MEASURING MUTUALITY
INDICATORS FOR FINANCIAL MUTUALS

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The Oxford Centre for Mutual and Employee-owned Business
The Centre for Mutual and Employee-owned Business at the University of Oxford is Britain's leading academic research centre dedicated to the study of mutuality and alternative corporate forms. It is directed by Professor Jonathan Michie and supported by a number of distinguished associates, including Dr William Davies who co-authored this Report. The Centre runs residential training courses for leaders of mutual businesses, as well as bespoke workshops and other events for a range of clients.

The Centre provides research for the annual Mutuals Yearbook (which covers the entire mutuals sector). The Centre provided the research support for the Ownership Commission (2010-2012), which reported in 2012. The Centre's other clients include The Building Societies Association, The Wales Co-operative Centre, The Co-operative Group and The International Co-operative Alliance. The Centre has published a number of influential reports on ownership in the financial services sector, which received considerable political and media attention.
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INTRODUCTION

When the coalition government committed itself to “foster diversity and promote mutuals” it was accepted by the industry that this was not simply a one-way street- that mutuals would need to provide convincing arguments for active promotion.

Equally, in an increasingly competitive marketplace, individual mutual organisations have begun to challenge themselves about how well they are producing member value, as well as to how well they engage their members- as owners of the business- in key decision-making.

To help in the construction of a more elaborate evidence base for the attractiveness of the mutual business model, the Board of the Association of Financial Mutuals commissioned the Centre for Mutual and Employee-Owned Business to produce this report on “Measuring Mutuality”.

We are very grateful to the Centre for this well-crafted and compelling report, which the AFM Board will use as a basis for exploring better what key stakeholders to our businesses expect of us, as well as how better we can present evidence of the continuing relevance and legitimacy of the UK mutual sector. We encourage member companies of AFM to consider the findings and to work with AFM to develop their own toolkits for measuring the value of their business.

Martin Shaw
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EXECUTIVE SUMMARY

Why measure mutuality?
Performance evaluation and governance of financial services firms has become a critical issue, in the wake of the financial crisis and subsequent scandals, such as Libor-fixing and PPI-mis-selling. Treating return on equity as the over-arching performance indicator has led many firms towards excessive risk-taking and bad practice.

Financial mutuals have a model of corporate governance that is not only different from conventional PLCs, but by some measures superior. However, this difference needs to be made explicit and quantitative, for the benefit of managers, consumers, regulators and policy-makers.

The value of mutuality
Mutuals are different, in that they are run in the interests of their members, with a different risk appetite from profit-maximising firms. They not only pursue profit, but also a second ‘bottom line’ of non-financial long-term benefit, to members, society and the financial system at large. They pursue ‘stakeholder value’.

In addition to this second ‘bottom-line’, the value of mutuality also resides in the culture and behaviour of mutual organisations – the extent to which their mutuality is understood, recognised and valued by stakeholders.

Measuring mutuality therefore requires us to consider two questions side by side:
- How is ‘stakeholder value’ to be defined and measured?
- How is ‘mutual culture’ to be defined and measured?

Measuring stakeholder value
Before performance indicators can be constructed, it is crucial that the potential benefits and beneficiaries of an organisation are clearly identified. With respect to mutuals, we suggest the following:
1. Customer value: The extent to which mutuals deliver value for money and customer satisfaction.
2. Member trust: The extent to which mutuals act in the best long-term interest of their members.
3. Financial diversity: The extent to which mutuals offer an alternative, more inclusive approach to risk.
4. Social responsibility: The extent to which mutuals pursue social and environmental value. Indicators for each of these forms of value need developing.

Measuring mutual culture
Mutual culture consists in the attitudes, behaviours and norms of mutual stakeholders. It is a question of how much the alternative ownership and governance structure of an organisation translates into perceptions and practices, on the part of employees and customers. This can potentially be measured according to three indicators:
1. Member engagement: voting, AGM attendance, social media engagement.
2. Member attitudes: Understanding of mutuality, perspective on mutuality.
3. Employee attitudes: Commitment to mutuality, ability to explain it. Results of a survey of 1,000 employees of financial mutuals are briefly outlined.

The report concludes with identifying next steps in the project of measuring mutuality, and areas where new data will be required to deliver this.
1. WHY MEASURE MUTUALITY?

The governance and performance evaluation of financial institutions has become a critical issue, in the wake of the bank bail-outs of 2008-09. The banks and insurance companies which were at the centre of the crisis were PLCs, although many of them had converted from the status of mutuals or (in the case of a number of US investment banks) partnerships over the previous twenty years. Owned and governed as PLCs, banks had become subject to the ‘shareholder value’ theory of corporate performance, in which return on shareholder equity is treated as the primary and ultimate measure of managerial success. As the legal owners of a company, the shareholders’ financial interests are considered to trump all other interests and incentives for company managers and staff must be designed with this in mind.

There are reasons to be suspicious of ‘shareholder value’ rhetoric, given that PLC executive remuneration has increased far more rapidly than returns to shareholders over the past twenty years. In many respects, it has served management with a fig-leaf to promote their own financial interests. Executives only rarely have to interact with shareholders directly, and have far better knowledge of the company’s prospects than shareholders can have, who tend in practice to judge a firm on past profits rather than a prediction of future profitability.

Yet in the financial sector, it is clear that executives had nevertheless come to view 15% return on equity as a minimal requirement, regardless of what risks were necessary to pursue this. This privileging of shareholders (and managers) is an innately risky principle for the governance and evaluation of financial institutions. As the financial crisis has made plain, there is an unusually wide variety of stakeholders whose interests are impacted upon by the behaviour and performance of financial institutions. As Andy Haldane, Executive Director for Financial Stability at the Bank of England, has argued, it is perverse to place the interests of so few stakeholders – whose equity may be a small minority of the total balance sheet – at the heart of a system of governance. It is equally perverse to make return on that equity the single means of measuring corporate success.

