SOCIAL PERFORMANCE RATING IN CO-OPERATIVES

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Abstract

Social performance is a management process capable of making corporate performance more inclusive, effective and fair. For almost two centuries, co-operatives are perceived as instruments of social change that are well positioned to lead in social performance through their internationally accepted values and principles. However, due to the potential importance of economic objectives to stakeholders' welfare, like in most firms, financial parameters often overshadow social performance standards in co-operatives. Social performance research in co-operatives is also scanty since most studies relate to financial performance. This study surveyed managers from 100 Savings and credit co-operatives societies in Kenya on the extent operations in co-operatives reflect social performance dimensions. Extant literature revealed social performance management as a catalyst for economic performance of a firm. In particular, the study identified social performance as a key value driver to superior performance and social performance management an essential key performance indicator to any enterprise desiring to "doing good" to the community. Data analysis found co-operatives low in social performance as they do not meet the indicators by 45%, partially meets the indicators by 22% and only meets the indicators by 33%. The finding reveals that co-operatives should not claim as exemplary in social performance based merely on social and community orientation. Thus, the expose is an exhibit that many organizations may not be practicing the social ideals they claim to uphold or represent. The study is expected to help co-operatives to improve on 'what good the organizations are doing with their profit to people and the planet' which consequently would improve sustainable performance and competitiveness.

Keywords: Corporate Social Responsibility, Social Performance, Co-Operative Values, Co-Operative Principles, Competitive Advantage

1. INTRODUCTION

Social performance refers to making organizations social objectives a reality by moving beyond a transaction orientation to creating valuable impact in all stakeholders' welfare (Karthkeyan, 2015). Kinyuira (2017) define social performance as the "good the organizations do with their profit to people and the planet' which consequently would improve sustainable performance and competitiveness". According to Christen (2004), this includes providing essential services to the community, value for clients and being socially responsible.

Social performance differs from social responsibility. While social performance relate to enhancing social and economic benefits or "doing good", social responsibility aims at limiting negative effects of firms' activities on the community or "doing no harm" (ECLOF, 2012, p. 11). In practice, social responsibility relates to being ethical in corporate decision-making and behaviour. On the other hand, social performance emphasise on responsive social contribution to the community. This therefore makes social performance management a value driver to superior and long-term performance of firms (Kinyuira, 2012, 2015, 2017; Porter & Kramer, 2006; Carroll & Shabana, 2010; Kemper et al., 2013; Verschoor, 2008).

2. LITERATURE REVIEW

2.1. Social orientation of co-operatives

Co-operatives are widely perceived as socially responsive enterprises (Mayo, 2013). The International Co-operative Alliance (ICA) define a co-operative as "an autonomous association of persons voluntarily united to meet their common economic, social and cultural aspirations and needs through a jointly owned and democratically controlled enterprise (Kinyuira, 2015, 2016, 2017; ICA, 2012). The ICA statement of identity informs that co-operatives are mutual enterprises formed, owned and controlled by members to meet their socio-economic objectives. The mutuality and social objectives are reinforced by co-operative values and the seven principles, attendant on the statement of co-operatives' identity.

Importantly, the ICA socially oriented co-operative definition, values and principles depict co-operatives as instruments of social change that are well positioned to lead in social performance. In agreement, Mazzarol, Clark, Reboud and Limnios (2018) assert that Co-operative enterprises have the ability to respond effectively when other organizations are unable or unwilling to provide goods and services. For this reason, in addition to their democratic governance and ownership, co-operatives are more trusted by communities where they operate than investor owned firms (Birchall & Simmons, 2004; Sabatini, Modena, & Tortia, 2014; Verhees, Sergaki, & Van Dijk, 2015).

Co-operative enterprises also are known promote members self-determination and economic independence from charity or government welfare support (Roelants, Hyungsik, & Terrasi, 2014). Co-operatives likewise advance social capital by fostering shared value within the community (Birchall, 2014; Liang, Huang, Lu, & Wang, 2015).

