

CHAPTER 17

SOCIAL AUDITING AND ITS APPLICABILITY TO MALTESE CO-OPERATIVES*

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ABSTRACT

The main objective of this chapter is to evaluate whether social auditing is applicable to Maltese co-operatives and, if so, to lay out the possible characteristics of such an exercise. The chapter adopts a mixed research methodology with semi-structured interviews being conducted with 14 local experts, and a questionnaire being addressed to 11 Maltese co-operative managers. The findings indicate that the Maltese co-operative identity is as yet emergent and that, consequently, if a social audit is introduced now, controversies would easily arise on the audit's frequency, publication, scope and composition of the audit team. Nonetheless, a social audit may ultimately be modelled on the Beechwood process and on the reporting indicators of the Euro Co-op Social Reporting Working Party. It would involve the examination of both the qualitative and quantitative aspects of a co-operative, concluding with recommendations for improvement. Furthermore, the exercise would need to be monitored by the Maltese regulator, the Co-operatives Board, and best be conducted regularly, say, every 3 years, by an inter-disciplinary audit team. Therefore, the chapter concludes that the introduction of such a regulatory exercise as part of the Maltese co-operative framework would ultimately be beneficial, ameliorating the co-operative movement. Yet, it is strongly recommended that,

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prior to its introduction, Maltese co-operatives work further on developing their fundamentals.

Keywords: Co-operatives; co-operative identity; social audit; auditing; Malta; Economic Aspects

INTRODUCTION

A market economy is efficacious when it is made up of varied organisational structures (Dogarawa, 2005). The prevailing type of organisational structure in the marketplace is investor-owned, aiming at profit maximisation or return on investment to shareholders. However, other structures exist, including co-operatives (Novkovic, 2008).

Most scholars accredit the Rochdale pioneers of 1844, for being not the first, but the prototype of successful modern co-operatives. In the north of England, in a town called Rochdale, a group of 28 artisans who worked in the cotton mills, amalgamated their deficient resources to combat their miserable wage and poor working conditions. The artisans managed to access basic household goods and nourishment they otherwise could not afford, at a lower price (International Co-operative Alliance, n.d.).

During the appalling consequences of the Second World War (1939–1945), Malta was in a critical state where people suffered from hunger. The British government was responsible for rationing the local produce fairly. However, Malta found a lot of support from Gozitan farmers who came together for mutual support. Farmers realised that together, they can reach higher goals which cannot be achieved alone. This was the beginning for co-operatives in Malta (Galea, 2012).

Malta now enjoys a broad spectrum of co-operatives from various sectors apart from farming and fisheries. Co-operatives have emerged in transport, maritime, tourism and other sectors (Malta Co-operative Federation, n.d.).

Malta has a specific regulation for co-operatives, as opposed to many other European countries. After various amendments along the years, the law governing Maltese co-operatives is presently the [Co-operative Societies Act of 2001](#) (CSA) (Koperattivi Malta, 2010). The co-operative societies are protected even in the [Constitution of Malta of 1964](#), Chapter II, (Art. 20), whereby it is explicitly stated that,

The State recognises the social function of co-operatives and shall encourage their development.

Moreover, the institutional framework of Maltese co-operatives is made up of four institutions with their own varying roles, these being: the Co-operatives Board; (CB); the Central Co-operative Fund (CCF); Malta Co-operative Federation and Koperattivi Malta (Baldacchino, Falzon, & Grima, 2017). The hierarchical structure of Maltese co-operatives is made up of a Supervisory Board, a Committee of Management (CoM), professional management, members and employees (Baldacchino & Bugeja, 2012).

DEFINING CO-OPERATIVES

The International Co-operative Alliance (ICA) (n.d., p. 1) defines co-operatives as:

[...] 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.

The various co-operative owners, not only support the enterprise's operations but also control such enterprise according to their interests as patrons. The owners finance the enterprise, buy, sell and work within the co-operative. Patrons lead the business and receive any surplus. Questions arise on how the numerous and heterogeneous co-operative members work together. That is where values and principles come in place (Nilsson, 1996).

Values are the expected morals of a group of persons to express what is good or bad (Nilsson, 1996). Principles are the distinctive features of co-operatives, serving as guidelines for how values are to be practised (Hoyt, 1996).

Co-operative members consider, 'honesty, openness, social responsibility and caring for others' as basic values, with 'self-help, self-responsibility, democracy, equality, equity and solidarity' serving as ethical values (Malta Co-operative Federation, n.d., p. 1). Maltese co-operatives should operate in accordance to seven internationally accepted principles as per the updated guidance notes of the ICA (2017). Reproduced from the Co-operative Societies Act, Part III, Article 21 (2), the principles are:

- (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 amongst Co-operatives.
- (7) Concern for Community.

As stated earlier, in order to promote the application of principles, ICA issued '*Guidance Notes on the Co-operative Principles*' (International Co-operative Alliance, 2017, p. 1).

Furthermore, co-operatives, characterised by a large member base and a social character, are able to meet the goals of responsible enterprises (Brown & Novkovic, 2015). Having shared values at heart assists co-operatives in having a genuine long-term commitment towards social responsibility (Mariño, 2015). However, there is a deficiency because there is the general perception that their social duty is optional (Baldacchino, Gatt, & Grima, 2018).

