

What is your

# COOPERATIVE SCORE?



AN INTRODUCTORY LOOK INTO THE  
DESIGN OF COOPERATIVES AND THE  
CONCEPT OF A COOPERATIVE SCORE

Part 1: A New Measurement for Core Principles:  
The Cooperative Score

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A framework for measurement and  
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# CAN YOU BRAG ABOUT YOUR COOPERATIVE SCORE?

## Imagine if you could concretely measure the cooperative principles of the credit union industry.

By Randy Karnes, CEO, CU\*Answers, as published at [www.creditunions.com](http://www.creditunions.com) Monday, May 9, 2011

Imagine you're an athlete who just executed a beautiful dive off the high platform. You emerge from the water to a panel of judges holding up cards that confirm what you already know: Your hard work has resulted in a perfect score. That score tells you, your peers, and your competitors that you've achieved something you all value.

Credit unions have many indices that provide benchmarks and rules of thumb for financial performance. But let's consider another type of score, one with the potential to re-energize and inspire teams in a new way: A cooperative score.

### A New Measurement for Core Principles

Imagine if you could concretely measure the cooperative principles of the credit union industry. Your Cooperative Score would be tangible evidence of principles put into action and could become a rallying point for new goals and new achievements.

Do you actively market your democratic process as an advantage over the bank down the street? Do you have a vibrant volunteer community? Have you ever paid a dividend that was clearly labeled as an ownership dividend, calling attention to how being part of a cooperative actually feeds a member's pocketbook?

What if doing these things could earn you a higher Cooperative Score? What if sharing policies with a colleague at a neighboring credit union added points to your score? Could such a score help drive home the point to the NCUA and other observers that you are executing on your cooperative design? If a high Cooperative Score implied your credit union has a strong volunteer community that really knows its stuff, maybe an examiner would be able to check off "Board Financial Literacy" on a list of your accomplishments.

### What's in a Cooperative Score?

Like the criteria athletes strive to meet to achieve a perfect 10, a Cooperative Score would encourage credit unions to incorporate the attributes that set them apart. So what attributes point to a high performer when it comes to collaboration and a cooperative design?

If you accept that cooperative principles include aspects such as voluntary membership, democratic processes, economic participation by members,

independence, cooperation among peers, and a strong community presence, then what specific actions demonstrate those principles? Is it the percentage of members who vote in elections or the amount of ownership dividends paid or even the number of documents the credit union has posted on a policy-sharing website? What other indicators demonstrate a

healthy cooperative?

In a time when many credit unions seem to have resigned themselves to sticking with bank-lite strategies that do little more than copy the guy down the street, perhaps a new index is one way to tweak the mindset. Much more than a marketing campaign to promote the credit union difference, a Cooperative Score could help underscore and reinforce the strategies that drive both institutional design and day-to-day execution.

So what's your cooperative score? And is it anything you can brag about?

*CU\*Answers is actively designing a new suite of services, web-based tools, and other products that will help promote and monitor this new style of performance index. If you have ideas about ways to recognize what it means to be a cooperative organization today, please join the conversation! Contact Randy Karnes, CU\*Answers CEO, at [rkarnes@cuanswers.com](mailto:rkarnes@cuanswers.com).*



## Cooperative Business Design 101

### What does it mean to be a cooperative?

By definition a cooperative is a business organization owned and operated by a group of individuals for their mutual benefit. Objectively speaking, a cooperative is controlled by its owners who share equally in the services and the work of the organization. Every component exists because it has something that completes it. Every service, every product comes from a cycle of need, design, labor, market, cost, people, and shared economics. The common thread is at least to some extent, based on democracy and the idea that an enterprise is owned and controlled by the people it serves and that members have both a voice in the decision making process and a responsibility to the organization. The financial investments and labor expended that result in a revenue surplus or profit should be shared based on the member's cooperative contribution.

