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ANALYSIS OF THE FINANCIAL PERFORMANCE OF CREDIT AND MULTI-PURPOSE COOPERATIVES IN NORTHERN PHILIPPINES: BASIS FOR POLICY AND DECISION MAKING

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Abstract: *Financial performance deals with measuring in monetary form the result of an organization's operations. These results are reflected in the financial statements of the organization which are usually prepared regularly. The financial performance of the cooperatives is a very good basis for decision making on the part of the members, the management, the government and the general public. The main purpose of this research is to analyze the financial performance of credit and multi-purpose cooperatives in the Ifugao province, registered with the Cooperative Development Authority. Eight multi-purpose cooperatives with duly audited financial statements three years back were included in the study. This study used selected financial analysis tools such as liquidity ratios, leverage, profitability ratios and operating efficiency ratio. The result of the financial performance analysis showed that the liquidity and leverage position of the multi-purpose cooperatives is not sound enough and they are all at a high financial risk because most of the capital of these cooperatives came from external sources. There is a need then for these cooperative to lower their debt by fully utilizing first their equity before resorting to credit. As illustrated in the study, two of the multi-purpose cooperatives have generated unsatisfactory profits during the study period, this then suggest that there is a need for these two cooperatives to improve their profitability by minimizing their operating and administrative expenditures.*

Keywords: *Financial analysis, liquidity, operating efficiency, profitability, ratios analysis*

Introduction

Cooperation as a way of life continues to be a tradition in finding the solution to the socio-economic problems of people. Traditional forms of cooperation involved community members voluntarily pooling financial resources through an association of people with the common objectives of mobilizing resources, especially finance and distributing them to members on rotational basis (Masuku, Masuku, & Mutangira, 2016).

The International Labor Organization defines a *Cooperative* as "an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which the members actively participate." (Art. 12(1), International Labor Conference Recommendation, June 1966). The primary objective of every cooperative is to provide goods and services to its members and thus enable them to attain increased income and savings, investments, productivity, and purchasing power and promote among themselves equitable distribution of net surplus. A cooperative shall provide maximum economic benefits to its members, teach them the efficient ways of doing things and new ideas in business and management allows the lower income groups to increase their assets and net worth (Art. 7, Cooperative Code of the Phils. R.A. 6938).

The need for cooperatives not only in the Philippines but also worldwide is explicitly described by an author, Steinberg (1986) "mankind survives today through organizations, whether they are factory workers, accountants, teachers or farmers or even government dignitaries, they have committed their lives or part of their identities to one of the vast, powerful, complex and impersonal organizations to solve common problems."

There are six main types of cooperatives in the Philippines as provided in Article 23 of the Cooperative Code of the Philippines: 1) the Credit Cooperatives; 2) Consumers Cooperative; 3) Producers Cooperative; 4) Marketing Cooperatives; 5) Service Cooperative and 6) Multi-purpose Cooperatives (Art. 23, Cooperative Code of the Phils. R.A. 6938). However, this study focused only on credit and multi-purpose cooperatives because the researcher set the criteria of including cooperatives that existed for more than 10 years and with complete book of accounts duly audited by a certified public accountant.

According to Shamsuddin et.al. (2018) the financial statement is a valuable tool for all stakeholders of the cooperative to understand and measure the financial health of a cooperative or any financial institutions.

In the Philippines, Lab-oyen (2018) identified some issues and challenges encountered by micro and small cooperatives. One financial factor is that small and micro cooperatives have limited capital for operations. Aside from that cooperatives who wish to augment their limited resources may embark on savings and time deposit but cannot do so because the law provides that it is for specific purpose in accordance with the provisions of the articles of cooperative and by-laws otherwise the unrelated earnings can be considered taxable. Furthermore, Lab-oyen acknowledged also the lack of knowledge of employees on some accounting procedures and stressed the need for assistance of these cooperatives to be able to comply with Cooperative Development Authority (CDA) requirements.

With these underlying problems, the study included eight cooperatives only out of 32 registered multi-purpose cooperatives in Northern Philippines on the basis that there is notable lack of bookkeeping or simple accounting procedure in the recording of the activities of most of the cooperatives and most of these cooperatives do not have a permanent bookkeeper which resulted to incomplete recording and filing of data.

Critical area in cooperative development is their financial performance. It is the best indicator to define the stability, profitability and competitiveness of the business. Instituting a regular check-up of the firm's financial performance is a very good business practice (Jebna & Baharudin, 2013). On the other hand, Macmahon and Davies (1994) stressed the importance of financial reporting and financial analysis to the growth and development of small business enterprises. Financial reporting and financial analysis should be done regularly in order to have a concrete picture of the life of the business.