DEFINING SOCIAL AUDIT

Corporate Social Responsibility (CSR) represents the duty of corporations towards society (Karthikeyan, 2015). CSR refers to an enterprises' capability, to listen, aid, comprehend and meet stakeholders' expectations.

The distinctive features of co-operatives' operations from other organisations is poorly understood and not fully reflected in their reporting (Brown & Novkovic, 2015). CSR is the core of co-operatives which should be measured and assessed through Social Audit (SA) (Mariño, 2015).

A SA is defined by Alcalá (n.d., p. 1) as, '...the process whereby a cooperative can account for its social performance, report on and improve that performance.' SA enforces the idea that co-operatives should balance between the operations and measurement of their commercial and non-commercial activities. Furthermore, it demonstrates consistency between what co-operatives propose to do and what ensues (Spreckley, 2008).

Unlike Financial Audit (FA), which focuses on the narrow aspect of profit and loss, SA provides a broader set of areas to examine, including social, environmental, economic, cultural and human aspects (Spreckley, 2008).

Through evaluating co-operatives' social performance and responsibility in relation to their principles and values, SA will divulge the co-operative's identity (Brown & Novkovic, 2015).

THE NEED FOR THE STUDY AND ITS OBJECTIVE

Remarkably, co-operatives are more prominent in developed countries when compared to less advanced markets. The United States is the perfect example of a capitalist economy, yet it is dominated by co-operatives in important industries (Hansmann, 1999).

Co-operatives also have high potential in Malta. According to the Malta Co-operative Federation (n.d., p. 1);

There are currently over seventy co-operatives in Malta with around 5,200 members. These cooperatives have an average annual turnover of €76 million.

Co-operatives are the bulwark of local and global economic and social advancements (Dogarawa, 2005), thus, research on the area of co-operatives is worthwhile.

Most of the research conducted on Maltese co-operatives focused on their economic or internal aspects. Whilst economic aspects represent one side, social aspects embody the other. A dissertation on the applicability of social auditing in cooperatives was conducted years ago by Cortis (2002). Since then, much has changed in Malta's economy and so, it is worth analysing whether SA is currently applicable. Furthermore, both Koperattivi Malta (2010) and the Malta Co-operative Federation (2014) have in the past proposed the introduction of SA.

The main objective of this chapter is therefore to evaluate whether social auditing is applicable to Maltese co-operatives and, if so, to lay out the possible characteristics of such an exercise.

METHODOLOGY

The Research Tool

The research tools considered most suitable for this study were semi-structured interviews with co-operative experts, followed by questionnaires addressed to co-operative managers. Since experts are possibly more knowledgeable about the subject matter, the interviews preceded questionnaires in order to gain as much insight as possible. Questionnaires followed, so as to attain the managers' perspective.

This study used two different tools since it was reasoned that managers would probably be more willing to fill in a questionnaire, rather than to hold a meeting for an interview since the former will require less time.

Moreover, the interview schedule and questionnaire comprised of open and closed-ended questions. The closed-ended questions included yes or no questions, multiple choice and statements. Statements were to be rated by the interviewee in the form of five-point Likert scale, ranging from 0 to 4. In addition to the open-ended questions, the qualitative semi-structured aspect emerged also from encouraging participants to elaborate their statements and probing further questions in line with their comments (see Appendix).

The Sample Population

For the collection of primary data, 14 semi-structured interviews with experts were conducted and questionnaires disseminated to co-operative managers. The purposive sampling technique was considered appropriate for this study. It enables the use of one's own judgement to deliberately choose participants depending on their knowledge, experience and readiness to participate in the study. The purposive sampling technique emphasises on saturation meaning that the researcher should continue to conduct interviews until s/he reaches a point where no novel information is acquired (Etikan, Musa, & Alkassim, 2016).

Consequently, this study sought the view of experts having varied expertise and involvements in the Maltese co-operative movement. The researcher contacted 17 experts, of which 14 replied. [Table 1](#) describes the associations of the interviewees within the co-operative movement.

Table 1. Associations within the Co-operative Movement.

Associations within the Co-operative Movement	Number of Participants
Academic	1
Auditors of Co-operatives	4
Central Co-operative Fund members	2
Co-operative Board members	1
Koperattivi Malta members	1
Lawyers	3
Sociologists	2

As at November 2018, there were 72 registered co-operatives in Malta. All 72 co-operatives were contacted, asking the co-operatives' managers to participate in the questionnaire. 11 responses were received. [Table 2](#) below describes the characteristics of the co-operatives which participated in the study.

Table 2. Type of Co-operatives.

	Type of Co-operative	Number of Members
Co-operative 1	Producer	51–250
Co-operative 2	Service	51–250
Co-operative 3	Producer	51–250
Co-operative 4	Service	0–10
Co-operative 5	Worker	26–50
Co-operative 6	Worker	0–10
Co-operative 7	Service	0–10
Co-operative 8	Worker	11–25
Co-operative 9	Worker	0–10
Co-operative 10	Service	11–25
Co-operative 11	Producer	51–250

The Analysis

For comparison purposes and facilitation of the data analysis process, the semi-structured interviews and questionnaires comprised of identical questions ([Appendix](#)).

