Credit Union Social Responsibility: Their Mission-Driven Difference

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The article begins with an introduction to credit unions, their history and development within the Canadian context, their link to the international cooperative movement through their identity, values and principles and the evolution of their governance framework. The article continues by exploring the concept of corporate social responsibility and discusses the development of the model from a historic perspective through a detailed review of academic and business writings. Finally, the article reviews and compares corporate social responsibility in the financial services sector and dives deeply into the inherent linkages between credit union social responsibility and the cooperative principles and concludes that there is a deeper level of connection to the corporate social responsibility in credit unions as opposed to their non-cooperative competitors.

L'auteur débute cet article par une présentation des coopératives de crédit, de leur histoire et de leur développement dans le contexte canadien, de même que de leur lien avec le mouvement coopératif international à raison de leur identité, de leurs valeurs et de leurs principes ainsi que de l'évolution de leur cadre de gouvernance. Il analyse la notion de responsabilité sociale des entreprises et traite de son évolution d'un point de vue historique au terme d'un examen rigoureux de travaux universitaires et d'articles du monde des affaires. Enfin, il examine et compare la responsabilité sociale des entreprises dans le secteur des services financiers et s'attarde longuement sur les liens inhérents entre la responsabilité sociale des coopératives de crédit et les principes coopératifs, avant de conclure qu'il existe un plus grand attachement à cette notion de responsabilité sociale des entreprises du réseau des coopératives de crédit que chez les concurrents qui ne font pas partie de ce réseau.

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1. INTRODUCTION

Credit unions (CUs) play an important role in providing financial products and services to millions of Canadians from coast to coast and to millions more people around the globe. Credit unions hold a unique spot in the world of retail financial services, not due to the products and services that they offer, but in terms of their corporate and governance structures, their adherence to internationally recognized cooperative principles and their history as mutual self-help organizations. Credit unions grew out of a need to bring fair pricing to working people and that legacy continues today as credit unions hold a coveted place in the hearts and minds of their members around the world.

Credit unions like many other financial institutions and other businesses in other industries and sectors have embraced corporate social responsibility as an important strategic imperative and driver of business decisioning, guiding their relationships with key stakeholders and the communities in which they operative and serve. This paper explores the differences that credit unions bring to corporate social responsibility as a result of their structures, adherence to the cooperative principles and answers the question of "do credit unions have a unique position and strategic advantage over their competitors as a result of their mission-driven and inherent commitment to corporate social responsibility?".

In order to make this determination, this paper will begin with a review of credit unions and more specifically the Canadian credit union system. The cooperative principles are reviewed and defined before the author explores the history and evolution of thinking about varying the definitions of corporate social responsibility (CSR) from the 1950s through the 2010s. The author then synthesizes those definitions into a definition of CSR to model against for further analysis within the context of this research paper. Finally, this paper reviews the applicability of certain cooperative principles, the governance structures and practices of credit unions and their ability to differentiate credit unions from their non-cooperative competitors and specifically how they allow for credit unions to claim a strategic business advantage as the only form of financial institution in Canada to maintain mission-driven commitment to CSR.

2. WHAT IS A CREDIT UNION?

Credit unions are a pure form of financial intermediary and although they are called various names around the world, CUs at their most basic level are member-owned, not-for-profit financial cooperatives that provide savings, credit and other financial services to their members.[1] Historically CU membership has been based on a common bond of association, or a connection shared by savers and borrowers who belong to a specific community, organization, religion or

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1 World Council of Credit Unions, online: <http://www.woccu.org/about/creditunion>.

place of employment. CUs pool their members' savings deposits and shares to finance their own loan portfolios rather than rely on outside capital.[2]

In a CU, shareholders, customers, owners or members as they are most commonly known, are unique in that they have multiple competing and complementary roles within the organization. In a CU, the members are both the owners of the CU and the consumers of its outputs and the supplier of its inputs.[3] Through the process of financial intermediation, a CU matches the needs of local savers (the supplier of inputs) with the needs of local borrowers (the consumers of its outputs). Further, members, through their economic participation are also the providers of capital that the CU needs to grow, invest in products, service and infrastructure, and to provide a cushion against unexpected losses. This is true both in terms of direct economic investment in the form of membership shares, a requirement to participate in the products and services that are offered by the CU and in the form of excess profits derived from the delivery of those products and services in the form of retained earnings.