In short, a cooperative means that the organization exists to produce goods and services for its members, by its members, and whether producer, laborer, or consumer, all share the benefits to some degree.

### What are the guiding principles of a cooperative?

Determining a Cooperative Score requires that a method of measuring against a standard exists. One gauge could be the effectiveness of participating in and following principles established by the Rochdale Society of Equitable Pioneers in 1844. These principles are embedded in the 1995 Statement on the Co-operative Identity.

<http://www.ica.coop/coop/principles.html>

- Voluntary and Open Membership
- Democratic Member Control
- Member Economic Participation
- Autonomy and Independence
- Education, Training, and Information
- Cooperation Among Cooperatives
- Concern for Community

Using each of the principles above, determine products, services, action items, and tangible goods that could have value assessed, then used as factors to determine the Cooperative Score.

### What is the business structure of a cooperative?

Characteristics of a cooperative are broadly defined according to the type of entity. Some countries have strict codes that limit the incorporation of cooperatives, but in the United States, there are fewer restrictions and while there are governing laws, there are defining factors common to business that operate as cooperatives.

To determine the business structure of a cooperative, first the type of cooperative must be determined. While there is a definition of a credit union cooperative, the changing face of economics and demographics reaches beyond the traditional definition, allowing the scope of that definition to expand as well. Rather than limit the definition to "Credit unions are cooperative financial institutions that are owned and controlled by their members." why not use the seven cooperative principles to stretch the boundaries?

- Voluntary and Open Membership
- Democratic Member Control

- Member Economic Participation
- Autonomy and Independence
- Education, Training, and Information
- Cooperation Among Cooperatives
- Concern for Community

Services can be driven from every one of those seven cooperative principles. While traditional cooperatives strictly limit their products and services to members, hybrid forms are becoming more prevalent, expanding the boundaries to include communities and consumers who participate at varying levels. To be a successful cooperative, requires shared loyalty, cooperation, team focus, volunteer culture, trust, strong leadership, and impeccable work ethic.

## Cooperative Business according to the SBA

Business Structure in the generic sense still has the basic components of an organization as defined by the Small Business Association. A cooperative in its most basic structure is owned by members who have purchased shares in the organization. These members, regardless of the amount of their investment, have equal voting power to control the direction of the cooperative. The management of the cooperative is carried out by a board of directors, elected by the members. Who will oversee the cooperative entity and assure the cooperative is formed properly and once formed, flourishes instead of stagnates?

Factors listed here are not in sequence but are meant to direct the cooperative endeavor: (Some may not be necessary depending on the type of cooperative being formed)

- Purpose of the cooperative
- Services / Products
- Strategic direction
- Board of Directors
- Voting cycle and logistics
- Investments & Investors
- Business Plan
- Market Analysis
- Funding plan
- Articles of Incorporation
- Bylaws
- Licenses/Permits
- Contacts
- Policies & Procedures
- Charter
- Tax status designation & registering
- Cooperative Identity/Brand
- Job Descriptions
- Employment regulations
- Membership requirements
- Membership application
- Marketing Plan
- Vendors & Suppliers
- Volunteer petition & Responsibility marketing
- Education: staff, board of directors, members

- Initiatives
- Business Continuity/Disaster Recovery plan
- Niche expansion
- Research for growth

## Which business sectors have consistently scored high in the cooperative business arena?

According to Cooperation Works! their members have facilitated successful co-op businesses in virtually all sectors, including Agriculture, Child Care and Preschool, Consumer Retail, Energy, Conservation & Forestry, Health Care, Housing and Worker-Owned. Introducing success stories about cooperative businesses, this quote come from their website at <http://cooperationworks.coop>.

Through cooperative economic development, CooperationWorks! helps communities create jobs, save family farms, keep schools full and increase prosperity. Co-ops keep income in the community, building wealth, creating jobs and reinvigorating economies.