The qualitative data encompassed open-ended questions and explanations of ratings on Likert scale questions. The researcher evaluated the qualitative responses by summarising and grouping similar responses whilst comparing the views of managers and experts.

This study made use of IBM SPSS Statistics to analyse the closed-ended questions which generated quantitative data. The Friedman, Mann-Whitney U and Chi-Squared Tests were carried out.

The Friedman Test compared mean rating scores of related items. The Mann-Whitney U Test compared mean rating scores to statements between two independent groups (experts and managers). Moreover, the Chi-Squared Test assessed the correlation between two categorical variables.

Limitations

For the comfort of participants, many of the interviews were conducted in Maltese, despite the questions being presented in English. This could have resulted in slight variations during the transcriptions. However, recordings were listened to, carefully and repetitively.

Since this study did not obtain a response from all co-operatives, it is not an exhaustive analysis of the situation of all Maltese co-operatives. However, it was supported by a representative sample of experts in the field of co-operatives, who freely expressed their opinions on the general situation of Maltese co-operatives given their hands on experience with such enterprises.

The researcher attempted in various ways to obtain more questionnaire responses from co-operative managers. Personal e-mails of managers were hard to obtain; therefore, e-mails were sent on the general e-mail address of co-operatives, asking co-operative managers to kindly fill it in. A gentle reminder was sent if responses were not received in a week, followed by a phone call as a last resort.

Despite having a satisfactory response rate, findings should not be generalised since respondents' views might not be fully in line with the views of other co-operative experts and managers who did not participate in this study. The findings obtained and conclusions reached are based on the responses received.

DISCUSSION AND FINDINGS

Establishing the Pre-requisites: The Implementation of the Co-operative Identity

The Importance of Basic and Ethical Values

The foundations of co-operatives lie in their basic and ethical values. The findings indicate that such values are in general being given sufficient importance by Maltese co-operatives and also that such values differentiate them from other corporate structures.

Yet, the findings also point out that experts are more sceptical about the extent of such implementation particularly with respect to the values of honesty, openness, caring for others and self-responsibility. It seems that managers are much more embedded within the Maltese individualistic culture than they think they are and that this works against the success of their co-operatives.

The Implementation of the Co-operative Principles

With respect to the implementation of co-operative principles, the findings indicate that most (4/7) of them are not as yet being given adequate importance despite being considered a major differentiating factor for co-operatives with respect to other corporate structures. Such principles include inter-co-operative co-operation, training and education, community concern and member participation.

Interestingly, even here, managers think themselves to be more highly concerned for the community than experts perceive them to be. Such findings mostly confirm those of Mizzi (2015) and cast a somewhat more adverse light on the principle of member participation than that of the previous study. The indications are therefore that, rather than balancing the democratic, financial, social and cultural aspects, co-operatives are allotting less importance to their social aspects.

The Economic Versus Social Aspects

The lack of focus on the social aspects seems to be even more at the level of management rather than at the directional level of the CoM. Could this be because despite all their good intentions co-operatives do not engage professional managers who are sufficiently aware about the need to balance the social with the

economic ones? A strong possibility arising from the findings is that this lack of focus on the social aspects may be because some co-operatives are weak and economically struggling.

Enforceability Versus Adherence of Principles

The findings also indicate that the inclusion of principles in the law is far from enough in ensuring their adherence. Given that the CSA also states that principles are not enforceable by the courts, much more needs to be done than simply stipulating adherence.

The need emerges for a specific exercise on the part of the CB with the help of the co-operative associations in order to inculcate the need for implementing the principles. However, such an exercise must first expose very clearly the extent to which each principle is or is not being implemented. Could it be that, in practice, principles need to be prioritized in line with the circumstances of each co-operative? Whilst not necessarily legally enforceable, the CB could adopt a name and shame policy on those co-operatives which continue to refrain from adopting all the principles despite the advice that might result from such an exercise.

Cultural Influences

The findings indicate that within the Maltese corporate culture, Maltese co-operatives are perceived to be inferior to limited liability companies. This confirms the findings of Camilleri (2012).

Co-operatives involve collective activities and yet Maltese entrepreneurs prefer to conduct their business alone rather than in conjunction with others despite that the latter course would probably offer better prospects for fruition. In fact, one respondent quoted a Maltese saying which translates *as* 'better in a cave on my own, than in a palace with others'.

Whilst one might refer to the collective egoism of co-operative members, the fact remains that co-operatives are intended to go beyond this and protect the society they form part of. Clearly, such co-operative ideology has not, as yet, been ingrained in the Maltese culture despite its benefits.

Preserving the Co-operative Identity

If not cautious enough, co-operative management may risk their entity's degeneration. This occurs when co-operatives lose their unique identity and become identical to a capitalist business.

The findings indicate that such risks in Maltese co-operatives remain high as there is evidence of a lack of preference towards fulfilling those social expectations expected of a good co-operative. For example, how could one justify a worker co-operative having most of its workers, non-members?

One may also point out that at present, there seems to be no monitoring regarding such possible degeneration. As stated by Jossa (2015), this will ultimately render co-operatives inefficient and merely profit-seeking enterprises.

THE APPROPRIATENESS OF THE STRUCTURE: THE APPLICABILITY OF THE SOCIAL AUDIT AND ITS CHARACTERISTICS

Are the Current Statutory Audits Enough?

