Institutional Viability Of The Cooperative In Northern Samar And The Variates Affecting It

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Abstract: This study attempted to find out the institutional viability of cooperatives in Northern Samar in terms of profitability, liquidity and the variates affecting its viability. Thirty-three (33) registered primary cooperatives were the respondents. It adopted descriptive-evaluative research with multiple regression analysis in testing the relationship of the variables. Findings showed that 15 or 45 percent of the primary cooperatives were viable while 18 or 55 percent were not viable in terms of profitability. In terms of liquidity, 28 or 85 percent were viable while 5 or 15 percent were non-viable. Results also revealed that the number of years of operation, the number of employees and staff, the rate of loan repayments, and the amount of current authorized share capital significantly affected the viability of Cooperatives. Generally, Cooperatives in Northern Samar are less profitable, however, majority of them are liquid which implies that the services are continuously rendered to the members. Specifically, the finding suggests that the absence of participatory and collaborative management efforts of the members and the officials adversely affect the organizational financial viability. Key Words: Institutional, liquidity, profitability, primary cooperative, ratio, variates, viability

1. INTRODUCTION
There is a proliferation of primary cooperatives in Northern Samar, Philippines. They operate as nongovernmental organizations which vital role is to serve as an alternative channel in delivering inputs to the rural sector. Their programs and projects are expected to be more responsive to the needs and demands of the community, particularly to the needs of the more disadvantaged sectors. The primary cooperatives are more likely to respond to the needs and demands of the local communities and, therefore, serve as vehicle for local development. Republic Act 9520, known as the Cooperative Code of the Philippines of 2008, encourages everyone, especially the poor and marginalized sector, to actively participate in the economic endeavor that would augment their income. This code states that, cooperatives shall conduct its affairs in accordance with Filipino culture, values and experience the universally accepted principles of cooperation which include, but are not limited to voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, cooperation among cooperatives, and concern for community. Cooperatives work for the sustainable development of their communities. The general observation is that most if not all primary cooperatives in Northern are operating in consonance with the Cooperative Code in the Philippines. Primary cooperatives have certain organizational features which distinguish them from other community organizations. These cooperatives are voluntary organizations where people have agreed to pool their resources together to meet their common needs. They undertake a business enterprise which is operated in accordance with accepted democratic principles. They are service-oriented, not profit-oriented and are primarily established to serve the needs of its own members. The economic benefits gained from the cooperative are shared among the members on the basis of participation and patronage. Studies had been conducted to find out if cooperatives have been able to provide financial assistance to the poor. However, there is a dearth of studies done about the viability of cooperatives in the province.

It has been verified that programs and projects of the primary cooperatives are responsive to the needs and demands of the members and the local communities. But it remains to be seen if how long will these cooperatives can continue to operate their programs and projects. Statistics show that a lot of primary cooperatives closed shop even before they took off. This brings to mind the question of their viability. Although cooperatives are not profit-oriented, they should be properly managed and administered in order to be viable for their continued operation and service to the members and the communities. Obviously, viability is crucial to the continuing operation of cooperatives. Hence, this study.

2. SIGNIFICANCE OF THE STUDY
The results of this study would make a significant difference to the cooperative community in the province. The primary cooperatives will be alerted to address their internal financial problems so as to be of better position to uplift the economic condition of the communities whom they serve. The findings will help administrators of cooperatives enhance their potentials in administering or managing cooperatives. It provide valuable inputs and insights to the Cooperative Development Authority and the Local Government office, which would aid them when they plan, manage, and administer appropriate interventions that would enhance the viable operation of cooperatives in the area. The cooperative policy makers would likewise get ideas from the results of the study that would guide them in reviewing and realigning old policies as well as in coming up with new policies to attune them to the demands of time.