While CUs may look and feel like banks, they are not banks. They offer similar products and services, like day-to-day chequing and savings accounts, mortgages, loans and lines of credit, credit cards, etc., and they deliver those products and services through similar networks of branches, automated teller machines and through internet and mobile channels, but CUs are different from banks in several fundamental ways.[4] Most significantly, CUs are locally owned and autonomous. They invest their profits in the communities where they operate based on the direction of an independent, democratically elected board of directors based on the fundamentally important concept of one member, one vote.

(a) The Canadian Credit Union System

For the sake of simplicity and to minimize confusion, this paper will discuss the Canadian CU system outside of Quebec. The Quebec system is different from all of the other provincial systems and is not part of the national trade association, Credit Union Central of Canada, and while each CU, or *caisse*, is independent, there is a direct control relationship with the Caisse Central. The system in Quebec makes comparison and analysis difficult and beyond the scope of this paper.

The Canadian CU system traces its roots back to the early 1900s when CUs were formed to support the needs of small local savers and borrowers. These CUs were based on the Desjardin model which had its roots in the European tradition of mutual self-help and cooperative banking institutions. According to 2012 Deloitte's report, *The 21st Century Co-operative: Rewrite the Rules for*

2 *Ibid.*

3 *Ibid.*

4 Central 1 Credit Union, "Credit Unions in Canada", online: <https://www.central1.com/about-us/credit-union-system>.

Collaboration, the Canadian CU system is entering its fourth wave in its evolution. The report defines the first three waves as follows and suggests that the fourth wave is an emerging trend and that it has not yet materialized.

(i) The first wave, establishment, from the 1900s to the 1940s

In the early 20th century, CUs grew across the country, in cities, towns and particularly in rural/agricultural locations. CUs first spread to Ontario, and after several decades of steady growth, CUs rapidly spread across the Maritimes, Prairies and BC throughout the 1930s and 1940s. At that time, CUs were formed around a "common bond", such as a shared industry, religion or geography. CUs were founded in order for people to overcome the difficulty of accessing credit from traditional banks, particularly during the great depression. CUs were generally small with only dozens of members and offered a limited range of products.

(ii) The second wave, infrastructure building, from the 1940s to the 1980s

The 1940s and 1950s saw a significant growth in both the number of CUs and the infrastructure to support the new organizations. Provincial centres were established across the country to support individual CUs in product and service delivery, liquidity management, and government lobbying efforts, and provincial governments passed cooperative financial association acts to enable CU growth and to put in a system of formal regulation. Provincial deposit insurance facilities were established to protect the interests of depositors and system strategic partners emerged to offer additional services and innovations through the now national system. CU membership rose dramatically, from an average of approximately 100/CU in 1940 to almost 2,500/CU in 1980. Urban, industrial and public sector bonds of association began to overtake rural CUs in relative size and scope. At the same time the needs of CU members became more complex and CUs began offering products including mortgages and investments to meet this changing demand in consumer behaviour.

(iii) The third wave, consolidation, from the 1980s to the 2000s

By the 1980s, members required a more complete banking experience from their CUs that was competitive with the big banks. Members expected a full range delivery options including ATMs, branches, call centres, internet and telephone banking, as well as products such as credit cards, mutual funds, trust services and financial planning. During this period, CU market share leveled off at approximately 20% nationally, down slightly from its peak of roughly 25% in the late 1970s. In order to meet these increasingly-complex needs the vast majority of CUs turned to merger and acquisitions strategies to drive growth and economies of scale. The result was a continued drop in the number of CUs (a trend that began in the late 1960s) and a dramatic rise in the average membership per institution.

Today the Canadian CU system continues to be impacted by many of the trends that drove the third wave, consolidation continues, and the number of members and assets of the total system controlled by a relatively few large CUs continues to grow. At year end 2012, there were 370 CUs in Canada down from a peak of 3,200 in 1966.[5] Further, today almost all CUs and certainly the largest, are open or community bond CUs. These trends will likely continue and will impact how CUs are governed, regulated and structured over the coming years.