The findings indicate that some measures need to be taken for co-operatives to report on the level of adherence to all the seven principles.

One expert added that whilst the Co-operatives Societies Act, Part IV, Article 49, 4(d), already requires the auditor to give his opinion on whether, 'the society has functioned in accordance with its statute and the provisions of this Act', this may not be enough as such a requirement is interpreted as being only relevant with respect to financial statements. Probably, a specific declaration on adherence on the part of management as well as confirmation or otherwise on part of auditor, 'could go a long way' to 'encourage conformance' to the principles.

Furthermore, prior to the introduction of a SA, co-operatives may need to be permitted a limited number of years, in which to balance their various aspects, be it, democratic, economic, social and cultural ones. The first SA exercise, could then concentrate on any remaining significant accountability gaps.

Yet, in the crucial initial years of a co-operative, one may not introduce any additional audit requirement beyond the current statutory audit so as to give such a co-operative a fairer chance to register the needed economic progress whilst at the same time introducing awareness of the need of another type of audit.

However, one may counter argue that the initial audit emphasis on the economic aspects may result in a deficient culture devoid of its democratic, social and cultural elements on this basis. An argument may be made that the SA should start from the very first year of incorporation of a co-operative. However, such a course of action would probably be too burdensome on new fledgling co-operatives and may rather act as a barrier to new start-ups.

Is the Exercise of Social Auditing Beneficial?

Findings indicate that the exercise of SAing would yield various benefits. Foremost, amongst these is the alignment of social performance with co-operative goals – a benefit unsurprisingly brought out significantly more clearly by the expert respondents.

A further benefit implied by the findings is that co-operatives would be led to allot more importance to relationships with other co-operatives and with the community in general, thus going beyond their limited relationships with members and employee. Such wider attentions would thus result in an improved public image for co-operatives.

Can Co-operatives Overcome the Barriers to Social Auditing?

There are a number of barriers to SA. Findings indicate that a major one is that there appears to be no general agreement in place as to what such a model should consist of. This is in line with the Social Audit Network (2003).

Another barrier is the issue of the lack of SA experience in Malta to date. One possible way to overcome this barrier may be for potential social auditors to seek to form an inter-disciplinary audit team involving financial auditors, sociologists and related lawyers (such professionals being available and collectively having the required expertise).

Another barrier commonly referred to is the questionable support of the CoM (such support being a pre-requisite for the success of SA). Yet, this barrier could also be minimized, if not eliminated by co-operatives permitting a minority of specialized non-members to form part (say 30% of members) of the CoM. This would be in line with proposals made by Baldacchino et al. (2017). Alternatively, this barrier may be tackled by having the CoM placing reliance more than present on outside consultations.

Moreover, findings convey another barrier, that of financing the SA. In line with Baldacchino et al. (2017), so as not to perceive the SA as a financial burden, many co-operatives tend to prefer complete CCF financing. However, such an exclusive type of financing would probably only make sense in the first few years of launching the SA exercise and this to facilitate its advancement. However, if one were to go beyond the initial years, co-operatives would probably not value the SA exercise enough. One may therefore argue for a mixed form of financing beyond, say the first 5 years of launching the exercise. This may not necessarily be a one-size-fits-all type of financing as the part-financing percentage made internally by the co-operative itself, may be permitted to vary with the financial strength of each particular co-operative or even possibly its type, say whether a worker, producer, consumer, service or social type of co-operative.

Are Social Audits Applicable to Maltese Co-operatives?

Findings also indicate that SA is indeed applicable to Maltese co-operatives.

Despite such perceived applicability, the question arises as to whether SA may be introduced with immediate effect. Are co-operatives sufficiently prepared for this? Certain pre-requisites need to be satisfied prior to SA introduction. These include the settings of aims and objectives of a SA and the setting of guidelines by the CB. The SA could be launched only after such an introductory phase. This will need to be followed by an adequate monitoring mechanism on part of the CB.

What Model May Be Developed for Social Auditing in Maltese Co-operatives?

One possible SA model is known as the Beechwood Model, composed of a process of four components. Respondents were asked to rate their level of agreement to each of the four statements laying out the Beechwood process of SA. Overall, respondents agreed to the four components.

Experts strongly agreed whilst managers agreed that it is essential to identify areas requiring improvement in the rules and practices of the CoM, an analysis of the relationship amongst members and management and the CoM would be a useful add-on to the first component. Additionally, experts strongly agreed and managers agreed also to the third component, that of assessing the relationship of the enterprise with the major external stakeholders and that the SA report should go into the results relating to each of the above components.

The researcher also inquired about the relevance of the co-operative principles to the SA report. Most respondents (14/25E+M) emphasized that all principles need to be reported on, possibly with qualitative (e.g. affordability of membership fee) and quantitative criteria (e.g. 1 to 10 rating as to social responsibility) being assigned to each principle. A further alternative as suggested by an expert could be that of issuing an overall percentage score made up of different sub-scores. The major pros and cons leading to the opinion may also be included in the report. These comments are in line with Cortis (2002).

As such, a possible approach to be used for the implementation of SA in Malta, may be derived from an amalgamation of the Beechwood process as discussed by Spreckley (2008) with the SA indicators (Cortis, 2002) and an analysis of the guidance notes as issued by the ICA (2017).