Given that PLC shareholders (which includes managers being remunerated with equity) are protected by limited liability should the company fail, governance and performance evaluation are entirely dominated by potential ‘winners’ from risk-taking, without any voice for many of the potential ‘losers’ such as the public, employees, customers or local economies.

The mutual difference

Financial mutuals – providing insurance, pensions and banking to their members – are governed as associations of customers, who pool risk and reward for mutual benefit. They do not have equity shareholders and do not typically return a dividend, other than the benefit of better value for money and customer service. Their governance arrangements reflect the fact that they exist to serve customer interests, which includes the longer-term interest in the sustainability of the mutual itself.

This difference in ownership and governance does not in any way detract from the priority mutuals attach to rigorous, efficient management. But it does have a number of consequences for how and where value is created. In comparison to PLCs, mutuals have strong incentives to avoid very large losses, as much as to pursue gains. Where share prices tend to reflect only a limited amount of quite codified information, with a short-term view of the future, the performance of a mutual can be judged over a longer-term horizon, and on a range of measures rather than just a single metric.
of ‘shareholder value’. And where PLC shareholders may have very short-term and arms-length relationships with the company they have a stake in, members of mutuals can have direct and day-to-day interactions with their service provider, and tend to remain members over several years. With ‘short-termism’ of ownership a growing problem for PLC governance, this difference of engagement becomes increasingly significant.4

If PLCs are considered to pursue ‘shareholder value’, mutuals pursue ‘stakeholder value’, in the sense that they pursue the benefit of those most immediately affected by the organisation’s activities. As we explore in the next chapter, this includes a broader notion of the social or public good, in addition to the interests of customers themselves. Moreover, mutuals are known to exert a positive stabilising influence on the financial sector and the economy at large, and to improve levels of customer service and value for money across financial services, as a result of the upward competitive pressure they place on PLCs.

Mutuals are also referred to as ‘double bottom-line’ institutions, in contrast to ‘single bottom-line’ PLCs. Mutuals are driven by the pursuit of profit, in the sense of a monetary surplus that can be reinvested or returned to members in the form of better value for money. But they are also driven to promote other interests of members, by providing them with trust-worthy advice, simple products that customers understand and long-term, dependable relationships. This second ‘bottom line’ may also include some responsibility towards the needs of those who cannot access other financial services, a commitment to a particular locality, or a contribution to civil society.

Two crucial questions arise from this:

- How is ‘stakeholder value’ or the second ‘bottom line’ to be defined and, where appropriate, measured?
- To what extent is the mutual difference realised and practiced in the day-to-day culture of the organisation, and how can that be measured?

We consider each of these in turn.

**Measuring stakeholder value**

Managers, members, employees and board members of mutuals are all typically aware that a mutual does not exist only for profit. But there may then be some uncertainty as to what else it exists to deliver.

One of the great appeals of the notion of ‘shareholder value’ is that it represents the output and purpose of a company in eminently simple, standardised and unambiguous terms. A company’s financial reports may leave out lots of subtle and substantive information about its internal operations and sources of future value; but they have the advantage of allowing for easy comparison (or ‘benchmarking’) of companies.

Since the early 1990s, when the shareholder value ethos was taking off, a number of activists, scholars and management theorists sought to develop additional or alternative accounting mechanisms, to capture the non-financial performance of companies. This includes the effect on other stakeholders, such as employees, local communities or the environment. To the extent that these measurement techniques become standardised, they potentially offer new bases to evaluate and compare companies. Some leading examples of non-financial corporate evaluation are listed in chapter three.

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Performance measurement also brings its own risks, where excessive trust is placed in numbers. Chairman of PLCs have complained that shareholder understanding of companies is often limited purely to accounting data, making proper shareholder stewardship impossible. Placing too much trust in any metric runs the risk of ignoring the various countervailing data not contained in that metric, as central banks have discovered after years of focusing only on the single figure of inflation.

Efforts to quantify and measure 'stakeholder value' will be useful if they help individual mutuals to benchmark themselves, identify strengths and weaknesses, and to weigh up priorities in an intelligent way. They may serve potential customer-members in choosing a financial mutual to join. But they will be counter-productive if they come to replace judgement or become subject to 'gaming', whereby managers focus on the metric over the underlying goal.

Measuring mutual culture
Measurement of 'stakeholder value' could potentially capture the various benefits that financial mutuals return to their various stakeholders, including their members but potentially also local communities or the public at large. But mutuality cannot be reduced entirely to 'outputs'. Moreover, the fact that mutuals might deliver these benefits may not be directly connected to their mutual status. There is also a case for seeking to capture the distinct quality and culture of mutuals, over and above their legal status or governance model.

Capturing the ethos or culture of mutuality involves identifying the distinctive practices which define mutuality, in the minds of various stakeholders. It is necessarily a somewhat subjective issue, but this in itself can be captured through surveys of attitudes of employees and members. Chapter Four contains results of an employee survey carried out amongst 1,000 employees of AFM member organisations.

The purpose of such a survey is to identify the extent to which stakeholders believe that mutuality is practiced and realised, in addition to differences of governance. It is important that customers are not only technically the members of a mutual society, but also viewed as, treated as and feel like members. Broadly speaking, we might refer to this as mutual 'culture'. At the bare minimum, this requires employees and customers to know that a mutual is different from a profit-maximising company, to understand this difference adequately, and for staff to be able to communicate it confidently. Beyond that, it requires them to interact in ways that are consistent with that difference.

As the next chapter details, it is established that customers experience better levels of service and communication when interacting with mutuals than with PLCs. But more needs to be known about this interaction, seeing as it is precisely in this customer experience where much of the second 'bottom line' or 'stakeholder value' exists. Specifically, is this simply better customer service, which any PLC could potentially mimic? Or is it a qualitatively different, distinctively member-oriented form of service? Mutuals must hope that it is the latter.