CooperationWorks! centers have helped develop 390 new businesses in rural communities, owned and controlled by their 47,160 members, and have created more than 5,800 new jobs. Investment in these cooperative businesses exceeds \$900 million.

That's cooperation!

## Learn more about the Cooperatives

For more information about cooperatives, check out the following resources:

National Cooperative Business Association (NCBA)

- <http://www.ncba.coop/>

International Co-operative Alliance

- <http://www.ica.coop/al-ica/>

## Working with CU\*Answers to improve your Cooperative Score

### What is a Cooperative Score?

Based on the guiding principles of the cooperative model, we've developed the notion of a Cooperative Score—a system of measuring the degree to which a credit union is participating in what it means to be a credit union. This is too commonly limited to the basic notion of one membership—one vote, where all members are an owner in the credit union.

The Cooperative Score is meant to target all aspects of cooperative banking, and to create a specific focus and task for each credit union to complete and increase their standing within the community, and as a financial institution.

### What are some examples of how cooperatives can be scored?

Using each principle, these examples illustrate how cooperative scoring could be effected.

#### Voluntary and Open Membership

- Membership base and market share based on population
- Programs such as Financial Planning, Financial Counseling, Financial/Budget Education
- Community Service recognition
- Student focused education programs: tutoring, coaching, academic support
- Career & Scholarship advisement
- Underwrite a credit union scholarship

#### Democratic Member Control

- Policy writing
- Develop written procedures and maintenance process
- Election activities
- Design a succession plan for board members, directors, and find future board members

#### Member Economic Participation

- Design a compensation plan for sharing surplus
- Education initiatives – financial awareness (member stewardship – how to use credit union services to their best advantage and lowest cost)
- Rewards programs

#### Autonomy and Independence

- Vendor selection training for credit union decision makers
- Points awarded when credit union remained in business, avoided merger, or was the winning partner in a merger

#### Education, Training, and Information

- Develop a comprehensive academic education training plan modeled after degree or certification programs
- Write courseware to benefit members as well as credit union staff and board members
- Be a beacon of information in the community – radio stations, community events, have a representative mascot that increases visibility in the community

#### Cooperation among Cooperatives

- Has an active outreach and gains recognition and growth through pairing up with other businesses, forming alliances

- Press releases
- Social Media
- Published articles in periodicals, professional digests,
- Guest or key note speaker at a public event or conference

## Concern for Community

- Documented volunteer activities
- Fund raisers sponsored by the credit union
- Host an event for a charity
- Host a true membership drive
- Underwrite a benevolent fund
- Periodically provide awards/prizes

## How can credit unions improve their score?

To improve a score the cooperative must have a beginning point, an objective, and a goal. This could be as simple as an electronic list with numeric scoring. Or it could be a sophisticated application that has database features for entering objectives and goals, setting up steps to achieve the goals, applying factors, calculating ratios to track scores, and report progress. Incentives are more successful when the current score in relation to goal is visible. There should be a way to view a list of all the items available, with points, and a complimentary plan to add to their score. This could work on the order of Tiered Services – but it's the scorecard for enforcing the Cooperative nature of their core.

## What services could CU\*Answers & Xtend sell to credit unions to improve their score?

As a starting point, the partial list above describes some of the factors a credit union could implement with the technical expertise and knowledge of CU\*Answers and Xtend. Throughout the process, CU\*Answers and Xtend could share in any part of the design, build, implementation, and evaluation process. CU\*Answers and Xtend could serve in a capacity of program manager, coach, or any degree of involvement as requested by the credit union.