This is because the findings indicate that both the process and the indicators are acceptable to Maltese co-operatives in building up an appropriate approach. A proposed model is found in Fig. 1 below.

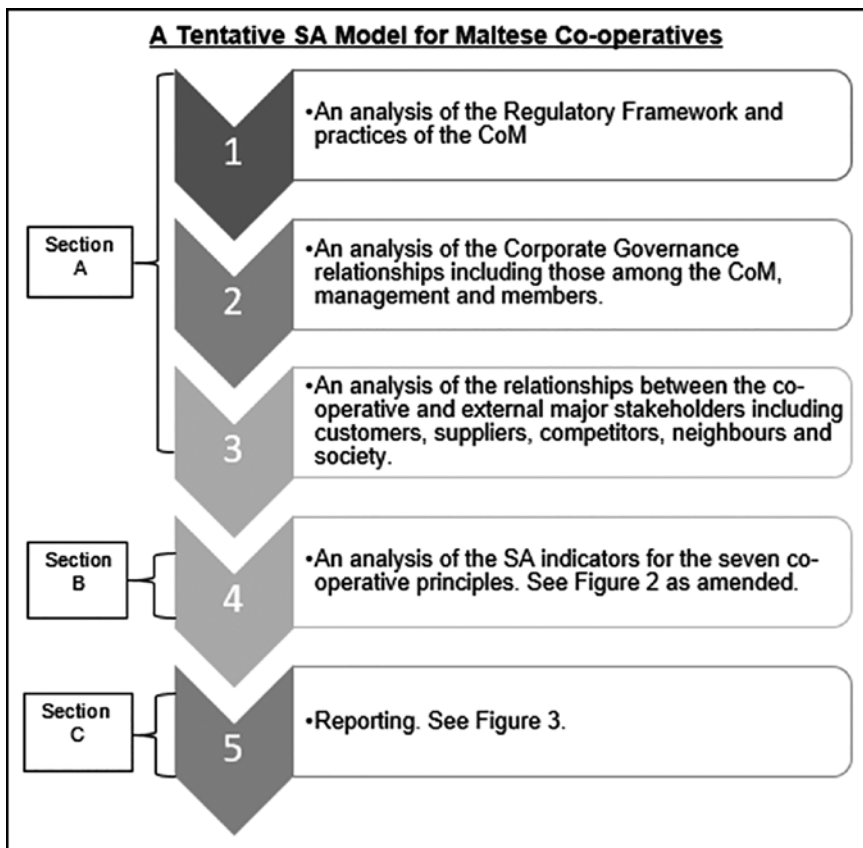


Fig. 1. A Tentative SA Model. Source: Adapted from Spreckley (2008, p. 8), Cortis (2002, p. A3.4) and ICA (2017).

The first section, Section A, may consist of three steps. The social auditor would first make analysis of the regulatory framework and practices of the CoM and identify areas requiring improvement. From then, s/he will proceed to analysing the major corporate governance relationships including those amongst the CoM, management and its members. This will be followed by an analysis of the additional relationship of major stakeholders. These three stages would result in the collection of qualitative data as a basis for carrying out the second and quantitative part of the SA.

Section B may consist of a further two steps. In the first step, a mostly quantitative analysis will be carried out on the detailed indicators relating to each of the seven co-operative principles. The indicators to be included are amended from those by Euro Co-op Social Reporting Working Party as shown in the dissertation by Cortis (2002) and with reference to ‘*Guidance Notes on the Co-operative Principles*’ as issued by the ICA (2017). These are shown in Fig. 2. Data will be collected in order to enable an overall percentage grading for compliance with the seven co-operative principles. The information collected will enable further breakdowns into further grading for each principle and even for each indicator. The grading provided to each indicator depends on such indicator’s importance. This section of the process will not limit itself to grades but will also collect qualitative data as necessary to be included in the final report.

Section C is the reporting stage. This is shown in Fig. 3. As may be seen, the report will be divided into three parts; part A being qualitative, part B being the quantitative grading on SA indicators for each principle and part C involving recommendations for improvement.

The overall SA grading for each co-operative may follow a grading scheme such as that proposed in Fig. 4.

A Tentative SA Model for Maltese co-operatives

Section B: The SA Indicators on co-operative principles

	Maximum Mark	Given Mark
Principle 1: Voluntary and open membership	14	
Was the membership share capital which was required to join, affordable by everyone?	3	
Was the co-operative open to all who could use the services of the co-operative?	3	
Were there increases in the number of members?	2	
Were members free to withdraw capital at any time they wished?	3	
Was there an increase in share capital by existing members?	3	
Principle 2: Democratic member control	14	
Did the co-operative adopt the principle of one member-one vote?	2	
Did the co-operative members hold meetings for discussions, prior to voting on decisions?	2	

Fig. 2. The SA Indicators on Co-operative Principles. Source: Adapted from Cortis (2002, p. A3.4) and ICA (2017).