There is an additional reason why mutuals and the mutual movement might want to uncover answers to this question. De-mutualisation withdrew around 70% of the assets of building societies and mutual insurance companies, and was partly facilitated by a lack of awareness that high quality mutual services were connected to societies' mutual status. Practicing mutualism, as a positive, front-line ethos, that customers and employees can articulate, will serve mutuals – and society – well in the long term.

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5 Business Industry and Skills (2010) A Long-term Focus for Corporate Britain, BIS
2. BENEFITS AND BENEFICIARIES OF MUTUALS

The primary duty of financial mutuals is to act in the interests of their members, who are their customers, just as the primary duty of financial PLCs is to act in the interests of shareholders. When considering the benefits and beneficiaries of financial mutuals, the first place to look is in the experience of – and value for money provided to – customers.

However, the provision of financial services is unlike the provision of other economic goods and services. Financial services have high levels of ‘information asymmetries’, in which sellers have far higher levels of understanding of products than do buyers. Service providers must therefore be trusted not to put their own interests above those of their customers when designing, pricing and selling products. Financial products, be they insurance policies, pensions, or savings accounts, are ultimately promises regarding the future, which have to be believed and honoured. There is an inescapably ethical dimension here.

Moreover, financial services occupy a pivotal position in the economy in a number of ways, meaning that an interest in stable, sustainable financial services extends beyond their immediate customers. Financial services have repeatedly demonstrated a capacity to de-stabilise the rest of the economy, triggering recessions. Additionally, individual access to financial services is often a precondition of participation in the economy and society more broadly, meaning that there is a civic dimension to who is offered or denied basic financial services.

Finally, with questions being asked about the ethics of business, and especially financial institutions, individuals have an interest in the ethical and social record of their financial service providers. As customers and/or as members of financial institutions, they may have an interest in some profits being shared with social causes, charities and local communities. This interest in some form of local dividend is likely to be stronger where a financial institution has long-standing local roots. And there may be concern with the pay inequality that PLC financial institutions tend to produce.

There is firm evidence that mutuals perform better in all these areas. They tend to provide a better customer experience and value for money; they are more trusted and trust-worthy; they contribute to a more stable and inclusive financial services sector; and they make a higher social contribution to charitable and ethical causes. Below, we detail evidence confirming this. But in each case, it is also crucial that these benefits are properly linked to the mutualism of the organisation, and that beneficiaries understand that link.

Benefit 1: Customer value

Financial mutuals return an economic ‘dividend’ to their members, in the form of more attractive interest rates/ investment returns, cheaper insurance premiums and better levels of customer service. Over the first 10 months of 2012, 68% of all the ‘Best Buys’ in the mortgage market were provided by mutuals, while the average price of a mortgage rate between May-September 2012 was 4.53%, compared to an average of 4.32% for mutual lenders. This is directly related to the amount of money that is extracted from PLCs to pay to shareholders and executive bonuses. For example, de-mutualisation has been found to lead to a 35% increase in dividend payments to managers and shareholders, which is money that would otherwise be invested in the business, for member benefit.\(^7\) There is good reason to believe that the rates offered by financial PLCs would be worse still, were it not for the need to compete against mutuals in the marketplace.\(^8\)


Customer satisfaction is also higher amongst customers of mutuals. For example, 59% of those holding savings accounts with building societies report that they are ‘very satisfied’ or ‘extremely satisfied’ with their provider, compared to 47% of bank customers.\(^9\) In 2010, a survey of Which members looking at health insurance found that the two most popular providers were Exeter Friendly and CS Healthcare, both mutuals (and members of AFM).

**Benefit 2: Member trust**

Financial institutions not only sell products and services to their customers, but also provide them with advice on which ones will benefit them. It is crucial that customers can trust that these advisors and sellers are acting in the customer’s interests, and not in somebody else’s. This question of trust must not be conflated with that of customer service. Customer service is something that any business can deliver; but mutuals are durable and dependable in ways that shareholder-owned businesses can never be. Trustworthiness is a value all of its own.

Evidence on member trust in mutuals is compelling. When asked to rank financial mutuals and financial plc’s on a trust scale of 1-10, financial mutuals received a ‘Net Trust Score’ of +32%, compared to financial plc’s, which registered -5%.\(^9\) 33% of bank customers said that their service provider could not be trusted to give good advice, compared to just 13% of mutual customers.\(^11\) Meanwhile, 63% of mutual customers said that they were treated “fairly”, compared to 47% of bank customers. And at the 2010 British Insurance Awards, the mutual Beneden was voted most trusted healthcare provider.

At a time when the reputation of large financial institutions is as low as ever, following the Payment Protection Insurance mis-selling and Libor-fixing scandals, the distinctive ownership structure of mutuals becomes a critical advantage. Profit-maximisation in financial services is now widely perceived as a source of suspicion by customers, especially where it is associated with ever-more complex financial products that only the experts understand. If mutuals can communicate a difference from shareholder-owned institutions and the ‘City’, focusing on simplicity and transparency of products, rather than maximising profits, they are likely to experience growing market share.\(^12\)

**Benefit 3: Financial diversity**

Economists are increasingly conscious that a diversity of ownership and governance forms acts to mitigate financial risk, across the system as a whole. Excessive dominance of a single model of ownership and governance, pursuing a single goal, creates a mono-culture, without any counter-balancing stabilisers when that model starts to fail.\(^13\) Individuals and institutions all congregate around certain types of risk-taking, neglecting those customers or products which don’t fit with that risk profile.