The co-operative principles and values encourage community involvement and participation in the organization's affairs, thereby making co-operatives businesses that are more resilient (Birchall & Ketilson, 2009; Birchall, 2013, Sabatini, Modena, & Tortia, 2014). The social capital, individual empowerment and community linkages also boost the overall social efficiency within the community (Puusa, Hokkila, & Varis, 2016; Martinez-Campillo & Fernandez-Santos, 2017). Further, network of relationships in Co-operative enterprises that are generally horizontal provides a good basis for effective policy initiatives (Mazzarol, Clark, Reboud, & Limnios, 2018). Therefore, as community socially oriented organizations, co-operatives are capable of addressing poverty, exclusion, inequality and stable interest rates (Birchall & Simmons, 2009; 2007; 2013; Kinyuira, 2017). In agreement, Nembhard (2014) in explaining the impact of co-operatives posit, "Co-ops are community-owned private enterprises that solve the general social economic problems". In particular, co-operatives promote "the leadership growth of people, the changes in behaviour that make collective decision making more effective, a greater appreciation of sharing by people as a means of working together economically in communities; and teaching people in co-ops how to make decisions about their collective well-being" (Nembhard, 2014, p. 1). Also, while explaining the social impact of co-operatives, Miller (2011) contend that "women fare better in co-ops than in the mainstream capitalist labour force in terms of occupational attainment, hourly wage rates, and achievement of leadership roles".

Contributing on the social performance in co-operatives, Mazzarol et al. (2018) suggest that core values, democratic governance and strategic purpose of co-operative enterprises conform to the characteristics of a social enterprise. These aspects also espouse the concept of shared value that stimulate and strengthen social performance of co-operatives (Porter & Kramer, 2011; Talonen et al., 2016). According to Mazzarol et al. (2018, p21) co-operative enterprises also through social entrepreneurship create "economic and social capital outcomes to help sustain communities, as well as fostering self-sustaining, socially responsible economic development for impoverished regions". Moreover, due to their dual nature, co-operatives are able to create economic and social capital impacts such as wealth, jobs and assets (Novkovic, 2014). Wealth creation is usually through savings mobilizing such as in credit unions and co-operative banks, savings and credit co-operative societies or favourable pricing in agricultural co-operatives. Employment and essential infrastructure on the other hand increase when productivity improves through co-operatives than would have been without them (Birchall & Simmons, 2010; Birchall, 2011).

Despite the acknowledged importance of social performance in creating and sustaining a competitive advantage for firms, it is widely ignored in favour of financial performance metrics. Managers are concerned almost exclusively with the economic performance at the expense of social performance (Kinyuira, 2016, 2018; Woller, 2008; Woller & Schreiner, 2006). In addition, extant literature reveals a scarcity of in-depth studies on social performance in cooperatives. Further, though it is both relevant and a utility for practitioners, an analysis of co-operative enterprises policies and strategic plans revealed a deficit in emphasis on social performance. This implies that social performance is rarely pursued as a part of business strategy. In this context, the study contends that similar to financial performance, social performance should be pursued as a business strategy and deliberately incorporated into the firm's corporate strategy (Kinyuira, 2012, 2014, 2017).

The social orientation of co-operatives justifies the importance of examining social performance dimensions and their prevalence in the day-to-day operations in cooperatives.

Thus, the objective of study was to assess extent co-operative enterprises exhibit social performance dimensions in their operations. In this case, the study hypothesized that co-operatives lead in advancing social performance. The study measures several social performance dimensions whose results can guide practice and future research. The findings are expected to assist managers and policy makers pursue social performance goals more in order to improve their competitive advantage and consequent superior performance. The study sample was drawn from savings and credit co-operatives in Kenya.

2.2. Overview of savings and credit co-operative societies (SACCOs) in Kenya

Savings and credit co-operative societies (SACCOs) are the most common types of co-operatives in Kenya, with 9567 of the registered 18574 co-operatives being SACCOs (Kenya National Bureau of Statistics-KNBS, 2017). They provide financial services to masses largely ignored by commercial banks (Sacco Societies Regulatory Authority, SASRA, 2018). As result, the government of Kenya recognizes Savings and Credit Co-operatives (SACCOs) as financial institutions alongside banks and micro finance institutions (MFIs) RoK (2019).