	Maximum Mark	Given Mark
To what extent were members elected to the CoM reflective of the diversity of members? (e.g. sex, age, race, religion)	2	
To what extent were members able to hold the CoM accountable for key commercial decisions taken?	2	
Did the CoM take account and report to members on the CoMs' work (1) at AGMs and (2) other meetings?	2	
Was the Code of Conduct on the responsibility of CoM members, management and employees, made available to the stakeholders including the public?	2	
How far did members attend the AGM?	2	
Principle 3: Member economic participation	14	
Was the amount of dividends paid to members fair?	4	
Was the interest paid on capital adequate?	5	
Was the amount of surplus placed to reserves adequate?	5	
Principle 4: Autonomy and independence	14	
To what extent were members of the CoM, autonomous and independent from governments and other institutions?	4	
Was there a balance between the different sources of finance? (e.g. ploughed back surplus, member contributions, debt)	4	
Did the co-operative manage an appropriate balance between support and autonomy from the government?	4	
To what extent was the co-operative independent of its customers and suppliers?	2	
Principle 5: Education, training and information	14	
Was there an adequate surplus dedicated for education, training and information?	4	
Were members provided with education on their enterprise itself, its good governance and on the co-operative identity in general?	4	
Was there education, training and information provided to CoM members, managers and employees to raise awareness on the co-operative identity?	4	
Did the co-operative provide education, training and information to the public to raising awareness on co-operative issues?	2	
Principle 6: Co-operation amongst co-operatives	15	
Is this co-operative a member of an association?	3	
To what extent has this co-operative provided financial or managerial support to start-up co-operatives?	3	
Has this co-operative collaborated with other co-operatives in the same sector? (e.g. working to increase the market share)	3	
Has this co-operative collaborated with other co-operatives in different sectors? (e.g. purchasing products/services from other co-operatives)	3	
Has this co-operative provided development support or collaborated with co-operatives overseas?	3	
Principle 7: Concern for community	15	
Was there appropriate environmental concern?	4	
Were employees satisfied with co-operative practices?	4	
Did the co-operative give donations/sponsorships to voluntary organisations?	2	
How far were consumers taken into consideration in changing price levels?	3	
How far were future generations taken into account in major decisions? (e.g. Energy, waste disposal, packaging)	2	
	100	

Fig. 2. (Continued)

A Tentative SA Model for Maltese Co-operatives
Section C: Reporting

Part A:

- General Comments:

- CoM, Regulatory Framework and Practices:

- Corporate Governance regulations:

- External stakeholder relationships:

Part B:

- Comments on the SA indicators:

Part C:

- Recommendations for Improvement:

Fig. 3. Reporting.

Marks	Grade awarded	Results
0–44	F	Failure to adhere to a minimum of the principles.
45–50	E	Poor implementation of principles.
50–59	D	Poor implementation of principles.
60–69	C	Implementation of only some principles.
70–79	B	Implementation of the majority of principles.
80–100	A	Full/close to full implementation of principles.

Fig. 4. Overall Marking Scheme.

To Regulate or Not to Regulate?

Findings indicate that SA regulation would be acceptable by co-operatives. As discussed by Rahim and Vicario (2015), regulation would ensure effectiveness and uniformity in implementation. The question arises, what form should such a regulation take?

It is probable that, in the initial few years, a CB guideline on the basis of comply -or-explain principle would suffice. However, such a guideline might be rendered more enforceable in later years by being transformed into a definite standard and made compulsory to all co-operatives except start-ups, as referred to earlier. This is in line with Baldacchino (2017).

One source for deriving such a standard could be the current AA1000 Accountability standards, issued to regulate the SAs of corporations in general. The CB may adapt such standard to Maltese co-operatives taking into account the higher weighting of co-operatives with respect to social aspects.

To Publish or Not to Publish?

The question – whether the SA report is to be published or not in its early years of adoption – remains controversial. Publication in the early years may have the disadvantage of not giving some co-operatives enough time to attain accreditation of a good level of compliance. On the other hand, non-publication may result in some co-operatives not taking the matter seriously enough.

Yet, in the interest of transparency, the SA report need in any case to be published after the first few years and thus disseminated to both internal and external stakeholders. On the one hand, internal dissemination could include circulation to co-operative members in their Annual General Meeting. Thus, the SA report would be a basis for discussion on the social strengths, weakness, opportunities and threats of the co-operative and therefore a basis for future strategic planning. On the other hand, external dissemination could be such that it accompanies – say, every 3 years – the external dissemination of the audited financial statements, possibly as part of the annual report in that particular year.

Is the Social Audit Report to be Introduced in Stages?

Another argument that may arise is whether the scope of the SA report is best limited in the initial years and widened over time. Whilst this way of introducing SA seems to be acceptable to Maltese co-operatives, such a staged widening of scope could distort inter-co-operative and intra-co-operative comparisons. Probably, it is more important to emphasize such comparability than that of flexibility of reporting.

The Financial and Social Audits: How Far Are They to be Separate?

There are also mixed views as to how far the FAs and SAs are to be different and independent of each other. What seems important is that SAing has its own

particular set of generally accepted auditing principles, as is the case with financial auditing. Ultimately, the question of separation may revolve on the competences of the auditor/s or audit firm/s. Although both types of audits have different objectives, this does not necessarily mean that an auditor/s or audit firm/s with the appropriate inter-disciplinary skills may not be in a position to carry out both aspects.

However, at the same time, it may make little difference if the two audit exercises are carried out separately and even independently. What may be significant is that the qualifications and experience required to do this type of audit are clearly specified and that the SA guidelines referred to earlier, are relevant enough to ensure professionalism.