Mutuals add diversity to the financial system, by approaching risk differently. They are known to have a lower appetite for risk than PLCs, which is because they have a long-term interest in protecting their members from failure, as well as delivering value to them in the short-term. As a result, mutual insurance companies and building societies weathered the recent financial crisis far better than shareholder-owned rivals; both have increased their market share as a result.\(^14\)

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9 Building Societies Association (2010a), Customer Service at Mutuals is Better than at Banks, BSA
10 Research conducted in April 2012 by Opinion Research for AFM.
11 Building Societies Association (2010a), Customer Service at Mutuals is Better than at Banks, BSA
14 J. Michie (2010); A report by Money Management in August 2010 compared the robustness of life companies, based on their realistic free asset ratios (total assets less total liabilities, divided by liabilities). Of the 31 companies analysed, ten were members of AFM. Of these, eight are open to new business, and these occupy the first eight places in the Money Management rankings.
By contrast, not one de-mutualised building society has survived, without either being taken over by another bank or by the state.  

The added diversity that mutuals bring to the financial sector is also manifest in the opportunities they provide to customers that PLCs will not serve. Thanks to the presence of mutuals, the financial system becomes both more diverse and more inclusive. Credit unions and building societies are known to be more financially inclusive. In all these respects, mutuals offer a different way of managing risk and engaging with customers, which partly mitigates the systemic risk and systemic exclusion that shareholder value and PLC governance can lead to, where they are too prevalent. The presence of mutuals in the financial system can therefore be viewed as a public good, with benefits which extend beyond their own membership, but improve the character of the financial system at large.

Benefit 4: Social responsibility

Mutuals do not have a single unambiguous purpose, in the way that PLCs purport to exist for the benefit of maximising 'shareholder value'. While they may prioritise their membership dividend, in the form of better value for money and better customer service, their pursuit of 'stakeholder value' is potentially much broader than this. Mutuals are at liberty to act in the interests of local communities and the public good more generally, through charitable giving and allowing staff to volunteer. The 'social' interests of members and (in the case of smaller mutuals and friendly societies) local economies are pursued, alongside their financial interests.

There is evidence that mutuals are more likely to support charitable ventures and engage in voluntary activities than PLCs. This in turn can be converted into an attractive proposition for customers concerned by the ethical activities of financial institutions. In the case of building societies, customers appear to recognise their better ethical reputation, with 62% of customers describing their provider as having "high ethical standards", compared to 50% of bank customers. Mutuals that have long-standing ties to particular regions may naturally become interested in supporting local communities and local economies, for reasons that aren't reducible to the veneer of 'corporate social responsibility', but are consistent with their pursuit of 'stakeholder value'.

Mutuals have invested more heavily in their social responsibilities in recent years. Research on building societies carried out in 2006 found that 66% of employees are permitted to do charitable work, during their paid hours, compared to just 30% in 2002. 24% were formally reporting on their environmental impact, compared to just 2% in 2002.

There is also reason to believe that it has been the PLCs rather than the mutuals that are to blame for the rampant pay inequality in the financial sector. Research undertaken for AFM by Thrings solicitors found that even the largest mutual insurance companies pay their CEOs beneath the average of the FTSE250, and well below the average of financial services PLCs. Meanwhile, financial services firms in the FTSE250 pay out bonuses of an average 190% of basic salary, compared to just 51% for large AFM members. The very fact that mutuals do not have equity shares limits their capacity to inflate executive pay, given the degree to which executive pay inflation has been driven by 'share option' remuneration in recent decades.

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15 Building Societies Association (2010b) Conversations with Members: Member engagement at building societies, BSA
17 J. Cook (2003) Trust Rewards: Realising the mutual advantage, Mutuo
18 Building Societies Association (2012) Societies in Society: an independent report on corporate social responsibility activity in the building society sector by the SMART company, BSA
19 Building Societies Association (2006) Societies in Society: an independent report on corporate social responsibility activity in the building society sector by the SMART company, BSA
20 Association of Financial Mutuals (2011) Remuneration in the Mutuals Sector, AFM
3. MEASURING MUTUAL VALUE

The previous chapter identified four areas in which the benefits of mutuality are expected to be experienced. Evidently, many of these are intangible and spread across a range of stakeholders; it is precisely this ambiguity of outcome that makes mutuality a desirable model of governance, in contrast to the ‘shareholder value’-oriented PLC. That is the nature of ‘stakeholder value’.

There is convincing qualitative and quantitative evidence that financial mutuals do deliver benefits in this area, when compared to non-mutual models of governance and ownership. These are outcomes where the case for mutuals can be most convincingly made. The question now is how individual mutuals can measure their performance in each of these areas, to benchmark themselves over time, against one another and, where possible, against PLCs.

There are two issues here. Firstly, what can mutuals learn from existing techniques to measure the financial and non-financial performance of firms? Secondly, how might these techniques be suited to the specific benefits of mutuality outlined in the previous chapter. There is not space here to explore the copious literature on social accounting in detail, but key messages are pulled out, and ways forward are identified in the Conclusion of this report.

Alternative indicators

Since the 1970s, civil society campaigners and social scientists have explored ways of measuring and comparing the ‘social’ output of economic activity, or what economists often refer to as ‘externalities’. This may be positive (for example, enhanced skills or high levels of volunteering) or negative (for example, crime or pollution). Very often, this work has gone on at a macro, national level, where ‘social indicators’ have been developed to evaluate entire societies, as an addition or alternative to Gross Domestic Product. Economists and public policy-makers have also used ‘cost benefit analysis’ to evaluate both economic and social outcomes, within a common framework.

Beginning in the early 1990s, a number of accounting techniques were introduced to evaluate corporate performance in ways that looked beyond the ‘bottom line’ of financial accounts. Some of the best known are listed in Table 1. What is common to these is an effort to account for the positive and negative externalities produced by a firm, and to represent these alongside financial performance, as an additional form of transparency. Given the socio-economic nature of all firms (including PLCs), many efforts to measure their ‘social’ value may be consistent with traditional business management, in the sense that a firm which neglected its stakeholder relationships would be putting its longer-term viability at risk. However, many of these forms of non-financial reporting are done for the benefit of civil society, so as to create additional transparency in the eyes of consumers, policy-makers and the media, rather than just financial markets.
Balanced Scorecard: First introduced in 1992 by Robert Kaplan, this aims to help convert strategic business goals into a set of performance measures and targets. It recognises financial performance as one of a range of key performance indicators of organisational success. The balanced scorecard is primarily a management tool, used to identify priorities on a day-to-day basis.