A. Cooperative identity, values and principles

CUs are structured as financial cooperatives and are guided by the standards set out by the International Co-operative Alliance. Specifically, all CUs in Canada and around the world are guided by the International Cooperative Alliance statement on identity, values and principles. Regardless of the size of the CU, its location or its bond of association, CUs govern and manage their businesses under the international vision of an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.[6] Further, CUs subscribe to the shared values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.[7]

Another important point of difference between CUs and their non-cooperative competitors is their integration of the seven cooperative principles into their governance structures and managerial decision-making processes. These seven principles shape the CU difference and although they may not be formally recognized by all CUs in today's modern systems, their influence remains fundamental to the CU identity and difference. The cooperative principles are guidelines by which cooperatives put their values into practice.[8]

> 1. Voluntary and Open Membership
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> Credit Unions 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.
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> 2. Democratic Member Control
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> Credit Unions are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and

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[5] Doug Macdonald, John Jazwinski & Loraine McIntosh, "21st Century Cooperative: Rewrite the Rules of Collaboration" (2012) Deloitte.

[6] International Co-operative Alliance, "What is a Co-operative?", online: <www.ica.-coop> [Co-operative Alliance].

[7] *Ibid.*

[8] *Ibid.*

women serving as elected representatives are accountable to the membership. In Credit Unions, members have equal voting rights (one member, one vote).

3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their Credit Union. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Credit Unions 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 co-operative autonomy.

5. Education, Training and Information

Credit Unions provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their Credit Unions. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of Credit Unions.

6. Co-operation among Co-operatives

Credit Unions serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for Community

Credit Unions work for the sustainable development of their communities through policies approved by their members.[9]

B. Governance Structures

As financial cooperatives, CUs are owned by and operated for (and by) their members. Members buy shares in order to access the products and services of the CU and in doing so, are eligible to participate in the democratic decision making and governance of the CU. But the modern governance of CUs is much more complex and interrelated than this simplification provides. Today's CUs are impacted heavily by a variety of internal and external stakeholders each influencing to some degree the governance roles, responsibilities and structures of the organization.

In the early stages of a CU's development, members typically take an active and participatory role in the organization's governance. They do this by

9 *Ibid.*

attending annual meeting, serving on the board of directors and volunteering for committees or other oversight functions. As CUs grow in size and complexity, direct member participation in governance tends to decline and more influence is left in the hands of a relatively small group of members who maintain their participation, by attending annual meetings, voting in director elections and serving on the board. [10]

CUs and banks share many similarities in their governance structures, and as the size and complexity of CUs increase, these similarities are being formalized through regulation and a regulator's formal guidance. The systems share owners, boards of directors, regulators and CEOs. Boards maintain oversight functions through audit and risk committees and the regulators define the operating parameters and monitor for safety, soundness, and prudency of both types of institutions. So while there are many similarities, the differences are much more significant and can be best described as differences in ownership and difference in financial incentives.

CUs are owned by their customers (members) and accordingly deliver benefits to their customers. They are focused on delivering products, services and value to their customers, because when their customers benefit, so to do their shareholders. There is no conflict between the customers and shareholders at a CU. They are one and the same. Banks and their boards of directors, on the other hand, are legally required to operate in the best interest of their shareholders. This mission as an organization is to maximize shareholder benefit, often (if not always) coming at a cost to the costumer who may or may not be a shareholder.

From a financial incentive perspective there are two significant differences between banks and CUs. First, directors are not compensated (or if they are they are not compensated to the level of bank directors) and accordingly there is no personal financial incentive to take on excessive risk or to put their personal or professional reputations at stake. Also, as CUs do not issue stock, neither directors nor the CEO can be compensated through stock or stock options. This too impacts the organizations risk taking behaviors and tolerance.[11]

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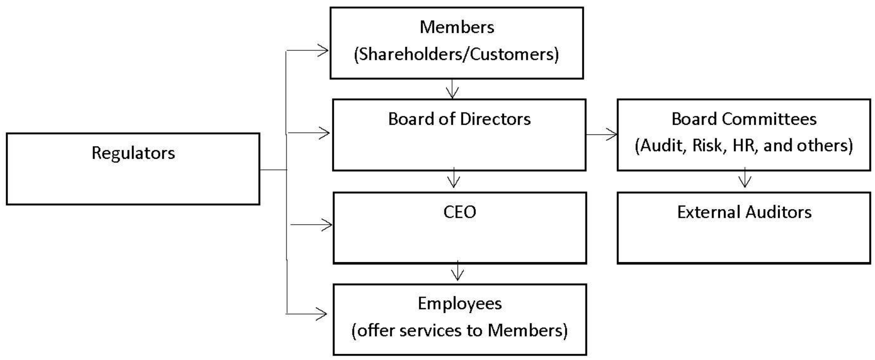
[10] Robert F. Hoel, "Power and Governance: Who Really Owns Credit Unions?" (2011) Filene Research Institute Governance Series.

