanding of why and how KPIs are chosen. The report examines the various influences on selection of KPIs. These influences include strategic planning, the seven principles of cooperatives, regulation, users, and industry

benchmarks. It is important to conduct this study since performance in many organizations, including CUs, is driven by their strategic plan KPIs. Furthermore, the KPIs reported allow stakeholders to discern

This study is a much-needed addition to the body of literature on CU reporting since there is a paucity of research focused on KPI selection and reporting.

the focus of the organization, its major initiatives, and its degree of success in meeting objectives. This study is a much-needed addition to the body of literature on CU reporting since there is a paucity of research focused on KPI selection and reporting.

This report also examines the future direction of reporting in terms of the potential impact of the International Integrated Reporting Council (IIRC). The IIRC is an international body representing a cross section of leaders from the corporate, investment, accounting, academic, and standard setting sector. Its mission is to create a voluntary, globally acceptable, integrated reporting framework that incorporates financial, environmental, social, and governance information (IIRC 2011). It is noteworthy that one CU, Vancity in Canada, is participating in the IIRC's pilot project (to be completed in 2013), which may well have implications for future reporting not only by CUs, but throughout the entire cooperative sector.

Scope of Research

This report focuses on the first phase of a larger study. The intent of this report is to identify the KPIs publicly reported by CUs and to gain insight from senior CU officials regarding why and how they chose KPIs. The research is approached from a conceptual level and is intended to raise awareness of issues surrounding KPI reporting

and lay the groundwork for the next phase of the study. While broad recommendations are provided, it is not the intent of this report to provide a list of specific actionable items. The second phase of this research project will entail a pilot project to work with CUs to develop definitions and calculation methodologies for a common set of benchmarks that are frequently reported by most CUs. The next phase of the study will include more actionable items based on research with CUs.

How Was the Research Done?

This research uses a case study approach that comprises semistructured interviews and a documentary review of the annual reports, performance reports, and websites of 23 participating CUs (4 from the United States, 19 from Canada). The intent of this study is *not* to compare the United States to Canada, but rather to profile the North American CU system as it relates to KPIs. Twenty-two semistructured interviews were held in person and one was conducted by telephone. Interviews were one hour long and were held at respondents' workplaces in 2011 and 2012. All respondents held senior positions, ranging from department director to vice president, chief financial officer, and chief executive officer. The documentary review involved identifying all KPIs publicly reported by the participating CUs in their annual reports, performance reports, and websites. Participants included small, medium, and large CUs in urban and rural areas. There were three closed-bond CUs (one in the United States and two in Canada) that provided service to only certain employee groups. The geographic distribution of respondents is depicted in Figure 2.

Figure 2: Geographic Location of Participants

Location	Canada	United States
Newfoundland and Labrador	2	
Nova Scotia	3	
New Brunswick	2	
Prince Edward Island	1	
Quebec	1	
Ontario	2	
Manitoba	3	
Saskatchewan	1	
Alberta	2	
British Columbia	2	
Illinois		2
Georgia		1
Florida		1
Total participants	19	4

Participants included small, medium, and large CUs as measured by asset size (see Figure 3).

Figure 3: Size of Participants as Measured by Asset Size

Asset size	Number of participants
<\$100 million	2
\$100–\$199 million	3
\$200–\$499 million	5
\$500–\$999 million	0
\$1.0–\$4.9 billion	4
\$5.0–\$9.9 billion	3
>\$10.0 billion	6
Total participants	23

While case studies are not based on statistical samples that can be extrapolated to the population at large, this research approach has the benefit of deriving rich data and offering greater insight by providing the researcher with an opportunity to probe for more detailed information. Throughout the report, stakeholders are defined as internal stakeholders (CEO, management, and staff) and external stakeholders (members and regulators).

Context for the Study

This section provides a brief overview of the operating environment for the CU systems in the United States and Canada. In the United States, CUs are governed by the Federal Credit Union Act and similar state-level legislation. This legislation is the source of authority for all federally chartered CUs. The Act also governs an independent agency, the National Credit Union Administration (NCUA). The main responsibilities of the NCUA are to regulate, charter, and supervise all federal CUs. The NCUA's role is to insure deposits up to a maximum of \$250,000 per member, protect members, and regulate CUs. The NCUA provides insurance to all federal CUs and the majority of state-chartered CUs (NCUA 2011, 6). The NCUA requires the quarterly filing of a 5300 form, which is publicly available and provides extensive information about CUs. In addition, the United States has two national industry associations, the Credit Union National Association (CUNA) and the National Association of Federal Credit Unions (NAFCU), that provide industry data, lobbying support, and various educational programs to their member CUs. Individual states and regions also maintain state-level associations that offer similar services.

Unlike the American system, Canadian CUs are regulated provincially rather than on a federal basis.¹ Each province has a CU regulatory agency. Provincial regulatory agencies audit CUs on a periodic basis to assess their financial viability. In addition, CUs are required to submit financial and other key data to their respective provincial regulators. Canadian industry associations are known as "Centrals." A Central refers to regional and national CU industry associations. Centrals may cover one province or several provinces. In addition to its five regional Centrals, Canada has a national industry association, Credit Union Central of Canada (CUCC). The principal roles of CUCC are to provide advocacy, conduct research, and hold conferences. The national Central and its five regional counterparts also provide statistical data, education, and training for CUs.

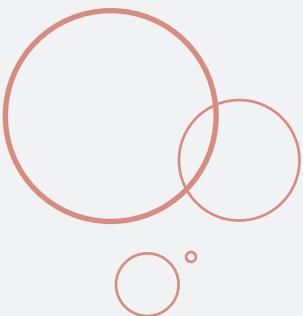


CHAPTER 2

Research Findings: Discussion and Analysis



Although the credit unions participating in this study utilize a tool that promotes balanced reporting through the measurement of financial and nonfinancial factors, their greatest focus remains on financial metrics such as profitability and efficiency ratios. While measuring financial indicators is very important, other influential factors like strategy, regulation, the seven principles of cooperatives, users, and benchmarks should also be considered.





The research findings are presented in two main sections: semistructured interviews and documentary review of annual reports, performance reports, and websites.

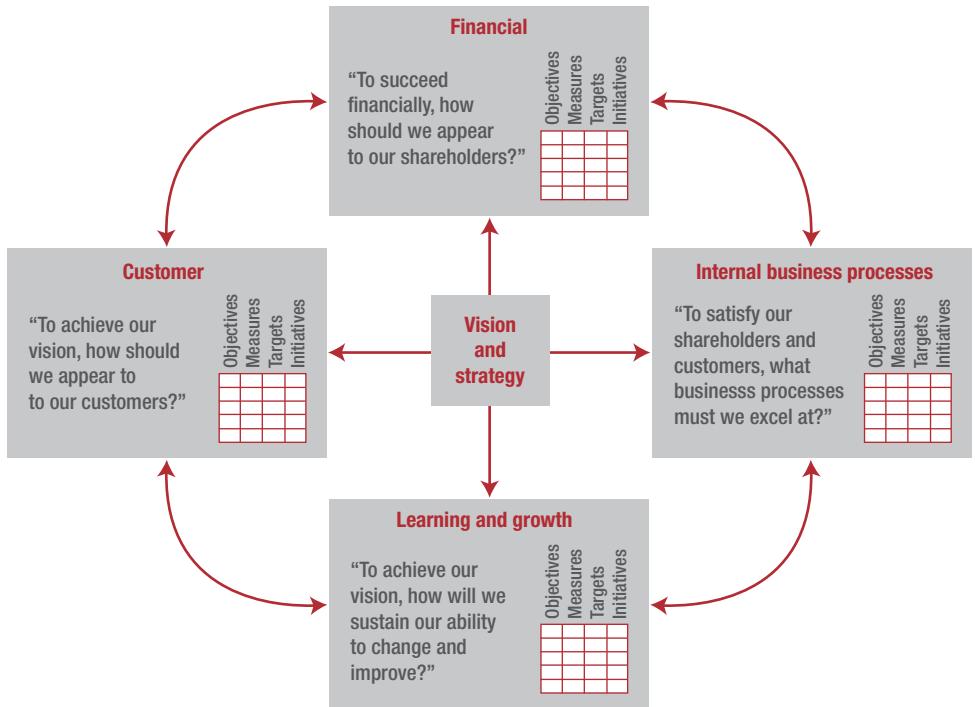
Semistructured Interviews

The semistructured interviews were designed to identify the key factors that influenced the selection of KPIs. The sections that follow present findings from the interviews and are grouped into five major categories that impact the selection of KPIs: strategic plans, regulation, the seven principles of cooperatives, benchmarks, and users. The questions posed during the interviews are provided in Appendix 2. It should be noted that while these standard questions were used for all interviews, the responses often led to additional questions and discussion. This approach reflects the nature and purpose of a qualitative research methodology.