Triple Bottom Line accounting: First coined by John Elkington in 1994. The ‘triple bottom line’ refers to ‘planet, people and profit’, or environmental, social and financial performance side by side. This is primarily a reporting tool, used for the benefit of civil society, ethical investors and other stakeholders.

Social Return on Investment: This is an approach to social valuation, principally for use by charities, social enterprises and the public sector. It offers a procedure through which stakeholders and goals can be identified, inputs and outputs clearly defined, then quantitative and monetary values placed on outputs. The Social Return on Investment Network now oversees this approach, to increase standardisation.

Table 1: Alternative accounting techniques

Subsequently, various measurement techniques have been developed for use by charities, social enterprises and other third sector organisations to demonstrate their impact. The purpose here is subtly different, though the accounting techniques are similar. These organisations exist primarily to create social value of some kind, even if (as with some social enterprises) they may also return profits. However, donors or investors may wish to know how efficiently a third sector organisation is being run, that is, how much social value they are generating with their resources. Measurement and reporting of social impact is therefore crucial, to demonstrate to donors and social investors the return, or dividend, that their money is earning for society.

One great obstacle to more effective non-financial reporting is inadequate standardisation, at least in comparison to financial reporting. Social value or social impact reporting certainly increases the transparency of organisations, but if it is to be used to compare and benchmark different organisations (be it by management, civil society or investors) then reporting standards are needed. Confronted by this same problem of how to evaluate and compare non-financial values and outcomes in the policy domain, the UK Treasury has codified recognised techniques for the measurement of social outcomes, typically insisting that monetary valuations are placed on various public goods, where possible.21

‘Contingent valuation’ techniques can play a role here, in constructing hypothetical market prices for goods that cannot be traded.22 For example, if the impact of a social service or public good is primarily measured in psychological wellbeing, then the monetary value of that effect can be hypothesised by cross-referencing it to data on how monetary income correlates to wellbeing. Or if the impact is in higher levels of social cohesion, contingent valuation might use market data on correlation between social cohesion and property prices, to come up with a proxy ‘price’ for cohesion. Such techniques have obvious flaws, but can contribute to greater standardisation and clarity of evaluative processes.

The problem of standardisation is partly a reflection of the necessary diversity of goals that exist amongst diverse forms of economic and social organisations. If the purpose of an organisation is purely monetary, then money provides a convenient standard through which to evaluate it; but if

its purpose is broader than that, then no generally agreed standard of evaluation will exist. With this in mind, many third sector organisations focus more on clarity and transparency of reporting, measuring what they are able to, without expecting different organisations to all evaluate themselves in the same way.

Seeing as mutuals are ‘double bottom line’ organisations, pursuing economic and social value at the same time, the key question becomes one of how to balance the two. Mutuals are profit-making businesses, but they are not profit-maximising in the sense that PLCs are. Successful profitable activity – or ‘profit-optimisation’ – involves the implementation of a business plan, that seeks profits, but not at any cost. Mutuals are not compelled to make profits in the way that PLCs are, which gives them greater freedom to avoid unnecessary risks and to take decisions for the long-term.

Profit optimisation can therefore be analysed in terms of how effectively mutuals translate long-term priorities into short-term managerial decisions. The stability of a given mutual may require profits to fall in the short-term, so as to maintain capital adequacy; but short-term losses need compensating for over the long-term, if the business plan is to be delivered. Mutuals require alternative forms of financial performance indicators, which account for their long-term purpose and their need to absorb short-term market fluctuations through their own capital reserves. By contrast, PLCs may have smaller capital reserves, but absorb market fluctuations through access to external, more flexible capital. Methods such as AM Best's Financial Strength Rating demonstrate how a single indicator of financial performance can be developed for insurance companies, which recognises the fundamentally different ways in which mutuals and PLCs manage and distribute risk.

Indicators of mutual value

The previous chapter identified four different types of benefit produced by mutuals. These were:

- Customer value
- Member trust
- Financial diversity
- Social responsibility

These represent four parallel, though clearly inter-linked, forms of value that financial mutuals create. Through collecting data in a certain way, employing forms of social accounting, and reporting data in a reasonably standardised fashion, financial mutuals could develop a framework through which the sector could track its performance over time, and individual mutuals could benchmark themselves against other mutuals (and, where possible, PLCs).

The question is how these different forms of value can become converted into techniques of evaluation. What would represent the most appropriate indicators of mutual value, and how might they be produced? In some instances, quantitative data is already available, but in others, there is a requirement for concerted action to measure performance in a standardised fashion. Constructing indicators requires data sources to be identified, and then agreement on how much weight to place on those respective data. This might be approached as follows.
Customer value: This is the ‘dividend’ that financial mutuals return to their members, and is the most easily measured form of value. Indicators would include:
- Market prices for a ‘basket’ of indicative products, such as life insurance premium, pension and mortgage
- Customer satisfaction scores

Member trust: The mutual ‘difference’ can be measured by how much customers trust them to manage risk on their behalf. This in turn can be subdivided into the perceptions that customers have and the commitment that mutuals and members show to one another:
- Customer surveys on trustworthiness, willingness to recommend, perception of management, transparency
- Average tenure of membership in years
- Longevity of mutual compared to average for PLCs

Financial diversity: The Building Societies Association is already working with The Centre for Mutual and Employee-owned Business on a ‘diversity index’, to measure the contribution of mutuals to increasing the diversity of the financial system. The value of diversity is partly seen in the added systemic stability and partly in greater inclusiveness. Indicators that need constructing would include:
- Market share of mutuals within given sectors
- Capital adequacy
- Minimum fees/requirements for policy-holders and account-holders, benchmarked against mutuals and PLCs
- Consistency, measured by year-to-year ranking in ‘best buy’ tables