Existing services that can be offered based on the list above include, but are not limited to:

- **Voluntary and Open Membership:** Targeted marketing campaign through the Xtend Call Center to increase membership size.
- **Democratic Member Control:** CU\*Answers board elections services – increase the response in your board elections through a well structured and well marketed approach to a democratic election; Member Reach driven surveys polling members on the direction of the credit union.
- **Member Economic Participation:** Gividends can design and assist in implementing a robust Tiered Service program to drive member participation in products and services.
- **Autonomy and Independence:** Assist credit unions in finding partner credit unions to merge within their own; struggling credit unions looking for a new direction could hire CMS using our experienced staff as interim CEO, CFO, CIO, etc.
- **Education, Training and Information:** Education Services might develop and sell a comprehensive curriculum to credit unions that want their new employees to receive the same training received at the time of conversion; Board Member FAQ and training programs that go beyond financial literacy.



- **Cooperation Among Cooperatives:** Rather than sell a way for credit unions to improve their cooperation, develop an incentive structure for credit unions to participate within the network – the CUSO is a cooperative in its own right and credit unions should be assisting each other in their own autonomous growth.
- **Concern for Community:** CU\*Answers can develop and sell marketing material to credit unions meant to drive member participation; Collections services from Xtend to work with members having difficulty making their loan payments and to avoid foreclosure or bankruptcy.

## Opportunities of Cooperatives

Recruiting & staffing has been consistently profitable. Could it be possible to award points to credit unions who offer these services? It can be in different degrees; from offering services to aid unemployed people with their job search, to sharing resources among other businesses.

Could the credit union provide small business counseling? Tax services, Quick Books training, Bookkeeping Services, Typing Service, Mailing, Communication (definable)

Internet Research

Financial & Budget education offered to members of all ages

Education coalition – form a team and offer to share staff training

Marketing program planning and execution

## Learn from cooperatives outside your peer group

### Consumer Cooperatives

This type of cooperative dates back to the 1840s and still operates with the same foundational intent. By joining one of these cooperatives, consumers are able to achieve prices and quality not available from for-profit businesses. Consumer cooperatives are the largest type of cooperative each having thousands, even millions of members. While they appear to operate like other businesses, the difference is in how profits are allocated. Methods of profit distribution vary, but it's often in the form of patronage dividends and sometimes the coop will make a charitable donation to the community. Either way the profit remains in the community.

### Learning Cooperatives

This does not preclude schools, universities, and institutes, but rather expands to give credit to the organization that practices cooperative learning techniques regardless of their corporation or business model. Cooperative learning strives for mutual benefit – meaning the field of influence is larger than the organizations inner circle. Five characteristics are evident in the cooperative learning philosophy:

- Gain from each other's efforts: Your success benefits me. My success benefits you.
- Recognize that all group members share a common fate: We all sink or swim and we do it together.
- Realize that the performance of the team depends on the performance of the individual: We cannot do this without you.
- Be proud and celebrate jointly when one team member is recognized for achievement: We all congratulate you for what you accomplish.



## **Worker Cooperatives**

There are more than 300 worker cooperatives and businesses throughout the United States. Owned and democratically governed by their employees, they operate in numerous industries such as commercial and residential cleaning, childcare, food service, healthcare, technology, retail services, manufacturing, and others. Employee Stock Ownership Plans (ESOPs) are the more common form of worker ownership in manufacturing, although they often lack the democracy inherent to co-ops.

## **Purchasing and Shared Service Cooperatives**

The members of these cooperatives join to improve their performance and competitiveness. Key to any cooperative is the ability to reap the benefit of shared purchasing or shared services. Members belonging to these cooperatives allow small businesses to compete with much larger competitors. They can lower their operating costs by pooling purchasing power for goods and services.

## **Producer Cooperatives**

This type of cooperative is common in agriculture. Farmers must band together to survive an industry that's increasingly industrial and centralized. Individual farms survive because of shared resources, producing larger volumes as part of a cooperative opens the door allowing price negotiations for crops, livestock, equipment and supplies.

## **Hybrid Cooperatives**

Most often found in agricultural cooperatives, this type is tied to dual roles as producer/consumer or worker/consumer - rising from the situation such as the consumer's desire for affordable products and the producer's desire for higher prices for their products.