Do CUs Use Strategic Plans, and What Are the Most Important KPIs?

All participating CUs used strategic plans and the Balanced Scorecard (BSC) to report on their progress. The BSC as introduced by Kaplan and Norton (1992) organizes strategic objectives into four perspectives: (1) financial, which focuses on growth, profitability, and risk; (2) customer, which identifies strategies to create value for customers; (3) internal business processes, which emphasizes the creation of customer and shareholder satisfaction; and (4) learning and growth, which concentrates on a climate that supports organizational change, innovation, and growth. Figure 4 illustrates the four perspectives of the BSC. CUs also reported on these four areas, but in the interviews, all respondents indicated that their predominant focus was on financial factors, with considerable attention paid to profitability and efficiency ratios. As one respondent pointed out, profitability was essential to achieving the other main goals. In some cases, CUs added a fifth category for corporate social responsibility.

Figure 4: The Balanced Scorecard



Source: Kaplan and Norton (1992).

The Most Important KPIs

Since respondents placed considerable emphasis on financial metrics, I included a question asking them to rank the KPIs by level of importance. It should be noted that such ranking of financial measures is actually contrary to the BSC framework, since it is based on the concept of a balance of financial and nonfinancial indicators, each equally weighted. However, it is noteworthy that CUs are more focused on financial than nonfinancial metrics. Proponents of the BSC would say that concentrating on nonfinancial factors is beneficial in attaining improved financial performance.

In the interviews, respondents were asked to identify the KPIs they believed were most important (*"Of the performance indicators used by your CU, which measures do you consider to be the most relevant and why?"*). Their responses were tabulated and are listed here in order of prevalence:

- Efficiency ratio.
- Profitability.
- Productivity.
- Return on investment.
- Return on assets.

- Income growth.
- Percentage surplus returned to members.
- Membership growth.
- Growth in loans and deposits.
- Wealth management/assets under management.
- Net Promoter score.
- Cash flows.

As this list indicates, the overwhelming majority of respondents said profitability and the efficiency ratio, two core financial indicators, are the most closely monitored and compared indicators. The choice of comparative referents was often driven by the perceived main competitor. Some respondents viewed banks as their main competition, while others viewed other CUs as the competition, with virtual banks

cited as the main competition by American respondents. In Canada, government-owned financial entities such as Farm Credit Canada and ATB Financial (Alberta Treasury Branch) were also viewed as major competitors.

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Pay for Performance

In response to a question about KPIs (“*Is compensation for management and employees linked to achieving performance objectives? If so, how is this determined and measured?*”), all respondents said they measure and monitor strategic planning results through KPIs, which are used to calculate bonuses for staff and management. Most CUs have a two-tiered bonus scheme whereby part of the bonus is based on the CU’s overall performance and the remaining part is based on attainment of individual goals. Two participants stated that while they have pay-for-performance schemes in place, bonuses were not given the previous year due to poor financial performance.

How Are Regulatory Requirements Reflected in Strategic Planning?

In the interviews, respondents were asked about the extent to which their strategic planning exercises integrated regulatory metrics and requirements (“*Could you tell me about the regulation for the CU industry? What types of information do you report and is this information included in your strategic plan targets?*”).

CUs in the United States are regulated on a national basis by the NCUA, while CUs in Canada are regulated by their respective provincial governments. In addition, Canadian CUs are subject to two major federal government regulations: privacy and money

laundering. Provincial regulatory authorities are primarily concerned with financial viability—ultimately to protect the deposits of members—as reflected by capital adequacy, return on assets, capital to total assets, and risk management. In both countries, CUs are required to provide certain financial information and KPIs to the regulator on a periodic basis—monthly or quarterly.

Our interviews found that while these regulatory data are reported to the board of directors, they are not included in the strategic plans of CUs and are usually not included in annual reports and BSCs. However, one CU reported that its regulatory metrics are monitored by the audit committee. It is noteworthy that most CUs set their targets to achieve a higher level of performance than that required by the regulator. One CU stated that the NCUA requires 7% equity but informally expects a much higher rate of at least 10% for smaller CUs.

While most large Canadian CUs were concerned with the upcoming Basel III requirements, they did not express serious apprehension about federal and provincial government regulation. On the other hand, many smaller CUs viewed federal and provincial regulations as cumbersome, time-consuming, and costly, and some respondents from small CUs raised the possibility that increased regulation might force more amalgamations as a way of coping with this administrative burden:

With increased regulation, there is less time for corrective action and it results in increased costs with no benefits. Since we are small, we have key person dependency regarding reliance on one individual for compliance.

It is onerous and a complete waste of time.

Some of the larger CUs believed the regulators should be more vigilant with small CUs, as reflected in the following comment:

We are concerned about CUs growing through increased commercial lending, since this often results in risks. We have met with the Central and the regulator to highlight this issue. We want the regulator to watch smaller CUs to make sure they are solvent and to encourage consolidation. CUs need to be a viable relative to banks and to do that we need fewer CUs.

Another respondent described how American corporate CUs, which were established to support CUs, failed and were subsequently rescued by the NCUA:

We now have to pay assessments to restore the corporate CUs. There is a lot of debate about whether the corporate CUs should be rescued and restored. Smaller CUs need the corporate CU to provide funding, but it is not needed by most large CUs.

In general, regulatory KPIs are not included in most strategic plans and are not monitored and measured through BSCs. One explanation for this, particularly in the United States, is that many of the measured indicators are explicitly reported in quarterly data or in periodic examinations. Respondents indicated that they are nevertheless monitored by senior management and discussed in board meetings. While boards may not have numerical standards in mind, they certainly care about pass/fail. However, this could change if regulators decide to make the standards more stringent. CUs would then need to give higher priority to regulatory measures.

Are the Seven Principles of Cooperatives Integrated into KPIs?

In order to gain a better understanding of CU strategies and related KPIs, this study examined the influence of the seven cooperative principles. The research examined whether the seven principles are used by CUs to demonstrate their cooperative difference from banks (“*Does the strategic plan include references to the seven principles of cooperatives?*”). Throughout the interviews, considerable insight was gained into the perceptions of senior executives regarding the seven principles. These insights are presented in three categories: informing corporate culture, declining awareness, and declining relevance.

Informing Corporate Culture

The cooperative principles go back as far as 1844; they were adopted by the International Co-operative Alliance (ICA) in 1937 and have been revised several times, with the most recent revision in 1995 (ICA 2011). The cooperative principles are listed and defined in Appendix 1. A study conducted by Birchall (2005) predicted that in the 10 years after 2005, the emphasis would be on operationalization of the values and principles into cooperative business practices. Therefore, one of the key topics of this research is to ascertain whether the principles are indeed included in strategic plans and KPIs.

All respondents indicated that the seven principles are not explicitly monitored and measured as KPIs. One CEO explained that while the seven principles are not reflected in the strategic plan and targets, she ensures they are top of mind with employees by assigning the principles to various staff members each year and asking them to define and comment on them in staff meetings. Another CEO noted that she reminds employees and members of the seven principles in the annual report. Evidence of how the seven principles influence the corporate culture is illustrated by one response: “Our mission is to give back to members . . . not to keep too much. The more we give back, the more aligned we are.” Giving back is clearly aligned with member economic participation and concern for the

community, even if CUs do not explicitly link these activities to the seven principles.

There were a wide range of views regarding the prominence of the seven principles. Some CUs had moved away from the seven principles but are now returning to their roots. Other respondents indicated the principles are part of the corporate culture and are behavioral, as illustrated by the following remarks:

They are part of our corporate culture, but we don't measure them.

They are more behavioral.

Some are reflected in our annual report.

We are supportive of the cooperative philosophy, but it doesn't get built into the strategic plan.

We talk more about the seven principles than we did historically. The seven principles go back to the cooperative roots. We became more bank-like but are now getting back to our cooperative roots.

The seven principles influence the values section of the strategic plan. They are fully integrated in all business decisions; they are the essence of who we are and our brand. They are ingrained in the business model.

One CU was in the process of determining how to incorporate the seven principles in its strategic plan. This respondent commented: “We have just started discussing the seven principles in the context of developing the Balanced Scorecard, but we are struggling to develop appropriate measures.”