Social responsibility: There are a number of techniques for capturing ‘social impact’, which could be employed by mutuals to benchmark their contribution to society.
- Days of voluntary work by employees
- Remuneration policy – internal income differential, benchmarked with PLCs; executive remuneration, compared to FTSE

Reporting the value of mutuality as proposed through the above measures under each of the four headings would be partly a question of drawing together data that already exists, but would also involve conducting additional surveys of the mutuals sector and its customers. These indicators of value would need to be identified and specified, measured, and then tracked over time and across multiple organisations. Recommendations for how AFM might contribute to this (and in particular, towards standardisation of measurement and reporting) are contained in the Conclusion.
4. MEASURING MUTUAL CULTURE

'Mutuality' refers to a type of ownership and governance structure, which pursues stakeholder value as discussed in the previous two chapters. However, mutual status must not remain only at the level of a legal abstraction. It is crucial that mutual organisations work to ensure that mutuality also permeates their culture, in the behaviours and mindsets of their employees and members. The trust that members have in mutuals is partly an effect of the types of interactions they have with the mutual organisation, whether that be as customers for certain products, or as members within a governance system.

In addition to the four types of mutual value that can be identified and measured, as described and discussed in Chapter 3, above, mutual culture can also be measured, by surveying employees and members on their attitudes towards mutual organisations, and in measuring (where possible) how they behave towards mutuals in which they are stakeholders. A number of questions need to be addressed:

• To what extent do stakeholders understand mutuality?
• To what extent do stakeholders value mutuality, economically and/or socially?
• To what extent do stakeholders connect positive outcomes (as discussed in the previous chapters) with mutual ownership and/or absence of shareholders?
• Does mutuality affect how stakeholders interact with the organisation, or with other stakeholders (e.g. are members engaged democratically)?

This chapter reports our findings from a staff survey conducted across 1,000 employees of AFM member organisations which sought to measure mutual culture through member activity, customer attitudes, and employee attitudes.

i. Membership activity

Membership of mutuals in Britain is far more extensive than is often acknowledged, covering one in three of the population. Building Societies have 24 million members. Yet despite being democratically-owned and accountable organisations, member participation in mutual governance tends to be a minority pursuit. Voter turnout at AGMs tends to be below 20% in the building societies sector, and less than half that in mutual insurers (AFM data).

Many mutuals have taken active steps to communicate the meaning and opportunities of mutuality to members, and to make it easier to interact with mutuals and participate in mutual governance. Social media offers a valuable opportunity for mutuals in this respect, with some financial mutuals offering ‘members only’ areas of their websites. Communicating the value of mutualism is made easier where mutuals can point to tangible differences that members have made to services, through voting and participating. For this reason, it is important for mutuals to target both the input of members (i.e. their level of participation) and the output (i.e. the differences that members have made), measuring these where possible.

Key indicators here would include:

• Member participation in AGMs and exercising of voting rights.
• Presence of additional channels for members to provide feedback.

24 Oxford Centre for Mutual and Employee-owned Business (2011) Mutuals Yearbook, Mutual
25 Building Societies Association (2010b) Conversations with Members: Member engagement at building societies, BSA
26 Building Societies Association (2010b) includes a list of new services and innovations that have been driven by members.
• Member usage of dedicated social media, such as members-only website areas or participation in online consultations.
• Identification and aggregation of member-driven changes to services.

ii. Member attitudes to mutuality
Demutualisation would not be possible if the benefits of mutuality were both clearly communicated and connected to mutuality in the minds of members. The long-term sustainability of financial mutuals therefore requires them to keep track of how they are perceived and understood by their members.

Existing surveys suggest that customers are attracted to mutuals because of their ownership and governance structure. For example, 75% of mutual customers report that they like the fact the building societies, unlike banks, have no shareholders, while 58% of Yorkshire Building Society customers said they felt a sense of ownership over the mutual that they did not experience when dealing with a bank.\(^\text{27}\)

However, recent research by Imperial College found that only 12% of employees of mutuals believe that customers appreciate the value of mutuality. It is likely that members will express support for mutuality, but only as and when it is explained to them, or a clear contrast is presented between mutuals and PLCs.

Surveys of member attitudes should focus on the following questions:

• Do members know that they are members of a mutual?
• How well do members understand the meaning of mutual, in terms of ownership, democratic governance and contrast with PLCs?
• How much do they feel that their mutual treats them like a member, as well as a customer?
• To what extent do members believe that the governance of the mutual reflects their interests?
• Do members feel inclined to share ideas and feedback with their mutual?
• Do members experience a difference between mutuals and PLCs, in their interactions with them?

In structuring such surveys, it is important to avoid leading with questions about member-ownership and democratic governance: the objective is to understand how successfully mutuals are communicating and demonstrating their difference to customers, before this difference is put to them in a survey.

iii. Employee attitudes to mutuality
One of the great advantages of the mutual model is that the key stakeholder, namely the customer, has regular, direct contact with the organisation that they invest in and benefit from. This is unlike PLCs, where shareholders have at best only occasional contact with their businesses, and are more likely to be highly detached from them. But the primary contact that a member has with a mutual is not through the system of governance or with senior management, but through customer service and through more junior employees.

One of the key ways of measuring the culture of mutuality is therefore through employee attitude surveys. If employees understand and value mutuality, then they are much more likely to do their jobs in ways that are consistent with the principle of mutual ownership. As

\(^{27}\) J. Michie (2010) Promoting Corporate Diversity in the Financial Services Sector, Centre for Mutual & Employee-owned Business, Oxford
a result, they will deliver stakeholder value, in the areas discussed in chapters two and three.
Equally, they will be that much more able to communicate the principles and benefits of mutuality
to customers.

To explore current employee attitudes to mutuality, The Oxford Centre for Mutual &
Employee-owned Business ran an online survey in August 2012, of employees of AFM member
organisations. The survey received 1,116 responses from 31 organisations. The full results are
contained in Appendix A. However, a sample of key findings is as follows:

• Over 99% of employees were aware that they worked for a member-owned organisation.