The SACCOs sub-sector is much smaller than the commercial banks; however, their penetration is greater especially in the rural and marginalized areas. In rural areas, many farmers depend on SACCOs for credit and payment services (Birchall & Simmons, 2009). More than one-third of Kenyans rely on savings and credit and about three-quarters of the Kenyan population benefits from a SACCO, not only in the agricultural sector, but also in all sectors of the economy (Sacco Societies Regulatory Authority, SASRA, 2018). As member-owned institutions, SACCOs provide an important alternative institutional form to banks in respect to financial services intermediation. These are usually act as group schemes which help families cope with short-term hardships or investing little savings in longer-term aspirations (Birchall, 2014, 2013). SACCOs offer services that are unavailable elsewhere and are particularly relevant to women and people in rural areas. Based on their non-profit status, SACCOS make loans at lower rates than the commercial banks (Birchall, 2004, 2009). SACCO loans are also easier and faster to access, with much less bureaucracy and a quicker turn-around time than banks.

From literature reviewed, both the social and economic goals of co-operative enterprises are conspicuous in the Kenyan savings and credit co-operative societies' business model, outreach and operations. Therefore, the probability of collecting valid and reliable data on social performance in co-operatives was high.

2.3. Measurement of social performance

Social performance was measured using a scorecard developed by OIKO-Credit international for co-operatives evaluation in 2013. The scorecard comprise of five dimensions and twenty-one definitions.

3. RESEARCH METHODOLOGY

A cross-sectional sample survey was adopted. The study targeted 184 savings and credit co-operatives in Kenya. They are the majority co-operatives and well spread in all regions as well as sectors. Cochran formula determined sample size (n_0), which was then adjusted using finite population correction formulae. In data collection, online questionnaires with a three scaled responses ranging from 0=(Does not meet the indicator) 1=(Partially meets the indicator) and 2=(Meets the indicator) were used. The measures were pre-tested with key informants, before being used to gather opinions from managers of selected co-operatives on extent they adopted stated social performance indicators. In addition, various operational document were reviewed. Descriptive statistics analysed the responses, where a percentage of each scale was computed and a bar chart plotted on for each dimension. In addition, a radar chart was designed on the summary of the extent co-operatives meet social performance indicators.

4. RESULTS AND DISCUSSION

4.1. Demographic profile of the respondents

Respondents were categorized as women and men. Since social performance is a strategic level issue, the study assumed managers could provide answers that are more valid and reliable. Below is the respondents' profile.

Table 1. Demographic profile of the respondents

POSITION	*Women*	*Men*	*Total*
Chief Executive Officer	4	3	7
Deputy CEO	3	5	8
Finance Manager	3	4	7
Internal Auditor/compliance	5	2	7
Accountant	5	3	8
Credit Manager	6	3	9
ICT Manager	2	6	8
Marketing Manager	4	4	8
Operations Manager	6	5	11
Fosa Manager	7	2	9
Branch Manager	1	7	8
HR Manager	5	5	10
TOTAL	51	49	100

There no significant gender and position variance as 51% were women and 49%.

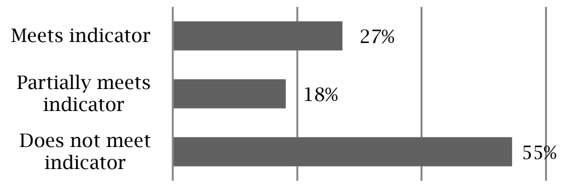
4.2. Data analysis results

The co-operatives were found to do well in client benefit and welfare as the met the indicator by 71%. If more efforts are put on the areas they partially meet the measures such as seeking more client feedback and use client satisfaction survey data to improve products and services, they could achieve an over 93% in client benefit and welfare. However, the co-operatives were found to perform poorly in all other indicators. They did not meet outreach and inclusion, social performance and governance, responsibility to community and staff, and environmental concern indicators by over 55%, 55%, 78% and 67% respectively. Analysis and findings are as presented in the sections below.

4.3. Outreach and inclusion

The co-operatives were found to offer diversified financial products and coexist with other financial providers. However, they lack policies for poor clients, a poverty-profiling tool to screen potential clients when granting loans, and a program for the vulnerable. Thus, co-operatives do not meet the inclusion indicator by over 55%. The co-operatives also partially meet rural orientation by only 18%.