[11] *Ibid.*

C. A Typical Credit Unions Governance Structure



3. WHAT IS CORPORATE SOCIAL RESPONSIBILITY?

The concept of corporate social responsibility has a long and varied history, in some form dating back centuries.[12] Modern corporate social responsibility theories and academic writings are typically traced to the 1950s and the notion is typically an American, or North American, construct. In fact, in 1946 Fortune Magazine polled business executives (or as they were referred to the article and at the time, "businessmen", about their social responsibilities.[13]

Howard R. Bowen published the landmark book *Social Responsibility of the Businessman* in 1953 and this is generally regarded as the beginning of the modern period of literature on the subject.[14] While the term "corporate social responsibility" was not yet common, the term that Bowen did define was the "social responsibilities of businessmen". Specifically, Bowen set forth the following: "it refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society".[15] In addition to Bowen, other early writers and important early influencers of modern CSR theory include Benjamin Selekman's (1959) *Moral Philosophy for Management*; Morrell Heald's (1959) *Management's Responsibility to Society: The Growth of an Idea*; and Richard Sedric Fox Eells' (1956) *Corporation Giving in a Free Society*. Each of these authors took a similar approach to defining CSR as did Bowen.

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[12] Archie B. Carroll, "Corporate Social Responsibility Evolution of a Definitional Construct" (1999) 38: 3 Business and Society [Carroll].

[13] *Ibid.*

[14] Howard R. Bowen, *Social Responsibility of the Businessman* (Iowa City, Iowa: University of Iowa Press, 1953).

[15] *Ibid.*

In fact, in the 1950s, the most tangible elements of CSR were associated with corporate philanthropy. During this period, corporate social giving or philanthropy tended to be informal, subject to executive whim and typically at the request of the beneficiary.[16] Early philanthropic efforts of corporations were the starting point for the evolution that came in later periods, where corporate giving became more formal and corporate donations were made in the context of a broader and more developed CSR mandate adopted formally by the firms. Interestingly, it was Bowen who developed a series of recommendations that were well ahead of his time in regards to suggesting changes to organizations and management to support the changes needs and interconnections between corporations and the broader society. Specifically, Bowen recommended changes to the composition of the boards of directors, the social education of business and executive managers, the development of business codes of conduct and the use of social audits to measure a firm's CSR.[17]

Through the 1960s and 1970s, academic writing and thought about CSR continued and the definitions were revised to take into account the new theories and practical realities of the society and the evolution of the business corporation in terms of size, power and influence in North America and internationally. It was during this period that the notion of a stakeholder approach began to gain traction in academic writing and in business practices, specifically as a result of Harold Johnson's 1971 book, *Business in Contemporary Society: Framework and Issues*, where he presented four views or definitions of CSR.

Firstly, Johnson noted that, "a socially responsible firm is one whose managerial staff manages a multiplicity of interests. Instead of only striving for larger profits for its shareholders, a responsible enterprise also takes into account employees, suppliers, dealers, local communities and the nation".[18] He went on to state that, "business takes place with a socio-cultural system and outlines through norms and business roles particular ways of responding to particular situations and sets out in some detail the prescribed ways of conducting business affairs".

Secondly, Johnson noted that, "Social responsibility states that businesses carry out social programs to add profits to their organizations". This view is consistent with the view of other thinkers of the time, and perhaps it can be seen as complementary to Milton Friedman who states in his book, *Capitalism and Freedom*, that CSR is a "fundamentally subversive doctrine" in a free society, and that, "there is one and only one social responsibility of business —to invest its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud".[19]

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[16] *Ibid.*

[17] *Ibid.*

[18] H.L Johnson, *Business in Contemporary Society: Framework and Issues* (Belmont, CA: Wadsworth, 1971) [Johnson].