3. THEORETICAL /CONCEPTUAL FRAMEWORK
The study was anchored primarily on the “Rochadale Principles” that viability and effectiveness of the operations of cooperative organizations should largely be guided by the basic cooperative principles of open and voluntary membership, democratic control, limited interest on capital, patronage refund, continuous education and training, and cooperation among Cooperatives in all levels (Ocampo, 2010:13). Likewise, the present study was also supported by the theory of Cheema that “Cooperative organizations can be mobilized to perform a variety of roles in the development process. These organizations can mobilize local resources (human or natural resources) to implement community projects, which they said mobilized may also serve as counterpart support of government resources” (Cheema, 2011: 20). The financial aspects of the cooperative are the basic consideration of its continuous operations. The budgetary requirement which was
basically planned by the board of directors, officers, management & staff had to be presented and approved by the general assembly for its implementation. Hence adequacy of working capital to cover all current financial needs, including the allowance for safety must be observed. Thus the theory of “Benefits of Adequacy,” support the idea that, first, it promotes good credit standing. Second, the firm can care and take advantage of opportunities for greater profit. Third, there are no expense delays in production efficiency of management and employees (Medina, 2011: 100). Medina further stressed that liquidity is a primary concern of sound business finance firms which prefer cash sales over credit sales. Most companies, however, cannot avoid the extension of credit to customers for various reasons. Credit is used to sustain and to promote production, distribution and consumption of goods and services. It assumed that the viability of a cooperative in organization is the best measure of a successful operation. It is conceived in this study that the viability of the cooperative is dependent on the financial aspect of the said organization. The higher the initial share capital, total savings deposits, total amount of assets, total amount releases, and the rate of loan repayments of the cooperative the higher would be the return of investments thus the cash availability of the firm to meet current obligations as they fall due be higher too. It is further conceived that the organizational profile of the cooperative, such as the number of regular members, number of the members, the number of years in operation, number of board of directors, and the number of employees & staff are significantly related to the viability of the cooperative. If the cooperative strictly observes the cooperative principles that the Rochdale pioneers had been practicing until now, and adheres to the cooperative laws and complies the requirements of the cooperative development authority, it would be an indicators that this institution would be viable. It may be observed that a number of primary cooperatives in Northern Samar had closed down even before they were able to take off. It is apparently because they may not be operating viably. On the basis of this observation, the researcher believes that a study on the viability of primary cooperatives in the province and the factors that would affect viability should be undertaken. Hence, this study, the study, therefore, specifically intended to determine the viability of primary cooperatives in Northern Samar in terms of profitability and liquidity indicators. It also attempted to find out some indicators that have influence on the viability of the cooperatives.

4. MATERIALS AND METHOD

The study was conducted in the province of Northern Samar, Philippines (see Map Appendix 1). The focus of the study was in the municipalities of the province where the target cooperative respondents were determined. These subject municipalities with existing registered primary cooperatives were first identified through the assistance of the Cooperative Development Authority (CDA) as to whether registered, operational or not. This helped the researcher determine the specific locations of the respondents. The respondents were all registered Primary Cooperatives determined and confirmed by the Cooperative Development Authority. Each cooperative was represented by either the manager, Board chairman or any representative of the cooperative. Of the thirty-three respondents shown in (Appendix 2), nine (28%) were from Balicuatro areas; eight (24%) came from central Area; five (15%) were from Catubig Valley and eleven (33%) were from Pacific areas. The focus of the evaluation was on the financial aspects of the cooperative. Accordingly, there were twelve (12) variables that were the subject of inquiry under the financial aspects; six of which were the major accounts that were tested with the use of current ratio and the return of investments to determine its profitability. The study used the descriptive - evaluative method of research using a self-made questionnaire, validated by the technical experts of Cooperative Development Authority (CDA) and the Visayas Cooperative Training Office (VICTO). Such design helped in an attempt to describe and assess the existing situation as to the financial viability of the cooperatives in Northern Samar. This research design aided further the determination of the variables that affected the viability of the cooperatives of Northern Samar. The focused group discussion was adapted to validate, clarify, and verify the responses given by the respondents. The subjects of the study were the 33 registered primary cooperatives in Northern Samar who were represented by either their respective managers or Board Chairmen or other representatives. The viability of the primary cooperatives was determined in terms of profitability and liquidity ratios. Profitability ratio was measured by the Returns on Investment (ROI), and the liquidity ratio was calculated using the current ratio formula. As per Credit Union International Coop pesos indicator (NATCCO, Bench Marking, Planning and Financial Management Tools) cooperative is considered viable in terms of profitability if the ROI was above 9 percent and if the current ratio is above 110 percent. Profitability was calculated using the formula on ROI of Medina (2011:256), as follows:

\[
\text{ROI} = \frac{\text{NET INCOME}}{\text{TOTAL ASSETS}} \times 100
\]

Liquidity was measured using the formula for current ratio of Cabrera (2010:172), as follows:

\[
\text{CURRENT RATIO} = \frac{\text{TOTAL CURRENT ASSETS}}{\text{TOTAL CURRENT LIABILITIES}} \times 100
\]

To test the degree of relationship between viability and the variables considered in the study, the multiple regression analysis of Broto (2006:150) was used which formula is as follows:

\[
y = b_0 + b_1x_1 + b_2x_2 + \ldots + b_nx_n
\]

Where:

- \(y\) = the dependent variable to be predicted
- \(x_1, x_2, \ldots, x_n\) = the known independent variables that may influence \(y\)
- \(b_0, b_1, b_2, \ldots\) = numerical constants which must be determined from observed data

5. RESULTS AND DISCUSSIONS

5.1 Institutional Viability of Northern Samar Primary cooperatives

This part presents the findings and their interpretation as to the capability of cooperative to feasibly develop and survive the cooperative organization in terms of the yielded profit or in the maintenance of the cooperative’s state of being a financially beneficial organization, as well as the availability for its liquid assets or the capital assets of the cooperative to be easily converted into cash.