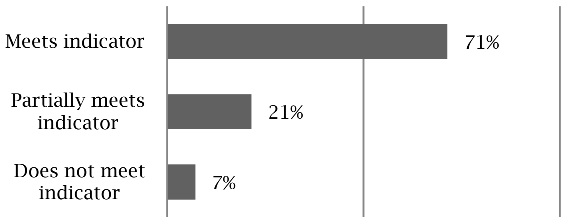
Figure 1. Extent co-operatives meet outreach and inclusion indicators



4.4. Client benefit and welfare

The co-operatives were found to benefit clients and take care of their welfare by over 71%. They were also found to use credit policies to prevent over-indebtedness. Before a loan is approved, a client's ability to repay, credit history and existing debt are checked. Client satisfaction surveys were used to improve products and services. Code of ethics and policies were used to prevent unethical treatment of clients, and safeguard privacy. Co-operatives likewise explain loan terms that were within the range offered in Kenya.

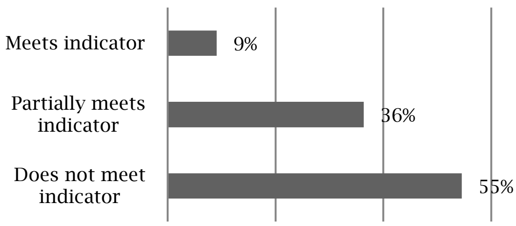
Figure 2. Extent co-operatives meet Client benefit and welfare indicators



4.4. Social performance and governance

The co-operatives surveyed do not meet social performance and governance indicator by over 55%. The organisations vision/mission statements do not set out clear social goals and objectives and the strategic or operations plans do not set clear targets. The organisations also do not monitor changes in lives of clients and reports on this. Women are also not well represented at Board level and the organisation's pay scale reflects disproportionate gaps in salary levels between highest and lowest paid staff.

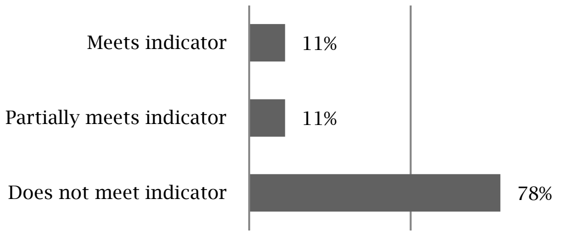
Figure 3. Extent co-operatives meet Social performance & governance indicators



4.5. Environmental concern

The co-operatives assessed do not meet indicator of environmental concern by over 78%. The organisations were found not prohibit activities or the financing of activities with adverse environmental effects, and does not have a special program for environmental education. The organisations also do not actively encourage, support and initiate projects applying environment-friendly techniques e.g. recycling, composting, renewable energy use, organic certified farming, sustainable use of biodiversity, etc.

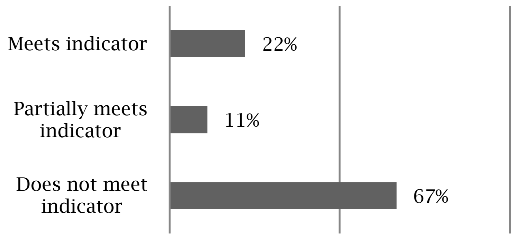
Figure 4. Extent co-operatives meet Environmental concern indicators



4.6. Responsibility to community & staff indicators

Savings and credit co-operatives in Kenya were found to do not meet social performance indicator of responsibility to community and staff by 67%.

Figure 5. Extent co-operatives meet Responsibility to community & staff indicators



Though, the organisations were found to regularly solicit staff feedback and have established procedures (including annual staff appraisals) and/or committee to deal with staff feedback and grievances; performance appraisal and incentives focus only on financial performance. The organisations also do not allocate a portion of profits to community projects or initiatives.