Thirdly, Johnson presented the view of "utility maximization" where he stated that "business firms seek multiple goals, rather than only maximum profits". He goes on to state that, a socially responsible manager is interested not only in his own well-being but also in that of other members of the enterprise and that of his fellow-citizens".[20]

Finally, Johnson explained a fourth view of CSR that he called the "lexicographic view of social responsibility" that he defines as:

> The goals of the enterprise are ranked in order of importance and that targets are assessed for each goal. These target levels are shaped by a variety of factors but the most important are the firm's past experience with these goals and the past performance of similar business enterprises; individuals and organizations generally want to do as well as others in similar circumstances.

This view suggests that there is an opportunity to be both strongly profit motivated while at the same time being able to engage the firm and its resources in a socially responsible manner. By implementing targets for profit and other traditional business metrics, the firm is able to achieve the profit and business objectives of the firm first while investing in CSR second.

As corporations continued to evolve into the 1980s and 1990s, the rise of information technology, mass media, on demand news and globalization forced CSR to evolve at the practical business level, but its definition remained relatively unchanged. Practically, corporations were feeling the effects of mass media and its impact on the products and services that they were offering. Examples of customer and societal demand for change were evident and the examples were many. McDonald's, for example, caved to public pressure and switched their packaging away from Styrofoam to cardboard; Greenpeace and other groups forced environmental issues to the forefront of the public's consciousness and corporations took action to capitalize on these market shifts, both because it was the morally right thing to do, but also because it was the profitable thing to do.

To that end, the definitions of CSR that grew out of the 1980s and 1990s reflected this change in thinking and put greater emphasis on the balancing of social goals with the organization's profit goals. Peter Drucker, for example, made the point that, "the proper social responsibility of business is to tame the dragon, that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs and into wealth.[21]

Also during this period, Archie Carroll crystalized his earlier thinking and refined his four part definition of CSR:

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19 Milton Friedman, "The Social Responsibility of Business is to Increase Profits" *The New York Times Magazine* (1970).

20 Johnson, *supra* note 18.

21 P.F. Drucker, "The New Meaning of Corporate Social Responsibility" (1984) 26 California Management Review 53.

> In my view, CSR involves the conduct of a business so that it is economically profitable, law abiding and ethical and socially supportive. To be socially responsible. . .then means that profitability and obedience to the law are foremost conditions to discussing the firm's ethics and the extent to which it support the society in which it exists with contributions of money, time and talent. Thus CSR is composed of four parts: economic, legal, ethical and voluntary or philanthropic.[22]

Through the 1990s and 2000s, the literature indicates that no new definitions of CSR emerged although there was continued work and thought on the topic. Most of the thinking went to context issues around existing models and definitions of CSR and the notion of corporate social performance (CSP) emerged as an important concept.[23] Also during this time period, there was a move towards the alignment of CSR with corporate strategy and the emergence of the triple bottom line as an important tool for implementations and measurement of the CSR.

Developed by John Elkington in the mid-1990s as a way to measure sustainability in corporate for performance, the triple bottom line is an accounting framework that allows for the measurement and reporting to go beyond traditional financial metrics to include environmental and social dimensions.[24] The concept of the triple bottom line attempts to quantify the standard financial performance measures, along with their social and environmental impacts. The triple bottom line is often referred to as the 3Ps, for People, Planet and Profit.

As this paper continues to discuss CSR and it relationship to CUs, it will base its analysis on one definition of CSR. Taking into account the evolution of thinking and shifts in the then-current definitions of CSR, it is important that this paper measures against a consistent and current definition of CSR. Accordingly, the following definition of CSR has been adopted for measurement in this paper:

> The alignment of broad social, regulatory, and economic considerations throughout business decision making processes, including the development of governance principles, business strategy, and stakeholder engagement.

4. CORPORATE SOCIAL RESPONSIBILITY IN FINANCIAL SERVICES — THE CREDIT UNION APPROACH

CUs grew out of demand for financial services that were not available to typical consumers. Loans were not available from traditional money lenders, so

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22 Carroll, *supra* note 12.