5.2 Profitability

Figure 1 points out that in terms of profitability, eighteen (18) or 55 percent of the cooperatives in Northern Samar were nonviable; while fifteen (15) or 45 percent of them were viable. It could be inferred that primary cooperatives which are not viable mean that they are not able to reach the profitability level of 9 percent and above. The profitability measure was in terms of the ratio of net income to total assets, whether a return on investment (ROI) would affect the cooperative’s ability to attract funds for expansion. What could be significantly inferred is the fact with a

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nonviable return on investment, majority of the cooperative would be affected negatively by the inability to attract funds. The data on profitability were further substantiated by the figures in Appendix 3, which illustrates the various components of profitability of the different primary cooperatives in Northern Samar. This finding were in contrast with that of Cadampog study where the registered cooperatives in the same area were profitable, with high growth rate, solvent, have stable sources of fund and been frugal in their utilization of funds (Cadampog 2010: 75). Nevertheless, statistical tools in the analysis differ from that of the present study.

### 5.3 Liquidity

As to liquidity, twenty-eight (28) or 85 percent of the cooperatives were viable; and only eight (5) or 15 percent were nonviable. Implied by the data is the fact that those nonviable cooperatives are not able to reach and/or maintain the 110 percent level of liquidity. It could be inferred from the data that a strong support and active involvement of the members in the collection of receivables results to a more rapid conversion, hence, in turn it resulted to an apparent ability of the cooperative organization to meet its own obligations. The data on liquidity were further substantiated by the figures in the Appendix 4, which illustrate the various components of liquidity of the different cooperatives in Northern Samar.

![Figure 1. Bar graph of frequency distribution of primary cooperatives in Northern Samar according to viability in terms of Profitability and Liquidity.](image)

### 5.4 Relationship between Viability and Identified Variates

Figure 2 presents the summary results of the computations for the test of relationship between variables. The identified variates of the study were dichotomized as organizational and financial. Organizational variates include number of coop members, number of years in operation, number of board members, and number of employees and staff. On the other hand, the financial variates include initial share of capital, current share of capital, amount of loan borrowed, donations received, savings deposits of members, total amount of assets, total amount of loan releases, total amount of loan repayment, and rate of loan repayment. Among the organizational variates considered in the study, only the number of years in operation and the number of employees were found to be significantly related to the viability of the cooperatives. Using the multiple regression analysis in testing the significant relationship, the number of years of operation had an F-ratio of .5710 which is greater than its T-value of .4733 and with a coefficient of determination of 1.67 percent. This led to the observation that the number of years of operation of a primary cooperative has significant influence on its viability. The finding confirmed the result of Miranda’s study on the cash management of registered cooperatives (Miranda 2011: 28). It is also in agreement with the observation made by Lim in his study on craft industries (Lim 2010: 9). This is understandably so since cooperatives which have been in business for longer period have already crossed the border between instability and stability, as well as non-viability and viability. Their stability and viability may be attributed to their wide-ranging experiences in cooperatives. The relationship between the number of employees and staff and the viability of primary cooperatives was also verified to be significant since the computed F value of 1.04553 was found to be greater than the tabular F-value of .3145. This was further confirmed by the Coefficient of Determination of .326 percent. It clearly indicates that the number of employees and staff is one key factor that determines the viability of primary cooperatives in Northern Samar. This must have connection with their being big in many aspects. Because they are big, they can well afford to hire relatively bigger number of employees and staff who are there to manage the daily operation of the cooperative and to readily cater to the needs and demands of the members. The finding warrants the observation made by Miranda in her study that the major problems identified in the implementation of cash management by the registered cooperatives included the lack of staff to handle the periodic monitory of receipts and disbursement necessary to the preparation of the cash budget and forecast (Miranda 2011a and 2011b). As to the financial variates, the rate of loan repayment was determined to have significant relationship with viability since the computed F value of .133925 was greater than the tabular F value of .2560. This was further confirmed by the Coefficient of Determination of 4.14 percent. This finding indicates that the viability of a cooperative can be attained if the rate of loan repayment to creditors is stable. Apparently, a number of the primary cooperatives in the province were operating on borrowed capital, and were, therefore, burdened with paying interest rates, service charges, and other fees required for loan restructuring which are escalating most of the time. Hence, the repayment rate is not sustained through time. It was also indicated by Martires that most of the respondent cooperative industries were operating on borrowed capital and were, therefore, burdened with paying interest rates, service charges, and additional fees as loans were restructured ( Martires 2009:78). The current authorized share capital was also determined to have significant relationship with viability of the cooperatives considering that the computed F Value of .83990 was found to be greater than the tabular F Value of .3665. This was further verified to be so by the coefficient of determination ratio of 2.64 percent. The relationship pointed to the fact that the current authorized share capital generated more viable cooperative institution. This was supported by Bacon’s studies in cooperative policies, that the rise in cooperative share capital by the members with large holdings resulted to become a major source of capital funds (Bacon 2007). The other predetermined variates were found to have no significant bearing on the viability of primary cooperatives in Northern Samar.