Declining Awareness

Despite claims by all respondents that the seven principles inform their organizational culture, the research found a weakening awareness of the principles. For example, a CFO commented: “I don't know the seven principles, but I'm sure the CEO knows them by heart.” One CEO stated: “They are not a part of our discussion. I looked them up a month ago. They are not top of mind.” The research also found evidence of different levels of understanding among the board of directors, senior management, and staff:

Training is provided for the BOD [board of directors] and this includes the principles and the cooperative difference. Cooperation among cooperatives is important for the board. For example, if we develop policy and procedure, we share with other cooperatives. On a day-to-day basis, the seven principles are not important for tellers, but for the CEO it is important. We talk about the seven principles in staff meetings. In each meeting, a principle is discussed.

Overall, the research found very low awareness of the seven principles among the participants. Moreover, respondents indicated they believed employees and members were not aware of the seven principles. The only exception to management perception of low member awareness of the cooperative difference was found in closed-bond CUs that were formed to serve a specific employee group.

Declining Relevance

When examining relevance, the research found that some respondents expressed little support for the seven principles. One CEO commented: “I can’t see the seven principles governing everything. The board is more familiar with the principles than management.” This respondent was focused on achieving the strategic plan, but the plan did not include initiatives specifically targeted toward the seven principles. One respondent contended that cooperation among cooperatives should not entail cross subsidization. For example, he disagrees with his Central charging the same rates for processing (such as cheque clearing) regardless of size. He believes large CUs should receive volume discounts. He went on to state that he has a problem with helping the little guy if his CU is not getting anything back in return. One respondent also pointed to a lack of member interest in the seven principles:

We did market research and tested if the concept of being an owner was important and had any meaning for members. The result was a decisive “NO.” Members just wanted a financial institution to meet their needs. They do not focus on a bank or a cooperative.

Despite the many examples of cooperation among cooperatives provided in CUCC’s collaboration portal², some Canadian respondents stated a belief that there is a decline in cooperation. Concern with cooperation among cooperatives was also voiced by another respondent, who attributed his concern to competition among CUs:

Cooperation among cooperatives seems to be falling by the wayside due to increased competition among CUs. Cooperation among CUs is difficult, but if we are developing a new technology or a new policy, we will share. There is cooperation with small CUs.

Given the low level of awareness, monitoring, and measuring of the seven principles, perhaps it is time to consider their relevance. Historically, the seven principles were intended to demonstrate the cooperative difference. Clearly, CUs are no longer relying on the seven principles as a way to differentiate from banks, at least in their marketing. This leads to more provocative questions: Do CUs really want to differentiate from banks, and if so, will they rely on demonstrating the cooperative difference? At this point it is unclear how CUs are setting themselves apart from banks.

VANCITY BENCHMARKING

Since none of the participants in this study framed their KPIs in the context of the seven principles of cooperatives, a baseline KPI reporting model consistent with cooperative values could not be identified. The development of such a model will be included in the recommended project to develop benchmarks. However, as a starting point for those CUs interested in developing more comprehensive reporting on financial and nonfinancial matters, it is helpful to review Vancity's 2011 Accountability Report (Vancity 2011).

Vancity is one of the leading Canadian CUs in terms of reporting quality and comprehensiveness as reflected through various awards. Although Vancity does not link its KPIs to the seven principles, there are several aspects of its reporting that are noteworthy.

ASSURANCE EVALUATION

Certain KPIs were selected for assurance evaluation by Vancity's auditors. KPIs selected for assurance were described as strategic measures with organizational targets. They include:

- Employee engagement score.
- Greenhouse gas emissions.
- Net annual growth of the community investment loan portfolio.
- Member loyalty score.
- Average branch service experience score.
- New community investment impact loans funded.
- Percentage of new socially responsible investments.
- Percentage of employees who commute using sustainable transit.
- Percentage of waste diverted from landfills.

The above-noted KPIs were identified in the report as having been externally assured through the external auditors. This assurance provides increased confidence in the reliability of the report.

EXTERNAL BENCHMARKS

Vancity compares a number of its KPIs to benchmarks and also discloses the source of the benchmark. Benchmarking is important in enabling readers of the report to discern if the targets are reasonable. A selection of Vancity's benchmarked KPIs follows:

- Member loyalty: benchmark is identified as Market Probe's North American financial institutions best-in-class personal loyalty score.
- Members by age range: benchmark is provided by Environics Analytics.
- Employee profile by employment category and employee turnover: benchmark is BC HRMA, Canadian Credit Unions.
- Employee engagement: benchmark is AON Hewitt Best 50 Employers.
- Community donations as a percentage of profit: benchmark is provided by Canadian Centre of Philanthropy.

At the same time, the issue seems to be that many CU activities actually correlate to the seven principles, but these activities are often not highlighted in this manner. For example, according to CUCC data, CUs give four times as much (proportionally) back to communities as banks do. They also engage in more education and keep more branches open than banks. Other unique practices that tend not to be emphasized include democratic processes, patronage, and dividend payments as well as governance structures that reflect regional differences and maintaining independence while partnering with other regional CUs. These are all prime examples of the cooperative difference. However, the CU industry associations seem to be taking a lead role in telling these stories largely because CUs tend not to promote their own efforts. It could be argued that focusing on the seven principles would help CUs report on how they demonstrate the cooperative difference.

Are KPI Benchmarks Useful?

Respondents were also queried about whether industry benchmarks are useful for establishing performance targets (“*Do you think industry benchmarks are beneficial and why?*”).

While the research found that benchmarks are important in developing targets, CUs did not report setting specific targets to meet or

exceed a particular benchmark. Rather, benchmarks serve merely as guidelines or context for establishing the reasonableness of targets. As one respondent noted, benchmarks are important in giving context to the numbers. For example,

Without benchmarks, organizations might set targets at artificially low levels that are easy to attain, thereby reflecting superior performance when in fact performance might be well below the industry standard.

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Sources for Benchmarking Data

Industry Associations

All CUs indicated they rely heavily on statistical data provided by their trade associations (leagues, Centrals) and regulators (the NCUA or provincial CU deposit guarantee corporations). In particular, they find data sorted according to CU size to be beneficial in identifying appropriate target levels of performance. One American CU obtains information from NCUA 5300 forms and compares itself to CUs in its size category. However, some respondents expressed concern about the true comparability of the data, since CUs might be using

different definitions and calculation methodologies for certain statistics such as efficiency ratios. For example, one respondent described the efficiency ratio as operational costs divided by income, while another described it as operating expenses divided by average assets.³ A respondent suggested that variations in classification of expenses could also have an impact on data interpretation: “It is difficult to tell what is comparable. For example, there could be differences in how CUs define costs classified as technology and marketing.” Concern was also expressed with peer comparison: “The issue is definitional. Benchmarks could be misleading. We need to understand how the statistics are calculated, and you need to be careful how to define your peers.”

The research revealed that CUs are supplementing data provided by the NCUA or their respective Central with information obtained from bank and CU websites and annual reports:

We monitor the competition’s websites every day and get reports on rates for deposits and mortgages. We also monitor service fees, new products, and new services.

We compare to similar-sized CUs. We review their annual reports and set up a spreadsheet.

We benchmark against CUs our size. . . . We find information in their annual reports on assets and loan growth, return on equity, capital adequacy, and efficiency ratio. We track mortgage growth of CUs versus banks for commercial loans, mortgages, and lines of credit.

Confidential Peer Exchange of Information

Another source of benchmarking data is derived from regional practices of sharing confidential information among CEOs. These networking meetings are held monthly or quarterly and include the CEOs of similar-sized CUs in the state, region, or province. They share information in order to better understand their respective performance and identify best practices. A respondent reported that in one American state, 12 CEOs of small CUs hold monthly luncheon meetings to discuss best practices and exchange ideas. This is clearly an excellent example of cooperation among cooperatives that is unlikely to be found in major banks. In other regions where there are no formal networking meetings, senior officials use their personal contacts at other CUs to obtain more general information such as audit fees, rates, and the impact of International Financial Reporting Standards (IFRS). Furthermore, CUs obtain benchmark information through networking with the Financial Executives Institute.

Private Research Firms

Finally, a minority of CUs engage external research companies to provide benchmark information. This tends to be the practice of those CUs that are interested in comparing to all financial institutions, including banks. For example, one CU hired a research firm to conduct customer satisfaction surveys that could be compared to all financial institutions. Another CU hired a research firm to compile statistical data on banks and CUs. Meanwhile, Gallup was used by several CUs to gather data through surveys on employee engagement. Finally, one CU engaged a research company to survey brand measurement.

Internal Trend Analysis

Several respondents highlighted that they are more interested in monitoring and measuring their own priorities than comparing themselves to the industry:

We monitor the competition, but we still focus on our own priorities. CUs compete against each other at the expense of viability. We should go after banks instead. We work together across provinces but compete within the provinces. CUs are moving from rural to urban markets.