23 *Ibid.*

24 John Elkington, "Towards the Sustainable Corporation: Win-Win-Win Business Strategies for Sustainable Development" (1994) 36:2 California Management Review 90.

middle class and poorer citizens were forced to find alternative lending and saving solutions. Often these people would rely on loan sharks and other money lending offering usurious rates on small loans and making it virtually impossible for working people to acquire property or to advance their lives through education or through the acquisition of tools to advance their jobs and work.

The founders of the Canadian CU movement were shocked by what they saw as social injustices and they took steps to build an alternative financial services solution based on the European CU alternatives that had developed and grown to alleviate similar social problems years earlier. Since their inception in Canada, CUs have been attracting members and growing their business by focusing on the, ''credit union difference" which has become loosely defined as democratically-controlled, community-focused financial cooperatives aimed at ensuring service for the underserved.[25] This member-focused, social orientation has helped to guide CU strategy and their national brand and has allowed for competitive positioning that has served the system well to date. That said, business across all sectors are shifting their strategic focus in the face of changing demographics, consumer and investor expectations and a markedly different and much more demanding regulatory environment. Virtually every business seems to manage their social responsibly along with their financial and economic performance.

As noted earlier in this paper, CUs are guided by the seven cooperative principles of:

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training, and information
6. Co-operation among co-operatives
7. Concern for community

These principles are the guidelines by which CUs put their values into practice. They have been updated by the International Co-operative Alliance periodically over the years in order to remain relevant and the current version is the result of the most recent revision that was adopted in 1995.[26] This most recent revision added the seventh principle, concern for community, which states that "Co-operatives work for the sustainable development of their communities through policies approved by their members." This formal commitment to communities provides the linkage from CU CSR strategies to the cooperative sector's defining principles, and is fundamental to the differentiation between CUs and their traditional banking competitors.

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[25] Coro Strandberg, ''Credit Union Social Responsibility: A Roadmap for the Development of a Sustainability Strategy" (2011) Filene Research Institute and Credit Union Central of Canada [Strandberg].

[26] Co-operative Alliance, *supra* note 6.

Further, in Canada, in the autumn of 2010, Credit Union Central of Canada (CUCC), the national trade services association tasked with advancing the national reach of the CU system, adopted a position statement on social responsibility in which they committed to "tak[ing] a leadership role in facilitating the exchange of ideas, plans and best practices to help CUs set, meet and improve their co-operative social responsibility goals"[27]. The CUCC further stipulated that the initiatives will be guided by the following four principles:

- Demonstrating co-operative and sustainable governance
- Promoting social inclusion and diversity
- Fostering economic development
- Encouraging environmental sustainability

This formal commitment, adopted by the membership of CUCC (either directly or indirectly all CUs in Canada outside of Quebec), demonstrates the CU sector's commitment to CSR and provides a strong foundation for Canadian CU leadership on CSR as a key critical differentiator in a crowded marketplace.

(a) Corporate Social Responsibility in Financial Services — The Big Banks

In order to further this analysis, the concept of CSR needs to be viewed through the lens of the financial services sector. There are unique risks, opportunities and threats that impact this sector in comparison to many other industries and it is important that we take these into consideration as we view the uniqueness that the CUs have in regards to their non-cooperative peers and competitors both within and outside of the traditional financial service landscape. As financial institutions concerned with deposit-taking, lending, insurance and wealth management services, CUs have particular roles to play when it comes to regulatory, economic and social considerations.[28]

In fact, we see that CSR has made its way into the business strategy of virtually every financial institution in Canada and beyond. A quick review of any of the big banks (RBC, TD Canada Trust, Scotiabank, BMO and CIBC) websites reveal that each has some level of CSR built into their strategy development and operational reporting process. For example, CIBC claims

> [f]or CIBC, corporate responsibility is integral to the way we think about and manage our business. Our 2014 Corporate Responsibility Report and Public Accountability Statement summarizes our commitment to our stakeholders and highlights the activities we are undertaking to enhance our economic, environmental, social and governance contributions.[29]

While the RBC states

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[27] *Ibid.*

[28] *Ibid.*

[29] CIBC, online: <https://www.cibc.com/ca/cibc-and-you/public-account.html>.