**Summary Results on the Test of Relationship Between the Predetermined Variates**

![Graph showing summary results on the test of relationship between the predetermined variates.](image)
Figure 2. Bar graph of summary results on the test of relationship between the

Predetermined variates

Legend:
1. Numbers of Members
2. Numbers of years in operations
3. Numbers of board of director
4. Numbers of employees and Staff
5. Initial share capital
6. Donations receives
7. Amount of savings deposits
8. Total Amount of Coop Assets
9. Amount of Loans
10. Total amount of Loans releases
11. Total Amount of Loans repayment
12. Rate of Loans Repayment
13. Authorized Capital
15. Paid up Capital

6. CONCLUSIONS AND RECOMMENDATIONS

Based on the findings of the study, it may be concluded that there are almost equal number of primary cooperatives operating in Northern Samar which are viable in terms of profitability and those which are not viable. This picture is disheartening because it is expected that most if not all existing cooperatives should operate profitably. Although cooperatives are not motivated to operate for profits, they should be adequately profitable in order to have continued successful operation. Successful operation of a cooperative may be gauged by its ability to provide financial services to the members. If a cooperative has poor return of investment, it cannot attract new investors and members; hence it will have less available funds to meet the financial needs of its members. A cooperative must, therefore, be profitable in terms of return of investment in order to be viable. At any rate, there are an overwhelming number of primary cooperatives in Northern Samar which are viable in terms of liquidity. This is a good picture since cooperatives must necessarily maintain an acceptable level of liquidity in order to operate smoothly and unabated. By being liquid, they have the assurance that they can pay their short-term obligations on time without going through the trouble to liquidating their hard assets which in the first place takes time to do so. Among the identified variates, only the number of years that the cooperative is in operation, the number of employees and staff, the rate of loan repayment, and amount of authorized capital stock are significantly related to the viability of primary cooperatives. Primary Cooperatives which has been in operations for more years have greater propensity to be viable compared to those cooperatives which have relatively lesser number of years in existence. It shows that long years of experience have taught them valuable lessons that have proven to have positive impact on their operation. However, young primary cooperatives should not be disheartened for them, for they too, can operate viably, if not successfully, by learning from their own experiences and from those of their older counterparts. Viable primary cooperatives whose existence has spanned for a long time may be construed to have successfully surpassed the mistakes they have committed and the problems they have encountered in the past. Otherwise, they would have joined the horde of cooperatives that shut down as fast as they were put up. As these cooperatives grew bigger and stronger through the years, it is incumbent upon them to hire more employees and staff in order to provide better and faster service to their growing members. It appears that if this has not been done, the viability of the cooperative would be at stake. Many primary cooperatives build their capital through borrowings from some sources. If the rate of loan repayment is high, it becomes burdensome for them, to pay their loans which they have to settle on time nevertheless. In effect, they could not maintain a liquidity status where they can provide dependable service to their member-borrowers. Hence, the viability of the cooperatives would be very much adversely affected.

7. RECOMMENDATIONS

On the basis of the conclusion, the following recommendations are offered:

1. Primary cooperatives should hire, train, and maintain effectively and efficiently functioning employees and staff.
2. The primary cooperatives in Northern Samar should borrow from sources which provide relatively lower interest rates or loans. Better still, they should endeavour to improve the capital build-up schemes so that members will be encouraged to channel more capital in the cooperative. This way, the cooperatives would not depend much on borrowings to build up their capital.
3. The authorized share capital must first be increased before primary cooperatives are allowed to increase the share capital holdings of the members per article 73 of the coop code 2008 which become the major source of capital funds.
4. Although most of the pre-determined variates were found to have no significant relationship with the viability of primary cooperatives, they should not be taken for granted. Due consideration must be taken to maintain the standard norms as far as these factors are concerned.
5. Further research may be done on the viability of cooperatives using different tests or measures.

REFERENCES