• 90% of employees either agreed or strongly agreed that “this organisation is run in the
interests of its members/customers.”

• 38% strongly agreed and 44% agreed that “I am proud of the ethical reputation and record of
this business”.

• 58% of employees believed that customers are attracted to their organisation because they
are a mutual.

• 44% have received training on how to communicate mutuality to customers.

These are impressive results, indicating that AFM members are doing well in communicating
their difference and value to their employees.

Equally encouraging is that these numbers are reasonably consistent across different age
groups and levels of seniority within the organisation. For example:

• 85% of employees under 25 years old either agreed or strongly agreed that this organisation
is run in the interests of its members/customers. 85% also either agreed or strongly agreed
with the statement “I am proud of the ethical reputation and record of this business”.

• 88% of newer employees [having worked at the organisation for less than 1 year] agreed or
strongly agreed that “this organisation is run in the interests of its members/customers”.

• 53% of administrative staff believe that customers are attracted to their organisation
because they are a mutual.

These figures confirm that it is not only those who are engaged in governance at a senior level
who understand and value the difference that mutualism makes.

This survey data demonstrated variations between different mutual organisations, enabling
individual financial mutuals the opportunity to benchmark themselves against each other,
identify strengths and weaknesses, and seek to emulate ‘best in class’ practice, as indicated
by the reported results. At present, the overall picture is very positive, in terms of levels of
employee understanding of and commitment to mutuality. But staff surveys can, in addition, help
identify areas of weakness. Future surveys might also focus more closely on different aspects
of employee engagement with mutuality, for example, looking at the extent to which mutuality is
communicated and explained to customers when offering products at advantageous rates.
CONCLUSION

Measuring mutuality means two things, running in parallel to one another: Firstly, it means developing and designing appropriate performance indicators that are suited to the particular goals of mutuals and to the interests of their stakeholders. Secondly, it means seeking to capture how mutuality is manifest in the minds and behaviours of those stakeholders. We have expressed this distinction in terms of ‘measuring stakeholder value’ and ‘measuring mutual culture’.

The starting point for any new organisational measurement exercise must be to agree what is being measured and why. If there is no agreement on this, measurements come to appear arbitrary, lose legitimacy, and eventually become abandoned or ignored. This report has sought to sketch out the beginning of a strategy for the measurement of mutuality, rather than representing a toolkit with which such measurement can be conducted.

In order to conduct such measurement exercises, beyond the illustrative survey reported in Chapter 4 above, AFM and its member organisations would have to have an important role to play in terms of:

i) agreeing the type of factors to be measured, such as our proposed categories of ’stakeholder value’ and ’mutual culture’;

ii) within any such agreed categories, identifying the sort of features to be identified for measurement, such as the four categories of ’stakeholder value’ and the three categories of ’mutual culture’ that we have identified above;

iii) within any such features, determining the sorts of measures to be defined, along the lines suggested above for the categories that we had proposed; once defined, such measures need to be described in detail to ensure that they are indeed measurable, and that the survey or other methods used to measure them are conducted in identical ways across organisations and over time, to ensure that the results can be compared between organisations and over time; and

iv) in particular, supporting the standardisation of customer and employee surveys, and conducting such surveys – or support the conduct of such surveys – across their employees and members.

It will be clear that the nine measures that we suggest might be defined as ways in which to measure stakeholder value – in Chapter 3 above – would each require quite a bit of expert analysis, discussion and agreement before they could be described in sufficient detail to ensure that they were appropriately measured. For example, under the feature of ‘Customer Value’, the measure of ‘Market prices for a ‘basket’ of indicative products, such as life insurance premium, pension and mortgage’ would require agreement on what this basket would constitute, with what weightings, whether and how this basket and its weightings might be adjusted over time, and so on. The first step in such a process would therefore be to agree upon the desired categories, features, and measures. The next step would be to establish ‘expert groups’ to work on each of those measures, to agree how precisely the necessary data would be gathered, analysed, and reported. This would need to include a consideration of how and by whom the various measures would be aggregated, to be reported by feature and by overall category.

While this would be an ambitious agenda, the survey of employees reported in Chapter 4 above represents a useful and encouraging start. It indicates without doubt that the mutual message is understood by a large proportion of the employees across the sector. The survey results includes a wealth of cross-organisational detail that could be analysed to enable individual firms to benchmark their performance with a view to seeking to emulate the ‘best in class’ performers.
Such surveys could of course be repeated, with the results tracked over time, both aggregated and differentiated by company. Such surveys could also themselves be developed, to include additional factors and questions. An obvious extension of such survey work would be to survey the members to ascertain whether the findings reported above – for example that 90% of employees either agreed or strongly agreed that “this organisation is run in the interests of its members/customers” – are reflected in the experience of those members/customers.

Such surveys would play an important part within the more ambitious measurement and reporting programme or work outlined above, so the two are by no means mutually exclusive. Quite the contrary, such survey work could usefully be extended and repeated, at the same time as the other factors and measured are discussed, analysed, agreed, and defined, prior to their also being measured in due course, with the results then being combined with those from the surveys, to represent an increasingly comprehensive measure of the benefits of mutuality over time.