The peer group does not affect our strategic plan. . . . The peer group is a tool. . . . It gives us a gauge to compare against.

However, the counterargument could be made that without reference to a benchmark, it is difficult for stakeholders to ascertain the reasonableness of targets. For example, without benchmarking to industry standards, a CU could set targets at artificially low levels that are easily attainable. Ideally, targets should be attainable but at the same time represent a reasonable challenge. The research also found that one CU stresses the importance of demonstrating the legitimacy of their KPI results by having them reviewed by their auditors.

Which Benchmarks Are Appropriate: Banks versus Credit Unions

On a similar theme, respondents were also asked about the appropriateness of benchmarks (“Do you compare your performance to other credit unions or banks? If so, which indicators are compared?”). The interviews revealed that the benchmarks used very much depend on what is being measured. In some cases, CUs compare themselves with other CUs, while in other situations, they are more interested in comparing themselves to banks. For example, several CUs compare themselves to banks for KPIs related to productivity and return on investment but benchmark to CUs for data such as number of members attending the annual general meeting. Another respondent noted: “We compare our efficiency ratio to banks because we compete against banks. We want to be better than banks.” One

respondent explained: “We compare to the banks by using their annual reports. We are interested in profit margins and rates. We compare and try to find out why they are better.” According to another respondent, it is beneficial to compare to banks: “We are different, but we play in the same sandbox, so they are relevant. Banks provide a good indication of where we should be.”

There appeared to be conflicting views on the merits of comparing CUs to banks. Some argued CUs do not have the same profit motivation and therefore should not be compared to banks, while others argued they should be compared to banks since banks are their main competitors. Two American respondents reported that they are especially focused on comparing themselves to virtual banks such as ING. Presumably, this is a slightly better referent than traditional banks due to the tendency of virtual banks to focus on consumers rather than commercial customers and wealth management, two practices that are not very widespread among US CUs. Indeed, American respondents consider virtual banks to be their main competitors.

Challenges in Comparing to Banks

One respondent commented on the challenges associated with comparisons to banks: “It is difficult to compare net income to banks. They are not in the same business. We [the respondent’s CU] don’t have wealth management.” Another respondent from a smaller CU cautioned against comparison to banks, particularly for large CUs: “We want to identify as a CU, not as a bank. When CUs are bigger, they look more like banks because they focus on the bottom line. We focus on what is best for our members.” Concern was expressed that comparison to banks might not necessarily be appropriate. For example, some of their efficiency and productivity KPIs could be distorted by profits generated from wealth management and insurance sales.

One CEO questioned comparisons with banks because CUs have not rationalized their operations in the same way as banks. A Canadian CU claimed that CU rates on deposits are 30–50 basis points higher than banks’ and their mortgage rates are lower than banks’. Another respondent explained that unlike banks, CUs do not negotiate rates since all members are treated the same, which reflects the member economic participation principle. Another stressed that “the sheer size makes it difficult to compare to banks. CUs have 5%–7% of the market.”

Comparison to CUs

While there was limited benchmarking to banks on certain measures, the majority of CUs compare themselves to other CUs, particularly those of similar size. Moreover, some also reported using national

CU data to set benchmarks, since regional comparison might be misleading if the rest of the industry is performing at a higher level. An interesting finding concerns one CU that compares itself to non-CU cooperatives on certain factors such as marketing and how to promote cooperatives in general, while another CU revealed that it compares itself to insurance cooperatives to look for marketing ideas. One New Brunswick respondent explained that he gets information on how other non-CU cooperatives promote and market their organizations through his participation in something called the Cooperative Enterprise Council (CEC), an advocacy group that provides technical support and training on leadership, management, and governance and also increases the profile of the cooperative business model.

Certainly, there are several KPI categories, such as employee diversity, employee turnover, percentage of revenue donated to the community, and percentage of greenhouse gas emissions, that could be compared to non-CU cooperatives. Clearly, opinions were divided as to the appropriate comparative benchmark: CUs, banks, or non-CU cooperatives. As this research discovered, there are instances where all three benchmarks could be validly used, depending on what is being measured.

More Comprehensive Benchmarking Needed

Benchmarking was the topic that evoked the widest array of differing views among respondents. All CUs in this study use benchmarks, not necessarily as their targets, but rather to form a context for their goals and objectives. Most CUs gather information about other

CUs and banks as part of their environmental scanning, and the information is used to learn more about the success of their CU peers and banks. Despite the extensive data available from CUNA, the NCUA, and

Benchmarking is an area where more work is required at the industry level to provide relevant and comparable data by peer group size that include CUs and banks.

Centrals, respondents indicated they spend considerable time—and in some cases money, by hiring consultants—gathering appropriate comparative data. Overall, this research found that benchmarking is an area where more work is required at the industry level to provide relevant and comparable data by peer group size that include CUs and banks.

Who Uses the KPIs?

During the interviews, respondents were asked about who in their organization uses KPI information (“*Who do you consider to be the main users of the KPIs and why do they need this information?*”).

Overwhelmingly, the interviews revealed that the primary users of KPI information are the CEO, senior CU executives, the board of directors, regulators, and peers. In some cases, KPIs are reported to employees through BSC updates. Although members are provided with a strategic plan update at the annual general meeting, respondents believe there is minimal member interest in this information:

The average member is not interested in strategic plans and KPIs. Only about 0.5% to 10% attend the annual general meeting. . . . 90% of members deal with us as a financial institution. . . . They don't care if we are a CU. Members want free benefits not offered by banks. For CUs in general, only 5% are really involved. They say "stop telling me you're a cooperative; just tell me the financial benefits."

Low member interest in KPIs was also attributed to lack of financial knowledge: "There are very few questions in the annual general meeting. Most members don't have the sophistication to read the annual report." The general sentiment regarding member interest was summarized by one respondent: "Members are more interested in yearly results and in their profit sharing." This view was echoed by another respondent who was "not sure if members were interested in KPIs—they were more interested in interest rates."

Another way of looking at members' interest in financial benefits is to consider it a reflection of member economic participation (Principle 3), without it actually being framed as a principle. Alternatively, it could be argued that if members were invited to become more actively involved in developing the strategic plan and targets, they would have greater interest in the annual report and KPI information. In contrast, a counterargument could be made that the board of directors represents the underlying membership and should ensure that member issues are addressed in the plan.

Despite perceived member apathy toward KPIs, many CUs continue to provide performance information through annual reports, the website, newsletters, annual general meetings, and in some cases press releases. All respondents share the strategic plan and KPIs with their employees through meetings and, in certain cases, on internal websites. This helps to ensure that employees are working toward achieving the strategic plan and that they see their place in the plan. Overall, the strategic plan and related KPIs are largely internally developed and used by senior management and the board to monitor the CU's performance. Indeed, most respondents indicated they refer to the KPIs monthly and take corrective action when feasible.

Are Stakeholders Involved in Strategic Planning?

Lack of Stakeholder Engagement

When it comes to who gets involved in strategic planning (“*Who had input into the development of the strategic plan and KPIs?*”), the interviews revealed that in all cases, strategic plans are developed primarily by senior management and approved by the board. In certain cases, CUs rely on assistance from their Canadian Central to

develop their strategic plan. In one case, a Central provided a strategic plan template that the CU subsequently modified to meet its needs. While development of the strategic plan is primarily the purview of senior

Strategic plans are developed primarily by senior management and approved by the board with little input from other stakeholders.

management, in most cases input from middle management—and in a couple of instances input from staff—is solicited. All CUs share the board-approved strategic plan with employees and provide periodic updates. Member input is not directly solicited, and members are informed of the plan at the annual general meeting.

Similarly, there is minimal input from employees in strategic plan development, but it is beneficial to seek their input, as illustrated by the following comment in response to a question about employee involvement:

Employees really appreciate the opportunity to have input. At first, managers and directors were a little uncomfortable as employees advanced their ideas, but they are now more comfortable with it. Employees indicated after the process they were very happy to have had the opportunity to have input.

Even though some CUs acknowledged the potential benefits for employees from participating in the strategic plan process, only one respondent reported actively seeking out employee engagement. This respondent cited the CU’s extensive communication with employees as the chief reason it was rated one of the best companies to work for in its region.

While members and employees are not directly invited to be involved in developing strategic plans, most respondents indicated that they conduct employee and member surveys. The survey results are used to monitor satisfaction levels and identify areas requiring improvement. Most CUs engage external service providers to conduct surveys and analyze the results. In many cases, the surveys are used to monitor and measure targets related to employee and member satisfaction levels.