Table 2. Extent co-operatives meet SPM indicators

Social performance indicator	*Meets the indicator*	*Partially meets the indicator*	*Does not meet indicator*
Outreach & inclusion	27%	18%	55%
Client benefit and welfare	71%	22%	7%
Social performance & governance	9%	36%	55%
Responsibility to community & staff	11%	11%	78%
Environmental concern	22%	11%	67%

Figure 6. Comparison of extent co-operatives meet Social management performance indicators

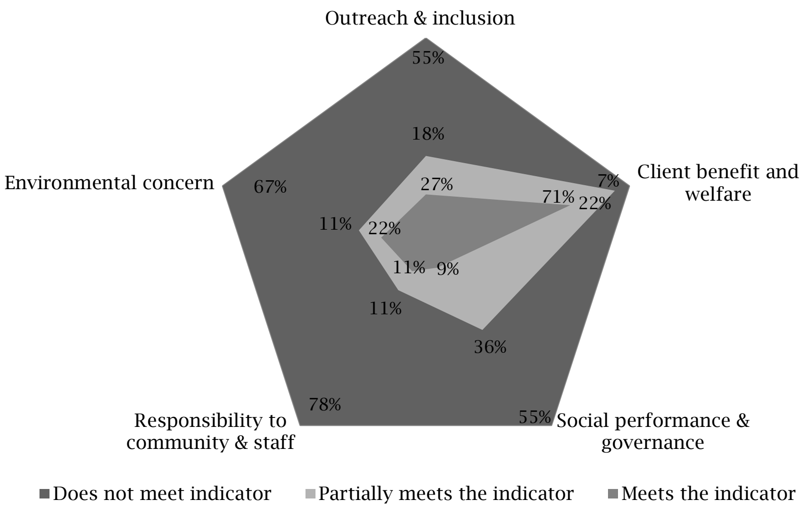
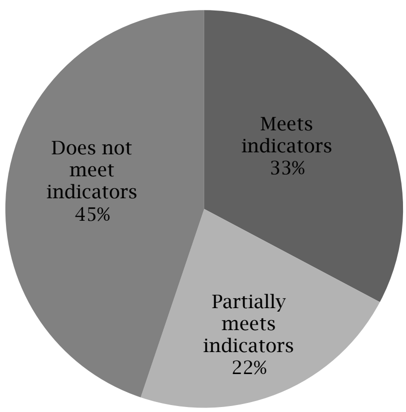


Table 3. Conclusion

Measure	*Percentage*
Meets indicators	33%
Partially meets indicators	22%
Does not meet indicators	45%

A summary of extent co-operatives meets social performance parameters revealed that co-operatives are low on social performance as the meet social metrics by a scanty 33%. Alongside that, it is pathetic that co-operatives do not meet social performance indicators by over 45%. This calls for co-operatives to improve on their perceived social orientation.

Figure 7. Summary of extent co-operatives meet social performance indicators



5. CONCLUSION

This paper extends empirical research on social performance in co-operatives, which is scanty since most studies relate to financial performance. Extant literature revealed social performance management as a catalyst for economic performance of a firm. In particular, the study has identified social performance as a key value driver to superior performance, and social performance management an essential key performance indicator to any enterprise desiring to “doing good” to the community. Further, the research has revealed the key indicators enterprises can adopt to create a sustainable competitive advantage through social performance management. The study examined social performance in savings and credit co-operatives in Kenya. Therefore, some aspects of their operations may not be ideally applicable in other types of co-operatives in other countries as well as other forms of businesses.

The data analysis found co-operatives low in social performance. Based on the findings, it is clear that co-operatives cannot claim as exemplary in social performance based merely on their social and community orientation. Thus, it could be concluded that, akin to cooperatives, many organizations may not be practicing the social ideals they claim to uphold or represent. Therefore, regular investigation on the extent such ideals are applied in the daily operations should be done. Rather than relax adherence to the ideals that give them a market position, organizations should seek social entrepreneurial innovation in response competitive pressures.

The study is expected to help co-operative improve on ‘what good the organizations are doing with their profit to people and the planet’ which consequently would improve their sustainable performance and competitiveness.

6. RECOMMENDATIONS

Since social performance, make business sense, it should be pursued as a key performance driver and reinforce corporate social performance in corporate plans and policies. This should be followed extensive education to members on the importance of social performance to empower them in demanding improved social performance initiatives through reports and budgets. Including social performance reporting in annual financial and account reports should also be made mandatory. Further studies should be conducted to establish whether low social performance management is related to the low competitiveness of co-operatives in prevalent in most regions of the world.