Such work could also be supplemented by surveys of customers in general, rather than just customers of mutuals. A further extension might be to conduct international comparisons – either globally or with other individual countries; this is something that might be discussed with the relevant international bodies, including the International Co-operative Alliance who are seeking to be fully inclusive of mutuals, and who are determined to make the case for mutuality more assertively over the coming years.
APPENDIX

1. What is your age?

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Response Percent</th>
<th>Response Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-25</td>
<td>9.0%</td>
<td>100</td>
</tr>
<tr>
<td>26-35</td>
<td>28.1%</td>
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</tr>
<tr>
<td>36-45</td>
<td>30.6%</td>
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</tr>
<tr>
<td>46-55</td>
<td>23.2%</td>
<td>257</td>
</tr>
<tr>
<td>56-65</td>
<td>9.1%</td>
<td>101</td>
</tr>
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</table>

Answered Question 1,108
Skipped Question 9

2. What is your gender?

<table>
<thead>
<tr>
<th>Gender</th>
<th>Response Count</th>
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<tbody>
<tr>
<td>Female</td>
<td>495</td>
</tr>
<tr>
<td>Male</td>
<td>613</td>
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</tbody>
</table>

Answered Question 1,108
Skipped Question 9

3. What organisation do you work for?

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Response Count</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,117</td>
</tr>
</tbody>
</table>

Answered Question 1,117
Skipped Question 0

4. How long have you worked for this organisation?

<table>
<thead>
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<th>Experience</th>
<th>Response Count</th>
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</thead>
<tbody>
<tr>
<td>less than 1 year</td>
<td>176</td>
</tr>
<tr>
<td>1-3 years</td>
<td>200</td>
</tr>
<tr>
<td>3-5 years</td>
<td>162</td>
</tr>
<tr>
<td>5-10 years</td>
<td>228</td>
</tr>
<tr>
<td>More than 10 years</td>
<td>343</td>
</tr>
</tbody>
</table>

Answered Question 1,109
Skipped Question 8

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MEASURING MUTUALITY INDICATORS FOR FINANCIAL MUTUALS
5. My role is best described as...

<table>
<thead>
<tr>
<th>Category</th>
<th>Response Count</th>
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<tbody>
<tr>
<td>Administration</td>
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</tr>
<tr>
<td>Management</td>
<td>209</td>
</tr>
<tr>
<td>Professional</td>
<td>366</td>
</tr>
<tr>
<td>Senior Management</td>
<td>93</td>
</tr>
<tr>
<td>Other</td>
<td>124</td>
</tr>
</tbody>
</table>

Answered Question: 1,112
Skipped Question: 5

6. How many previous employers have you had?

<table>
<thead>
<tr>
<th>Category</th>
<th>Response Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>76</td>
</tr>
<tr>
<td>1-3</td>
<td>512</td>
</tr>
<tr>
<td>3-5</td>
<td>306</td>
</tr>
<tr>
<td>More than 5</td>
<td>218</td>
</tr>
</tbody>
</table>

Answered Question: 1,112
Skipped Question: 5

7. “I am aware that the organisation I work for is owned by its members/customers and not by shareholders”

<table>
<thead>
<tr>
<th>Response</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>1,067</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
</tr>
</tbody>
</table>

Answered Question: 1,073
Skipped Question: 44
8. “This organisation is run in the interests of its members/customers”

<table>
<thead>
<tr>
<th>Response</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>478</td>
</tr>
<tr>
<td>Agree</td>
<td>483</td>
</tr>
<tr>
<td>No opinion</td>
<td>68</td>
</tr>
<tr>
<td>Disagree</td>
<td>41</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>4</td>
</tr>
</tbody>
</table>

Answered Question: 1,074
Skipped Question: 43

9. “If this organisation were run primarily to maximise profits for shareholders, we would do things very differently”

<table>
<thead>
<tr>
<th>Response</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>222</td>
</tr>
<tr>
<td>Agree</td>
<td>504</td>
</tr>
<tr>
<td>No opinion</td>
<td>180</td>
</tr>
<tr>
<td>Disagree</td>
<td>149</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>17</td>
</tr>
</tbody>
</table>

Answered Question: 1,072
Skipped Question: 45

10. “The organisation has a clear statement about the importance of being a mutual, and the way we operate is consistent with that”

<table>
<thead>
<tr>
<th>Response</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>371</td>
</tr>
<tr>
<td>Agree</td>
<td>481</td>
</tr>
<tr>
<td>No opinion</td>
<td>126</td>
</tr>
<tr>
<td>Disagree</td>
<td>81</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>12</td>
</tr>
</tbody>
</table>

Answered Question: 1,071
Skipped Question: 46
11. "It is better to work for a mutual than a non-mutual business"

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Response Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>232</td>
</tr>
<tr>
<td>Agree</td>
<td>354</td>
</tr>
<tr>
<td>No opinion</td>
<td>383</td>
</tr>
<tr>
<td>Disagree</td>
<td>85</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>13</td>
</tr>
</tbody>
</table>

Answered Question: 1,067  
Skipped Question: 50

12. "I am proud of the ethical record and reputation of this business"

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Response Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>404</td>
</tr>
<tr>
<td>Agree</td>
<td>467</td>
</tr>
<tr>
<td>No opinion</td>
<td>153</td>
</tr>
<tr>
<td>Disagree</td>
<td>36</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>7</td>
</tr>
</tbody>
</table>

Answered Question: 1,067  
Skipped Question: 50

13. "Our mutual status requires us to act in a more trustworthy fashion"

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Response Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>303</td>
</tr>
<tr>
<td>Agree</td>
<td>470</td>
</tr>
<tr>
<td>No opinion</td>
<td>142</td>
</tr>
<tr>
<td>Disagree</td>
<td>132</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>17</td>
</tr>
</tbody>
</table>

Answered Question: 1,064  
Skipped Question: 53
14. “Customers are attracted to us because we are a mutual”

<table>
<thead>
<tr>
<th>Response</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>115</td>
</tr>
<tr>
<td>Agree</td>
<td>507</td>
</tr>
<tr>
<td>No opinion</td>
<td>303</td>
</tr>
<tr>
<td>Disagree</td>
<td>133</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>11</td>
</tr>
</tbody>
</table>

Answered Question: 1,069
Skipped Question: 48

15. “I have received training on how to explain mutuality to customers”

<table>
<thead>
<tr>
<th>Response</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>469</td>
</tr>
<tr>
<td>Disagree</td>
<td>596</td>
</tr>
</tbody>
</table>

Answered Question: 1,065
Skipped Question: 52