According to the participants, KPIs are generated to evaluate the degree of success in achieving the strategic plan. An organization’s

strategic plan and related KPIs are beneficial in revealing its long-term focus, goals, and objectives. Overall, strategic plans are not simply an exercise in formality. Indeed, they are closely monitored by senior management and the board of directors. As one respondent noted, the strategic plan is meant to be a living document. That being said, strategic plans and BSCs are largely internal documents and are used primarily by management rather than disseminated as an external reporting tool. For example, employee input is largely limited to information from employee surveys, while members are informed of the strategic plan after it has been developed. As a result of linking pay and bonuses to performance, which is the practice for

most CUs, respondents believe employees have more awareness of the strategic plan goals than members do.

More formally, we can evaluate the degree of external involve-

ment through a framework known as the ladder of stakeholder management and engagement, as developed by Friedman and Miles (2006) and illustrated in Figure 5. This framework is used to evaluate

The issue of stakeholder engagement is important, since it can have a significant impact on the strategy of a CU and consequently its KPIs.

Figure 5: Ladder of Stakeholder Management and Engagement

Management tool	Description
1. Manipulation	There is no dialogue—only one-way communication, usually self-laudatory information. An example of this is CESAR—corporate environment, social, and ethical reporting.
2. Therapy	The most basic form of stakeholder management; involves information releases via the web, briefing sessions, leaflets, newsletters, etc.
3. Informing	Viewed to be genuine transparency when reports include both good news and negative information. Still considered to be one-way communication.
4. Explaining	Holding workshops would be an example of explaining—the lowest level of tokenism.
5. Placation	Advisory panels, task forces, and focus groups involve two-way dialogue prior to a decision being made. Such methods of stakeholder management can be used for political purposes such as tasks forces or advisory panels—this offers a degree of legitimacy. For acceptance all groups should be represented and participants should be authorized to speak on behalf of the stakeholder group they represent.
6. Consultation	Corporations historically have used stakeholder surveys.
7. Negotiation	May be direct or indirect (through an intermediary such as a trade union, industry association, or professional association).
8. Involvement	Positioned above negotiation because the balance of power is less extreme. Stakeholder roundtables are resource-intensive and tend only to be used for major policy matters. A degree of decision-making power is afforded to the roundtable since participants are expected to draft proposals rather than just provide advice or recommendations, as is the case with a focus group or advisory panel.
9. Collaboration	Strategic alliances are collaborations between the organization and its stakeholders.
10. Partnership	Organizations engage in joint ventures and joint committees with a range of stakeholders. The difference between partnerships and collaborations is a matter of degree, with partnerships being more substantial joint activities. Collaborations are focused on joint outcomes, while partnerships also involve joint processes leading up to joint outcomes.
11. Delegated power	Stakeholders are empowered by recourse of law.
12. Stakeholder control	Occurs if stakeholders obtain the majority of decision-making seats or full managerial power in an organization—this is extremely rare.

Source: Friedman and Miles (2006).

the possible range of stakeholder engagement (steps 1–12) and to identify the level of stakeholder engagement utilized by the participants in this study. The issue of stakeholder engagement is important, since it can have a significant impact on the strategy of a CU and consequently its KPIs.

Where CUs Fit on the Ladder of Stakeholder Management and Engagement

The following sections discuss the steps on the ladder of stakeholder management and engagement. The steps are grouped into major categories to describe how CUs’ stakeholder engagement processes are reflected in this framework. This framework is beneficial in identifying the current approach to stakeholder engagement and how CUs could improve on their stakeholder engagement.

A summary of the methods used by CUs to engage stakeholders is shown in Figure 6.

Steps 1–3: Manipulation, Therapy, and Informing

In this classification, the first three steps (manipulation, therapy, and informing), the organization is merely informing stakeholders about decisions that have already taken place. This style of stakeholder management is autocratic and does not involve participation between the organization and its stakeholders. Friedman and Miles (2006) note that the lowest two rungs are distinguished from the third in that they are contrived attempts to indicate true participation. These three steps are reflected in CUs through the dissemination of annual reports and holding annual general meetings.

Steps 4–7: Explaining, Placation, Consultation, and Negotiation

The middle levels (steps 4–7) are token gestures of participation—stakeholders have opportunities to voice their concerns prior to

Figure 6: Level of Credit Union Stakeholder Management and Engagement

Ladder of stakeholder management and engagement	Method of credit union management and engagement
1. Manipulation	Published annual report with audited financial statements
2. Therapy	Periodic audits by regulators
3. Informing	Published annual report with audited financial statements
4. Explaining	Meetings with employees; CEO presentation at annual general meeting
5. Placation	CEO presentation of results at annual general meeting
6. Consultation	Member and employee satisfaction surveys; presentation of strategic plan to employees
7. Negotiation	Products and services modified to meet the needs of members
8. Involvement	None identified
9. Collaboration	Work with members on various community initiatives
10. Partnership	Work with members on various community initiatives
11. Delegated power	Not applicable for this study
12. Stakeholder control	Not applicable for this study

decisions, but there is no guarantee that their concerns will have an impact. Step 4, explaining, is used by CUs in their annual general meetings with members and through staff meetings with employees. Step 5, placation, is a direct response to stakeholder unrest requiring some form of appeasement. Placation is also regarded as tokenism, since some organizations do not respond to input from focus groups, task forces, and advisory panels. This research did not identify widespread use of focus groups, advisory panels, and task forces among the study's participants. However, if CUs decide to form such groups, care must be taken to ensure they actually represent the views of the underlying membership.

The term "consultation" is widely used throughout the business world and it is a highly regarded stakeholder feedback tool. However, Friedman and Miles explain that Step 6, consultation, is rated only at the sixth level because consultation through a survey involves soliciting opinions on issues that have been determined by the organization, and consequently the concerns of stakeholders may be ignored in the survey. Furthermore, the survey results may not necessarily influence decisions. Negotiation (step 7) is described as a way of attaining stakeholder appeasement. An example of where negotiation could be used is modification of products and services to meet the needs of members.

Step 8: Involvement

Step 8 provides an opportunity to involve stakeholders in a two-way consultative process and to facilitate their participation in a collaborative manner to jointly help the organization achieve its goals and objectives. At the involvement level (step 8), it is critical that stakeholder representation be unbiased and comprehensive. Otherwise, the process would lose credibility.

If CUs are interested in moving to this higher level of stakeholder engagement, they could consider inviting members and employees (selected groups) to work with senior management on strategic plans. This would necessitate allowing members and employees to submit their own ideas or proposals for inclusion in the plan. This is a proactive approach, in contrast to

the current reactive approach whereby members and employees are asked to give feedback on plans that have already been developed by management.

While stakeholder involvement is a desirable goal on the continuum of stakeholder engagement, it must be recognized that there are

If CUs are interested in moving to a higher level of stakeholder engagement, they could consider inviting members and employees (selected groups) to work with senior management on strategic plans.

challenges as institutions scale up. For example, Bowles and Gintis (2000) note that compared to bureaucracies and markets, which primarily deal with strangers, the limited scope of communities (including cooperatives) often results in increased costs.

Another consideration in embarking on stakeholder involvement is how it would fit within the governance structure. In a study by Goth, McKillop, and Wilson (2012), for example, the authors propose three major recommendations that tie directly into stakeholder involvement (and the second cooperative principle, democratic member control):

- The establishment of an independent governance committee elected directly by the membership.
- Improvement of members' awareness of their rights and obligations.
- Enhancement of director qualifications, professional development, and performance.

Steps 9–12: Collaboration, Partnership, Delegated Power, and Stakeholder Control

Collaboration (step 9) occurs when organizations and stakeholders pursue mutually beneficial objectives. Benefits associated with collaboration include access to expert opinions, improved markets, and improved public image. The highest levels of engagement involve empowering stakeholders/members in corporate decision making. Partnership (step 10) implies joint decision making. According to Friedman and Miles, partnership is similar to collaboration, but implies more substantial joint activities. For example, collaboration encompasses endorsements and sponsorships while partnerships involve joint processes. Examples of collaboration and partnership would include working with members on various community initiatives. Delegated power and stakeholder control (steps 11 and 12) are managerial tools within the domain of the CU and are not likely to be relevant in the near term.

Documentary Review

In addition to gaining insight into CU officials' perceptions of KPIs, the second major objective of this study was to document the KPIs reported by the participants to the broader public. This information gives a broad overview of commonly reported KPIs and provides further insight into the areas that CU officials believe are of interest to users of annual reports. The KPIs documented in this section are not intended to be representative of KPIs reported by all CUs, but rather to provide context to understand the perceptions of the respondents who participated in the semistructured interviews.

This section provides a summary of the KPIs publicly reported through the annual reports, performance reports, and websites of the CUs participating in this study. It should be noted that the interviews revealed that CUs are monitoring other performance categories internally but do not report on them externally. These document-based KPIs are grouped into two categories: nonfinancial indicators and financial indicators.