CONCLUSION

This study concludes that despite their recognition that principles and values differentiate them from other corporate structures, Maltese co-operatives are not, as yet, sufficiently focused on the implementation of their unique identity. The prevailing individualistic Maltese culture tends to be unhelpful in this regard and little, if any importance is given by co-operatives to their social and cultural aspects. Such deficiencies are also partly attributable to a type of management not imbued enough with the co-operative ideals. Currently, a number of Maltese co-operatives are also weak economically and their fight for survival is preventing them from the higher and nobler aspects. This study also concludes that, having the principles stipulated in the law is far from sufficient towards ensuring their adherence. The little, if any adoption of the appropriate co-operative ideals by Maltese co-operatives may also in fact be leading to identity degeneration.

As such, an exercise on part of the CB and the co-operative associations would be beneficial in determining how each co-operative is living up its supposed standards. Therefore, a SA would be beneficial in this regard. It would allow an examination of the alignment of social performance with the co-operatives' goals, assess the co-operatives' relationships with its stakeholders and in turn improve their public image. Yet, one must not ignore the formidable barriers that currently exist for the success of such an exercise. Such barriers include the lack of awareness of available SA models, insufficient experience as to the combination of inter-disciplinary skill-sets in the democratic, economic, social and cultural fields and the probable resistance of most co-operative managers towards SA introduction, partly on the basis of its perceived costs.

Overall, the study therefore concludes that, in line with the findings by Cortis (2002), whilst SAing is applicable, it is best not introduced at this stage as it needs to be preceded by most co-operatives working more towards developing their fundamentals including their economic base. A way forward in this respect could be to delay the SA exercise even more in case of co-operative start-ups. As such, since the Cortis (2002) study, Maltese co-operatives have not as yet improved enough for such an exercise to be introduced.

This study concludes that when eventually, such an exercise is introduced it needs to embody certain characteristics. It has to be regulated and monitored by the CB and to include the collection of both qualitative and quantitative data and recommendations for further improvement on the basis of the tentative model, earlier laid out in Fig. 1.

The Regulatory Framework relating to the SA could also be initially introduced by recommended guidelines and later on by mandatory standards. Inter-co-operative and intra-co-operative comparability would also need to be ensured, this being priority over any flexibility of reporting. Finally, the SA should be conducted by an inter-disciplinary team and the report is not to be a yearly exercise but rather a regular exercise every say 3 years to be then filed with the annual report of that year.

For a lighthouse to be relevant, it must be built on the right foundations and location to transmit its signal to passing ships. In the same manner, the basic pre-requisites for SAing need to be there before such auditing to be implemented and for such an exercise to be in a position to signify change. As one respondent stated,

A lighthouse is of no use, if the passing ships are not equipped to receive its signals.

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APPENDIX

Interview and Questionnaire Questions with Raw Data

Thank you for accepting the invitation to participate in my research. Your response is indispensable for my study. This data will be used to analyse the present situation of local co-operatives whilst identifying ways for improvement.

Note 1: For some of the following statements, you have to choose from the below options to indicate your level of agreement.

Strongly agree	4
Agree	3
Neutral	2
Disagree	1
Strongly disagree	0

Note 2: For some of the following statements, you have to choose from the below options to indicate the importance of the statement.

Highly important	4
Important	3
Neutral	2
Unimportant	1
Not important at all	0

Note 3: For one of the statements, you have to choose from the below options.

Very highly	4
Highly	3
Neutral	2
A little	1
Not at all	0

Note that E = Experts; M = Managers

	Number of Respondents = 25									
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	E	M	E	M	E	M	E	M	E	M
iv. Maltese co-operatives are autonomous and independent of other co-operatives or government institutions.										
v. Co-operatives in Malta work in co-operation with other co-operatives.										
vi. An adequate amount of funds is dedicated to education, training and information by Maltese co-operatives.										
vii. Maltese co-operatives in their decision-making process, devote adequate attention to the repercussions such decision might have on the community.										
viii. Surplus is of high importance in Maltese co-operatives.										

4. In Maltese co-operatives, principles and values are generally applied in practice:
 (0 = strongly disagree; 4 = strongly agree)

	Number of Respondents = 25									
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	E	M	E	M	E	M	E	M	E	M
i. Through Management										
ii. By the Committee of Management in its decision-making										

5. Do Maltese co-operatives follow any official guidance on the application of co-operative principles and values?

	Number of Respondents = 25	
	E	M
i. Yes		
ii. No		

6. What is your personal belief on co-operative principles?

	Number of Respondents = 25	
	E	M
i. All principles are important		
ii. Some are more important than others		

If some are more important than others, please specify _____

7. In Malta, the adoption of the co-operative principles and values is made obligatory by Chapter 442, part 3, section 21 of Co-operatives Act. Do you agree that such principles are to form an integral part of the law? (0 = strongly disagree; 4 = strongly agree)

Number of Respondents = 25									
Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
E	M	E	M	E	M	E	M	E	M

8. In your view, how far are the current principles stated in law, relevant to Maltese co-operatives?

B. The Economic Versus Social Aspects of Co-operatives

1. Co-operatives have both economic and social aspects enshrined in their identity. Rate the following goals in order of importance given by Maltese co-operatives. (0 = not important at all; 4 = highly important)