> [a]t RBC, we think of corporate responsibility, or citizenship, as an approach to business in which we work to make a positive impact on society, the environment and the economy. A good company is purpose driven, principles-led and performance focused. That's how we think a good company can help build a better world.[30]

Scotiabank, with its significant international reach and presence, outlines its commitment to CSR:

> [a]s Canada's international bank, Scotiabank has a unique opportunity to make a positive economic, social and environmental impact in the 55 countries in which it operates. The focus of our corporate social responsibility (CSR) strategy has evolved from donating to community causes to being a strategic imperative that helps drive value for the Bank, our shareholders and society at large. Scotiabank's CSR strategy includes five priority areas: Corporate Governance, Marketplace, Employees, Environment and Community Investment. The work that we do in each of these categories is based on the Bank's business strategy as well as the expectations from our key stakeholders.[31]

5. MISSION DRIVEN — PRINCIPLE FOCUSED AND GOVERNANCE LED

Clearly, Canada's big banks are, at least at some level, committed to CSR. So how then, are a CU's commitments to CSR different than those of banks or other financial institutions?

Again, the answer lies in their history, structure and adherence to the cooperative principles. CUs are able to claim ownership of the highest form of CSR leadership: mission-driven, in which the mission or purpose of the business is to improve conditions in society.[32] CUs were founded to fill credit gaps in the marketplace and as such they are fundamentally and philosophically mission-driven. CUs have the potential to lead mission-driven CSR in the banking sector in Canada and around the world. From a strategy perspective, CU can stake their claim to differentiation as an inherent and mission-driven value, arguably untouchable from a competitive perspective by any other financial institution. Care for the community is integrated into the business DNA and history of every CU in Canada and around the world. No other financial institution has that level of long-standing intimacy with CSR and it is a position that cannot be easily replicated by competitors, no matter how much they invest currently in CSR strategies and programs.

Further, at the governance level, CUs boards have become increasingly committed to, and immersed in, the development of the CSR strategy. This is likely the result of historic composition of CU boards in that they are typically

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30 RBC, online: <http://www.rbc.com/community-sustainability/our-approach.html>.

31 Scotiabank, online: <http://www.scotiabank.com/ca/en/0,,377,00.html>.

32 Strandberg, *supra* note 25.

composed of laypeople with stronger connections to the traditional employer groups and who are predisposed to volunteerism and community service. Historically, CU directors have not been highly compensated for their service. And while this trend is changing now due to much more demanding regulatory requirements surrounding director skills and competency, there is a strong legacy of service governance in the Canadian CU system. Accordingly, CU boards are more grassroots and hands on than many other financial institutions. Further, CU boards are elected directly by the membership on a one-member-one-vote basis. Every member of the CU has the same right to both run for a position on the board and to participate in the democratic election process. Regardless of size, professional background or designation, all members in good standing are eligible for a position on the board and to have a say in the governance of the organization.

As opposed to many other areas of modern CU governance, including risk oversight, audit and regulatory and legislative compliance, CSR is an area that can be learned and intuitively understood by lay directors. Laypeople understand the elements of CSR as outlined in the above definition and understand that the decisions that they make have an impact on the lives and livelihoods of communities in which they live and work. Directors see an important role for themselves in governing this aspect of the CU's performance. Some boards have adopted a CSR mandate because they believe it is part of setting the tone at the top and a starting point for fostering CSR values throughout the organization; others have brought it into the boardroom because they see it as part of their fiduciary responsibility, while others see it as an important aspect of business strategy. Regardless of whether the CSR strategy is business-led or values-led, more and more boards are formalizing their roles in this area.[33]

Accordingly, it can be said, that the governance structures of CUs can and do allow credit unions to position themselves differently in the market place as they are uniquely able and empower by their shareholders/customers to act in the best interest of the organization and simultaneously the broader society.

6. CONCLUSION

While every retail financial institution in Canada has made a formal commitment to some form of social responsibility and the big banks make massive contributions of financial resources to the Canadian society, it is only CUs who can make the case that they are truly mission-driven in their commitment to CSR. As a result of their shared history of mutual self-help, their adherence to the cooperative principles (and in particular the principle 7, of concern for community) as well as their governance and regulatory differences, CUs are able to stake a true strategic claim and point of differentiation.

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[33] *Ibid.*