Nonfinancial KPIs

Due to the high number of nonfinancial KPIs, they are presented in two main groups: KPIs related to human resources and all other nonfinancial KPIs.

Figure 7: Human Resources KPIs

KPI	Percentage of credit unions reporting	Percentage of credit unions with targets	Range of targets
Benefits and training	42	0	N/A
Employee engagement	42	16	75%–80%
Number of employees	32	0	N/A
Employee turnover rate	16	5	11%–15%
Diversity: male-female	16	0	N/A
Diversity: women in management	16	0	N/A
Diversity: women in senior management	11	0	N/A
Diversity: visible minorities in management	11	5	24%
Employee ethics scores	11	0	N/A
Diversity: employees with disabilities	11	0	N/A
Diversity: visible minorities in nonmanagement	5	0	N/A
Diversity: women in nonmanagement	5	0	N/A
Diversity: age	5	0	N/A
Percentage of employees unionized	5	0	N/A

Human Resources KPIs

Figure 7 provides a summary of the KPIs reported by CUs through their annual reports, performance reports, and websites.

By far, the highest number of KPIs publicly reported relate to human resources. In total, there are 14 different KPIs in this category. However, only three—benefits and training (42%), employee engagement (42%), and number of employees (32%)—were widely reported. The remaining 11 KPIs were reported by one to three CUs. Of the 14 KPIs reported, targets were included for only three indicators: 16% of CUs included targets for

employee engagement and 5% reported targets for employee turnover and visible minorities in management.

Other Nonfinancial KPIs

Figure 8 provides a summary of all other nonfinancial KPIs found in annual reports, performance reports, and websites.

In total, six different nonfinancial KPIs were reported. With the exception of greenhouse gas emissions, community leadership and reputation, and trust related to environmental and social responsibility, these categories were widely reported, with over 60% providing data (one commentary only) for number of members, number of

Figure 8: Nonfinancial KPIs

KPI	Percentage of credit unions reporting	Percentage of credit unions with targets	Range of targets
Number of members	68	0	N/A
Number of branches	68	0	N/A
Community donations	63	26	7% pretax income
Member loyalty scores	47	11	42%–75%
Greenhouse gas emissions	16	5	60,000 tonnes
Community leadership and reputation	11	0	N/A
Trust—environmental and social responsibility	11	0	N/A

Figure 9: Financial KPIs

KPI	Percentage of credit unions reporting	Percentage of credit unions with targets	Range of targets
Growth of total assets	63	0	N/A
Efficiency ratio	37	21	71%–80%
Return on assets	26	16	25%–74%
Dividends	21	0	N/A
Return on average equity	21	11	5.5%–8.6%

branches, and community donations. Targets were provided for three KPIs: community donations (26%), member loyalty scores (11%), and greenhouse gas emissions (5%).

Financial KPIs

Despite the considerable emphasis placed on financial KPIs during the semistructured interviews, only five financial KPIs were publicly reported (see Figure 9). While all

respondents discussed the importance of the efficiency ratio, only 37% reported this statistic. Respondents also stressed the importance of growth, and this statistic was reported by 63%. Targets were provided for three KPIs: efficiency ratio (21%), return on assets (16%), and return on average equity (11%).

Correlation Between KPIs and Cooperative Principles

As illustrated in Figures 7–9, CUs included targets only in a minority of cases despite the fact that CUs monitor a wide array of KPIs related to their strategic plan. At this point, KPI information is

largely an internal management tool rather than a mechanism to report to stakeholders.

Although CUs did not explicitly correlate their KPIs to the seven cooperative principles,

nevertheless several categories can be linked to the principles, as illustrated in Figure 10. I have examined all publicly reported KPIs and where applicable have identified correlation to the seven cooperative principles.

While the research did not identify publicly reported KPIs that could be correlated to the sixth principle, cooperation among cooperatives, there is certain evidence of cooperation. For example, CUs are very willing to share information, as evidenced by the regional CEO networking meetings.

In addition to the reported KPIs that I linked to the seven principles, it should be noted that CUs participate in other activities not

Despite the considerable emphasis placed on financial KPIs during the semistructured interviews, only five financial KPIs were publicly reported.

Figure 10: KPI Linkage to the Seven Cooperative Principles

Principle	Correlating reported KPI
1. Voluntary and open membership	Number of branches, number of members
2. Democratic member control	Member loyalty scores
3. Member economic participation	Dividends
4. Autonomy and independence	Employee ethics scores, trust—environmental and social responsibility
5. Education, training, and information	Benefits and training
6. Cooperation among cooperatives	
7. Concern for community	Community donations, community leadership and reputation, and greenhouse gas emissions

publicly reported in KPI format but that could reflect the principles, as illustrated in the following examples. Many of these activities were discussed in the semistructured interviews.

- Democratic member control: annual general meeting and voter turnout, number of board seats contested, number of directors who run for a seat.
- Member economic participation: discounts on loans, premium on deposits, reduced fees.
- Autonomy and independence: financial stability would serve as an indication of current and future independence from outside parties such as government and competitors; independence could be maintained through cooperation and collaboration with other CUs.
- Education, training, and information: educational seminars for members, particularly in wealth management; members' financial literacy could be measured not only by training expenditures but also by outcome metrics.
- Cooperation among cooperatives: formal affiliations with trade associations or CUSOs (US CU service organizations), joint partnerships with other CUs.
- Concern for community: decreased personal bankruptcy, decreased use of predatory lenders, increased development loan balances.

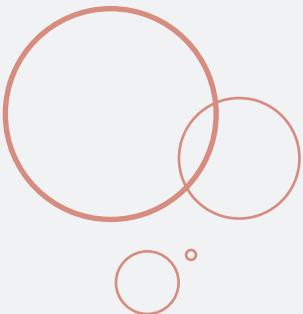


CHAPTER 3

Future Direction for Credit Union Reporting: Integrated Reporting



What will future reporting for credit unions look like? What if the new reporting concept known as integrated reporting becomes the accepted practice for credit unions? Awareness of the evolving reporting frameworks is important, especially if they need to be modified to reflect the credit union business model.





Having examined KPIs reported by CUs in North America, the next section introduces a new reporting concept known as integrated reporting. This framework may have significant implications for future reporting. It is examined here to create awareness of the initiative and to consider its relevance for CUs.

Integrated reporting is defined as a way to provide information about an organization's strategy, governance, performance, and prospects in a manner that reflects the commercial, social, and environment context in which it operates (IIRC 2011, 2). Integrated reporting was established to provide information that is broader in scope than that provided by traditional reporting. It is underpinned by five guiding principles (IIRC 2011, 13):

1. Strategic focus
 - Includes strategic objectives, the strategies the organization has to achieve their objectives, and how the objectives relate to other components of their business model.
 - Highlights new opportunities, risks, and dependencies associated with the organization's market position and business model.
2. Connectivity of information
 - How strategies link to KPIs and remuneration.
 - Disclosure of how changes in the market would impact strategy.
3. Future orientation
 - How the organization balances short-term and long-term interests.
 - Where the organization expects to go over time.
 - How it plans to get there.
 - Key enablers and barriers.
4. Responsiveness and stakeholder inclusiveness
 - Provides insight into the organization's relationships with its key stakeholders and how their needs are considered.

- Discloses the nature and quality of the organization's relationships with key stakeholders such as customers, suppliers, employees, and local communities.
5. Conciseness, reliability, and materiality
- Distinguishes between information that is material and should be disclosed and other information that is static or only of interest to some users.
 - Conciseness is enhanced when other information is included separately on the organization's website or in other forms rather than in the annual report.