	Number of Respondents = 25										
	Not important at all		Unimportant		Neutral		Important		Highly Important		
	E	M	E	M	E	M	E	M	E	M	
i. Diminishing inequalities											
ii. Ameliorating social surroundings											
iii. Achieving economies of scale											
iv. Obtaining bargaining power											
v. Obtaining discounted prices											
vi. Bringing gender equality											

2. In your view, do you believe that co-operatives devote enough attention to social aspects?

C. Principles and Values: To Adopt or not to Adopt?

1. In relation to the limited liability company structure, the structure of Maltese co-operatives is generally perceived as:

	Number of Respondents = 25	
	E	M
Superior		
Inferior		
On the same level		

3. State your level of agreement to the following statements. (0 = strongly disagree; 4 = strongly agree)

	Number of Respondents = 25										
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		
	E	M	E	M	E	M	E	M	E	M	
i. It would be beneficial if co-operatives analyse their social performance with respect to their goals.											
ii. By measuring social responsibility, co-operatives would build better relations with their stakeholders by engaging them in the process.											
iii. Conducting a Social Audit would improve the public image of Maltese co-operatives.											

4. In your view, how far do each of the below hold back co-operatives from conducting Social Audits? (0 = not at all; 4 = very highly)

	Number of Respondents = 25										
	Not at all		A little		Neutral		Highly		Very Highly		
	E	M	E	M	E	M	E	M	E	M	
i. A lack of financial support											
ii. A lack of time											
iii. A lack of managerial support											
iv. A lack of experience											
v. A lack of an appropriate model											
vi. The sheer size of the audit											

5. Please comment on your rating to statements 3 and 4.

6. If Maltese co-operatives were to conduct a Social Audit, how would it be financed?

	Number of Respondents = 25	
	E	M
Through internal financing from members		
Through external CCF financing		
Through mixed internal and external financing		

7. State your level of agreement to the following statements on the pre-requisites of Social Audit. (0 = strongly disagree; 4 = strongly agree)

	Number of Respondents = 25										
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		
	E	M	E	M	E	M	E	M	E	M	
i. There must be managerial support to conduct Social Audit (e.g. the integration of the SA within the Co-operative Strategy).											
ii. There needs to be an understanding of the concept and content of the social/economic balance.											
iii. Aims and objectives of the Social Audit need to be clearly set out.											
iv. There must be a perceived general need for Social Audits by co-operative insiders at the individual co-operative level (specifically, acceptance of the social responsibility as a basis of the co-operative identity).											
v. Standards are necessary if co-operatives are to conduct a Social Audit.											

8. In your view, do Maltese co-operatives utilise financial support to promote their social aspects?

9. How far do you agree with the statement that Social Audit is applicable to Maltese co-operatives? (0 = strongly disagree; 4 = strongly agree)

Number of Respondents = 25									
Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
E	M	E	M	E	M	E	M	E	M

10. Please comment on your rating to statement 9.

E. Social Audit Characteristics

1. Indicate your level of agreement to the following statements. (0 = strongly disagree; 4 = strongly agree)

The Social Audit needs to be composed of the following:	Number of Respondents = 25									
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	E	M	E	M	E	M	E	M	E	M
i. An identification of areas which require improvement in the rules and practices of the Committee of Management.										
ii. An assessment of the relationship of the enterprise with each of the major stakeholders.										
iii. An analysis of the relationships amongst members, management and the Committee of Management.										
iv. Specific reporting on each of the above three elements.										

2. Which of the following attributes are important in Social Audits? Rate in order of importance. (0 = not important at all, 4 = highly important)

	Number of Respondents = 25									
	Not Important at All		Unimportant		Neutral		Important		Highly Important	
	E	M	E	M	E	M	E	M	E	M
i. Amelioration of Social Performance										
ii. Multi-perspective adoption										
iii. Comparability										
iv. Comprehensiveness										
v. Regularity of occurrence										
vi. Verifiability										
vii. Transparency										

3. In your view, how relevant are the co-operative principles to be in the Social Audit report?

4. State your level of agreement to the following statements on how Social Audit should be introduced. (0 = *strongly disagree*; 4 = *strongly agree*)

	Number of Respondents = 25									
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	E	M	E	M	E	M	E	M	E	M
i. Just like Financial Audit, Social Audit needs to be regulated for consistency of application.										
ii. The Social Audit report needs not be published in its initial two years since adoption.										
iii. The social auditor in co-operatives needs to be different and independent of the financial auditor.										
iv. It would be optimal if the scope of the Social Audit widens over the years.										
v. The Social Audit report should be published with the same frequency as the Financial Audit report.										

F. Respondent Characteristics

For experts:

1. Please, indicate your profession in the field of co-operatives (*E.g. Auditor*).

If other, please specify _____

2. Please, add any additional remarks.

For managers:

1. Please, indicate the type of co-operative to which you are a member.

- Worker
- Producer
- Consumer
- Service
- Social

2. Indicate the type of industry of your co-operative _____
3. Tick the co-operative size
 - 0–10 members
 - 11–25 members
 - 26–50 members
 - 51–250 members
 - 251+ members
4. Please, add any additional remarks.

Thank you!