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APPENDIX

Table A.1. Social performance questionnaire (Part 1)

Social Performance management indicators	*Meets indicator*	*Partially meets indicator*	*Does not meet indicator*
A. Outreach and inclusion			
1. Poverty screening			
The organisation has a policy for targeting poor clients			
The organisation selects/targets incoming clients according to their poverty levels.			
The organisation uses a poverty-profiling tool to determine poverty level of potential clients.			
2. Rural orientation			
Over 50% or more of clients or portfolio are in rural areas/developing settlements			
Over 50% of clients or outstanding portfolio are involved in agriculture or SMEs			
3. Reaching women and/or vulnerable groups			
The organisation has a fund specifically targeting women and/or disadvantaged			
The organisation has a fund specifically targeting the children			
4. Reaching unserved areas			
Majority of the operations are areas in unserved or underserved by other financial providers.			
5. Diversification of financial products			
The organisation offers a diversified range of financial products			
The organisation offers similar group or individual loans (same term, same loan amount, same repayment schedule).			
The organisation offers different types of loans for different purposes with differentiate in terms and conditions.			
B. Client benefit and welfare			
1.Prevention of client over-indebtedness			
The organisation has a formal credit policy			
Capacity of the client to repay is assessed by the loan officers			
The organisation is registered with a credit referencing bureau			
2.Client feedback			
The organisation collects data through client satisfaction forms and uses the data to improve products and services			

Table A.1. Social performance questionnaire (Part 2)

Social Performance management indicators	*Meets indicator*	*Partially meets indicator*	*Does not meet indicator*
The organisation collects data from clients only through an idea box at organisation's premises.			
3.Code of ethics and staff compliance			
The organisation has code of ethics/conduct and policies dealing with treatment of clients.			
Code of ethics or policies on treatment of clients, client privacy and are integrated in staff training and appraisal.			
The organisation verifies staff compliance with the code of ethics/policies.			
4.Transparency about costs to clients			
The organisation discloses information on effective interest rates and all costs			
Information about interest rates and all charges are publicly displayed in premises and clients are informed about costs			
The organisation educates and ensures client understanding of the costs of credit			
5. Interest rates			
Rates charged to clients is within the range offered in the country			
6. Non-financial products and services			
The organisation provides non-financial products and/or services to clients on a regular basis in response to identified needs			
The organisation provides only financial services to its clients.			
The organisation not only provides financial services but also cooperates with other organisations providing non-financial services that clients need.			
C. Social performance & governance			
1. Vision/mission and strategic plan			
The vision/mission clearly defines social goals and objectives			
The strategic or operations plan sets clear social targets.			
The organization pays attention to building organisational capacity to deal with planned growth (training of staff, improvement of MIS, internal audit, etc).			
3. Monitoring results			
The organisation systematically monitors changes in lives of clients and reports on this.			
The organisation has indicators to be used in measuring change in clients' lives.			
The organisation has identified indicators to be used in measuring change in people’s lives and reports on this occasionally.			
The indicators for measuring change in clients' lives are integrated into the organisation’s MIS and the information is processed and reported regularly			
4. Salaries/remuneration and incentives			
The total remuneration package of top management exceeds 40 times that of the lowest paid staff			
5. Women representation			
Over 1/3 of both the Board and senior management positions are held by women.			
6. Diversified ownership base			
The Sacco has a diversified membership			
No single member or a group is allowed to hold more than 20% of total shares			
D. Environment			
1. Organisational exclusion policy			
The organisation has an explicit policy excluding enterprises harmful to the environment from financing.			
The organisation prohibits activities or the financing of activities with adverse environmental effects and monitors compliance with these policies.			
2. Environmental education and promotion			
The organisation trains members on environmental issues regularly			
3. Active focus on environmental-friendly techniques			
The organisation actively encourages, supports and initiates projects applying environment friendly techniques e.g. recycling, composting, renewable energy use, organic certified farming, sustainable use of biodiversity, etc.			
E. Responsibility to community & staff			
1. Staff feedback and grievance procedures			
The organisation has a system to solicit staff feedback and redress staff grievances.			
2. Staff appraisal and incentives			
Performance appraisal looks at both economic and social performance and incentives.			
3. Community projects			
The organisation allocates profits to community projects or initiatives.			