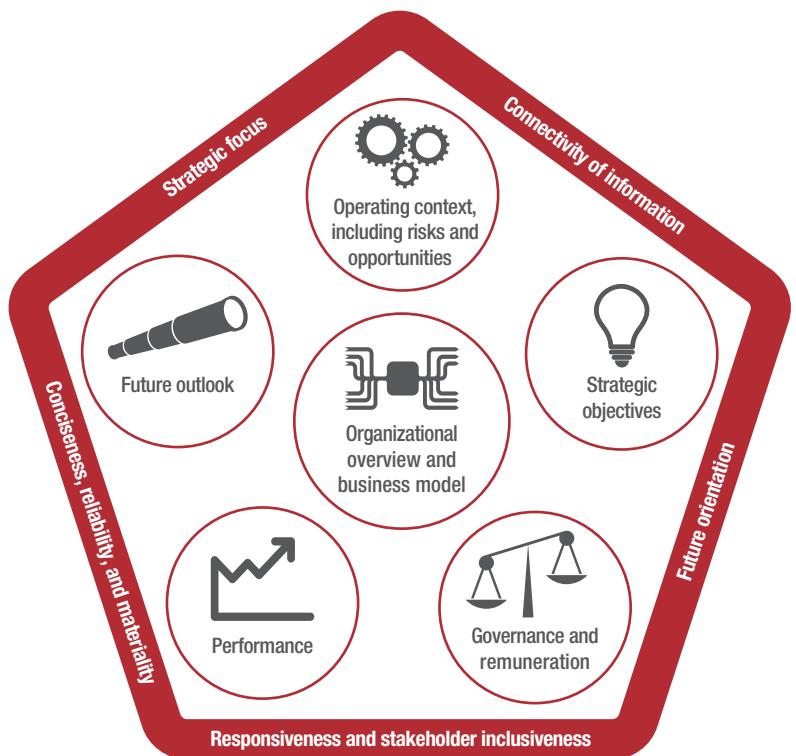
The integrated report is envisioned to be composed of the following key elements (IIRC 2011, 14–15):

- Organizational overview
 - Includes mission, principal activities, markets, products, and services.
 - Business model, value drivers, and critical stakeholder dependencies.
- Operating context, including risks and opportunities
 - Commercial, social, and environmental context.
 - Resources and relationships that are key to the organization's success, including key stakeholders and their needs, interests, and expectations.
- Strategic objectives and strategies to achieve the objectives
 - Describes strategic objectives and strategies to achieve them.
 - Sets out how the organization will measure achievement and target outcomes for the short, medium, and long term.
 - Identifies risk management related to key resources and relationships.
 - Specifies what makes the organization unique and able to realize value in the future.
- Governance and remuneration
 - Identifies the governance structure, how it supports the strategic objectives, and how this relates to remuneration.
 - Skill set of those charged with governance.
 - Actions of those charged with governance to influence the strategy direction of the organization.
 - How remuneration of executives and those charged with governance is linked to performance in the short, medium, and long term.

- Performance
 - How the organization performs against its strategic objectives and related strategies as identified in KPIs.
 - How the organization has performed relative to its targets.
 - Significant external factors impacting performance.
- Future outlook
 - Opportunities, challenges, and uncertainties likely to be encountered in achieving strategic objectives.
 - How short-term and long-term interests are balanced.

While many CUs are already reporting some of these elements, particularly with respect to organizational overview, operating context, governance, and performance, some may find it challenging to publicly disclose their specific strategic objectives and how to achieve them. This could be considered confidential information, and its publication could negatively impact a CU's competitive advantage. However, it is likely that those who choose to adhere to

Figure 11: IIRC Guiding Principles and Content Elements



Source: IIRC 2011, 12.

the integrated reporting standard will be required to disclose their strategic objectives but not necessarily how the organization will achieve the objectives. Disclosure of the remuneration of senior executives might also be difficult for some CUs.⁴ In addition, CUs might experience difficulty with respect to stakeholder inclusiveness, particularly if it entails inviting members to participate in developing strategic plans.

In 2011, a select international group of 75 businesses and 25 institutional investors began voluntary participation in a pilot project sponsored by the IIRC that will run for two years and is scheduled to be completed by October 2013. The objective of the project is to

develop a framework that demonstrates linkages between an organization's strategy, governance, and financial performance and the social, environmental, and economic context within which it operates. As discussed earlier, Vancity is the only CU participating in the pilot and is the only Canadian participant.

It is likely that those who choose to adhere to the integrated reporting standard will be required to disclose their strategic objectives but not necessarily how the organization will achieve the objectives.

American participants include Microsoft, Prudential Financial, and Coca-Cola. Institutional members from the United States include CFA Institute and Rockefeller Financial.

It remains to be seen whether integrated reporting will become widely accepted in the business community. For organizations such as Vancity that are already reporting in accordance with the Global Reporting Initiative (GRI), Sustainability Reporting Guidelines, and the AccountAbility Standards (AA1000), adopting the integrated reporting standards likely just represents the next step on a continuum of comprehensive performance reporting. Conversely, for those organizations not currently engaged in GRI or AA1000 initiatives, the move to integrated reporting may be a significant challenge. If this new comprehensive reporting framework becomes the accepted practice, CUs will need to determine if it is suitable in its present form or if it needs to be modified to reflect the CU business model.



CHAPTER 4

Conclusions and Recommendations

Both in Canada and the United States, credit unions' selection of KPIs is heavily influenced by their strategic plans, which tend to be developed with little employee or member input. This study offers four recommendations for North American credit unions to consider: Address the identity crisis, develop benchmark data, engage stakeholders, and monitor the progress of the IIRC's integrated reporting project.



The objectives of this research were first to identify KPIs reported by CUs, and second to gain an understanding of why certain KPIs are selected. The research found that KPIs are largely influenced by strategic plans. These plans are developed based on each CU's priorities and initiatives. For the most part, strategic plans are developed by senior management and approved by the board of directors with minimal input from employees and virtually no input from members. Targets for KPIs related to strategic plans are often influenced by external sources such as other CUs and banks. In addition, the research examined how the new integrated reporting framework might influence future reporting for CUs.

The findings must be tempered by the fact that the study consisted of 23 case studies that cannot be extrapolated to the CU industry at large. Despite the concerns expressed by respondents regarding benchmarking data and collaboration efforts among CUs, it must be recognized that CUCC provides dozens of examples of collaboration efforts. In addition, there are extensive data illustrating that CUs outperform banks on community giving. The Filene Research Institute published a study by Coro Strandberg (2010) that examines social responsibility in CU planning processes.

North American Perspective

Unlike their American counterparts, Canadian CUs are regarded as for-profit institutions from a taxation perspective. However,

it is important to note that Canadian CUs view profit as a means to an end, not an end in itself. Despite the difference in taxation of CUs in Canada and the United States, there were no substantial differences in responses from Canadian (19)

and American (4) participants on any of the topics examined in this research study. The only difference between the two countries related

Despite the difference in taxation of CUs in Canada and the United States, there were no substantial differences in responses from Canadian and American participants on any of the topics examined in this research study.

to American concerns about competition from virtual banks such as ING; Canadian respondents were more concerned with the competition from banks and even from other CUs. Since the findings were virtually identical, the research has adopted a North American focus rather than being a Canadian–American comparative study.

Declining Relevance of the Seven Principles

According to the responses obtained in the semistructured interviews, the seven principles of cooperatives play a very minor role in strategic plans and are not reflected in KPIs. While some respondents portrayed the seven principles as having an influence on organizational culture and values, other CUs questioned the utility of the principles. Although CUs do not explicitly monitor and measure the seven principles, many of their published KPIs can be correlated to the principles illustrated in Figure 10. It is important to note that examples of KPIs reflecting cooperation among cooperatives could not be identified. This is also reflective of some of the findings regarding the perceptions of CUs with respect to competition among CUs and not wanting to subsidize smaller CUs. In contrast, an important example of cooperation among cooperatives is the practice of CEOs in certain regions holding networking meetings where confidential information is exchanged in an effort to identify best practices.

Need for Appropriate Benchmarks

Another area of concern highlighted by this research relates to appropriate benchmarks. All CUs agreed it is important to consider benchmarks when developing targets. However, there was a wide array of viewpoints regarding appropriate benchmarks. Some advocated choosing CUs, while others considered banks to be highly relevant. Meanwhile, concern was expressed about how CUs calculate their KPIs, and respondents were consequently concerned about too much reliance on CU peer data. In general, benchmarking and comparative data are highly fragmented. The second phase of this study will identify appropriate referents for various reported KPIs and the relevant data. Although CUNA, the NCUA, and the Centrals provide a significant amount of data, this does not seem to fully meet the needs of CUs, since they report spending considerable time and money generating industry data.

So the question might be asked, Why do the respondents believe they need more benchmarking data? The answer may lie in factors such as respondents not being aware of the available information, or, while they are satisfied with the data on collaboration and community giving, with their focus on financial KPIs, perhaps they want

more in-depth financial metrics regarding CUs (by size) and data on banks.

Identity Crisis for the CU Business Model

Since most of the CUs in this study do not link their strategic initiatives to the seven principles, it is unclear whether CUs actually want to be different from other financial institutions. Most of the KPIs emanating from their strategic plans tend to focus on the same factors monitored by banks. This is not to imply that the current KPIs are inappropriate; however, it is difficult to discern through their reporting the unique value proposition offered by CUs. According to some participants, if CUs are to continue to grow and thrive, there needs to be clearer communication through a strong marketing program of the value proposition provided by CUs over banks.

Although community contributions, volunteer time, proximity through large branch networks, and retention of unviable branches (closed by banks) are all excellent examples of the value offered by CUs, metrics regarding these matters do not often make their way into the publicly reported KPIs.

One CEO commented, “There is a need to create a national vision and a national brand. We don’t tell people what CUs are all about. We are not aggressive with the banks—we need to emphasize the strength of the cooperative principles in marketing.” An American respondent shared the view that more awareness is needed, and he described an American initiative: “All credit unions participated in 2011 in Bank Transfer Day. This was a one-time initiative. We need to do more to keep up the momentum.” For the most part, CUs, particularly those in the United States, have not made a concerted effort, apart from Bank Transfer Day, to capitalize on the financial crisis to heighten the profile of CUs and the many benefits of membership.

Similarly, in Canada there is very little effort focused on marketing the cooperative difference. For example, the recent media coverage in Canada concerning ScotiaBank’s acquisition of ING bank focused on how consumers would now have a choice of only the five big banks. There were no media references to CUs and even more surprisingly no reaction from CUs pointing out that consumers indeed did have other banking alternatives.

Recommendations

Based on the findings from this research study, the following recommendations are offered for consideration by North American CUs.

Address the Identity Crisis

CUs are often living the seven principles through such initiatives as community donations, volunteer time, and retention of marginal branches, but there appears to be a reluctance to capitalize on this to differentiate themselves from banks. The question would therefore appear to be, Is it necessary for CUs to market their (manifest) differences relative to banks? This is a question that only CUs can answer as they reflect on their strategic direction. While marketing was not the main focus of this study, some respondents expressed a strong belief that more aggressive marketing is needed. That being said, it is recognized that a branding and marketing campaign would be costly and thus constrained by the current CU environment of challenged margins and declining profits.

Develop Benchmark Data

While American and Canadian industry associations provide a considerable amount of data, this research found that CUs need additional benchmark data by peer group size and in some instances from the banking sector. It is recommended that two committees be formed—one in Canada and one in the United States—to develop definitions and calculation methodologies for the top 10 KPIs. The goal is to develop comparable KPIs that would be publicly available, not only to CUs but to all stakeholders. These benchmark data should be housed on the websites of CUCC and CUNA as well as any other relevant industry associations such as NAFCU. This initiative should be undertaken in the following manner:

- Limit the number of KPIs to 10 to keep the pilot project small and to facilitate completion in a timely manner. This will also minimize the administrative burden for small CUs.
- Develop a definition and calculation methodology for each KPI.
- Run the pilot project for two years with 25 CUs representing small, medium, and large CUs in rural and urban areas.
- Have pilot participants submit data to the committee and then post the data on US and Canadian industry websites. It should be noted that the pilot participants would be anonymous.
- After running the pilot project for two years, make any necessary changes and then expand by inviting all CUs to participate.
- After successful completion of the first phase, the Committee could begin work on the second phase of the comparable CU benchmark project by soliciting input on the next 10 KPIs to be included.

Higgins (2012) recommends benchmarking six critical areas of performance necessary for long-term sustainability: growth, product mix, interest rates, operating expense, credit quality, and capital

adequacy. These areas also reflect the financial areas of interest identified by participants in this study. Higgins stresses the importance of maintaining a tension between sustaining the institution through profit generation and deriving clear member benefits, and he also stresses the importance of being sensitive to employee needs. With that in mind, it is recommended that among its top 10 KPIs the pilot study include four nonfinancial indicators to reflect the interests and needs of members and employees.

While it is recognized that some CUs may not be willing to adopt an additional or alternative centralized type of reporting, it will likely be of interest to those who, like the participants in this study, are concerned about the lack of comparable benchmark data. The additional reporting would also help reduce staff time and possibly consulting costs associated with gathering data. Thus, part of the pilot project planned for the next phase of this project will include gauging the willingness of CUs to adopt additional reporting.

Foster Stakeholder Engagement

One of the key ways to address member apathy about the cooperative difference is to consider enhanced employee and particularly member involvement in strategic plan development. The recommended level of involvement moves well past the current approach of the CEO, management, and board of directors developing the strategic plan and then presenting it to the employees and members. To truly engage stakeholders and increase member interest in particular, CUs may need to leave their comfort zone and invite groups representing members and employees to join the CEO, senior management, and board in developing the strategic plan.

According to the ladder of stakeholder management and engagement framework, the current level of engagement exercised by CUs correlates to consultation (step 6), whereas a deeper level of engagement can be accomplished by the more proactive approach of stakeholder involvement (step 8). Overall, member and employee participation in the strategic planning process appears to be more passive than proactive. Throughout the interviews, respondents noted that members are not interested in the strategic plans and overall direction of CUs. However, it could be argued that if CUs moved higher up the ladder of stakeholder engagement from their current position of consultation to a deeper level of involvement, stakeholders would become more interested in and knowledgeable about the CU business model. Indeed, CUs would likely gain considerably more insight into the needs of members by giving them an opportunity to advance their own ideas for the strategic direction of CUs rather than passively responding to ideas and plans developed by management.

A counterargument to involvement as an enhanced form of stakeholder engagement might be raised by CUs that have struggled unsuccessfully for years to get more member engagement. However, it should be noted that this recommendation goes well beyond focus groups, which are described as placation and are rated only as step 5 on the ladder of stakeholder management and engagement. Instead, it is suggested that CUs aim for the much higher level of engagement (step 8) by inviting stakeholders to be more proactively involved in setting strategic direction.

In addition, it could be argued that stakeholder involvement would replicate the role of the board. The second phase of this project will include a pilot study on stakeholder engagement to test the extent to which CUs can successfully increase member and employee involvement. This phase will also examine the role of the board in representing members' needs and views regarding the future direction of CUs.

Monitor the IIRC Project

As mentioned earlier in this report, the IIRC's Integrated Reporting Pilot Project is only in the pilot stage, and the final format of the reporting model will not be known until after the pilot is completed in 2013. CU industry associations need to play a strong role in monitoring developments in the IIRC project and provide assistance in implementing any changes. The industry associations should also consider whether the model is appropriate for CUs or if modifications may be necessary.

Figure 12: The Seven Principles of Cooperatives

Principle	Definition
1. Voluntary and open membership	Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership without gender, social, racial, political, or religious discrimination.
2. Democratic member control	Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.
3. Member economic participation	Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. 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 cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.
4. Autonomy and independence	Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.
5. Education, training, and information	Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of cooperation.
6. Cooperation among cooperatives	Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.
7. Concern for community	Cooperatives work for the sustainable development of their communities through policies approved by their members.

Source: ICA (2011).

Interview Questions: Key Performance Indicators for Credit Unions

1. Tell me how your organization chose which key performance indicators (both financial and nonfinancial) to use.
2. Were the indicators selected to reflect your organization's strategic plan?
 - a. Does your strategic plan contain objectives to attain a performance which is comparable to other cooperatives or other financial institutions?
 - b. Does the strategic plan include references to the seven principles of cooperatives?
 - c. Who had input into the development of the strategic plan and KPIs?
 - d. Is compensation for management and employees linked to achieving performance objectives? If so, how is this determined and measured? Group or individual or both?
3. Could you tell me about the regulation for the CU industry? Why types of information do you report to the regulators and is this information included in your strategic plan targets?
4. Do you compare your performance to other organizations?
 - a. Other banking cooperatives? If so, which indicators and which CUs?
 - b. Banks/financial institutions? If so, which indicators and which banks/financial institutions? Is there a formal or informal comparison? Is it used internally only?
5. Of the performance indicators currently used by your organization, which measures do you consider to be the most relevant? Why?
6. How often are the performance targets updated or changed?
7. Who do you consider to be the main users of the performance indicators? Why do they need this information?
8. What role do you think performance indicators play in your reporting to stakeholders—members, employees, board of directors, senior executives, others?

9. Do you think industry benchmarks are beneficial? Why or why not?
10. Does your CU participate or have membership in various industry associations? If so, which associations? Does the information/knowledge gained have an impact on the types of performance measures used? Do these organizations provide comparative benchmarks?

1. In 2010, the Canadian federal government passed legislation enabling CUs to obtain a federal charter. The legislation came into effect in late 2012.
2. www.cucentral.ca/SitePages/login.aspx?ReturnUrl=%2fCollaboration%2f_layouts%2fAuthenticate.aspx%3fSource%3d%252FCollaboration&Source=%2Fcollaboration.
3. While some would consider this a lack of comparability, others, such as Higgins (2012), suggest there is merit in using both measures, since they tell different stories.
4. Some Canadian provinces already require the reporting of remuneration for senior CU executives.

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PUBLICATION #296 (4/13)

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