A lot of studies on multi-purpose cooperatives were conducted. However, studies on the analysis of financial performance of cooperatives at regional level were not undertaken so far. In view of realizing this gap, the researcher was motivated to undertake this research to analyze the financial performance of cooperatives in Northern Philippines for the benefit of the members, management and the general public.

The general objective of the study is to analyze the financial performance of credit and multi-purpose cooperatives. Specifically, the study sought to answer the following questions:

1. What is the financial performance of the multi-purpose cooperatives in terms of their:
   a) Liquidity
   b) Solvency
   c) profitability
   d) operating efficiency of the multi-purpose cooperatives;

Literature Review

Sales and Revenue

The measurement of financial performance can be done using financial ratios or non-financial indicators that can be developed to serve its purpose and objectives (Shamsuddin et. al., 2018) One of the key figures in the financial statement is the revenue or sales data. According to Ganga et.al. (2015), for a business to achieve liquidity, it has to attain its target sales for a certain period of time; otherwise, it will not be able to pay off its obligation when they become due. Sales in the market provide feedback on the performance of the product or service of a business. Sales measure the difference between bankruptcy and success.

The findings of Ganga was supported by Henock, M.S. (2018) who studied savings and credit cooperative in Ethiopia and thus, suggested that for an organization to be financially sustainable, it shoudl increase its return on assets and reduce its debt equity ratio and improve deposit mobilization performance. The financial self-sufficiency can be achieved when the cooperatives were able to utilize their short term assets to earn cash revenues. Therefore, the more it utilizes its short term assets, the higher cash revenues earned and this brings higher sustainability.

The cooperative is said to be owned by the members; they are the number one consumers of its products. Ninety percent of the sales of the cooperative come from the members as observed by Opata (2014). Management can increase sales by expanding its area of operation and

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encouraging more individuals to join, in this way, sales will not only increase by also the owner's equity or the asset of the cooperative.

Administrative and operating activities

Duguma, et.al. (2018) emphasized the importance of deposit mobilizaion in the operating activities of savings and credit cooperatives since the interest and dividends are the main financial costs of these cooepratives, they need then to mobilize all deposits to be able to cover all expenditures and improve efficiencey to gain profit for the organization. This is seconded by Chareonwongsak (2017), that cooperative organization should obtain board members who have knowledge and skills in business and management system to be able to suggests strategies and policies that would improve efficiency of operations of these cooperatives to gain more profits.

According to Esnard, et.al. (2017), cooperatives under performance are attributed to poor management, lack of capital and high external influence. These factors can increase administrative and operating cost for the cooperatives needs to hire expert whose services is usually costly as compared to a regular employee. The lack of capital forced these cooperatives to borrow additional capital from banks or increase minimum share capital which is not always appealing to members.

According to Ganga et. al. 2015, every business should maintain an optimum level of cash and bank balance to finance the day-to-day activities, measures should be taken to decrease the current liabilities and the company should effectively utilize the current assets to avoid emergency borrowings from bank that would increase operating expenses.

Financial Reporting

A complete and extensive source of information on the financial position, financial performance and cash flows of a business is its Financial Statements. The Financial statements are the basic providers of accounting information about the business performance of any entity (Krstanovic & Barbaca, 2016).

Financial statements serve the need of different users. It provides insights on the business activities of the company under analysis as well as provide crucial input for strategic planning which can be used to corrective action and make new operating, investing and financig decisions (Valix et.al. 2020).

Financial statement analysis is the process of digging information from financial statements to have a better understanding of the current and future performance and financial condition of a business (Cabrera et.al. 2020). Financial Analysis also involves the comparison of the performance of one firm to that of another firm in the same industry as well as evaluating the trends of financial positions of these firms or organization (Brigham, 2011). This in-depth studies will help managers identify deficiencies and take corrective actions.

Financial Analysis

Sofuluwe, et.al. (2020) in their study of cooperatives organizations in Nigeria stressed the importance of financial analysis in assessing the financial performance of the cooperatives. An over-all assessment of the financial structure is the best means to arrive at a proper understanding of the real conditions of these organization. Financial structures comprises of two components, the asset structure and financing structure which include share capital, reserves and savings

On the other hand, Cabrera et.al.(2020 suggested that to be able to analyze a company effectively or infer its value, it is important that one must understand the company's business activities. This can be accomplished through the financial statements which reports an organization's performance and financial condition.

Financial Performance

A business is said to be doing well if its financial statements reflects positive profits. Profit is a very good indicator of business performance thus, every business organization must see to it that they are earning sufficient income and be able to settle its obligations when it becomes due (Ghosh, 2016). Profit is regarded as a mirror of the performance of busines activities.

Research Methodology

For this research, the descriptive research design is employed. This involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection (Glass & Hopkins, 1984). Two methods were used to analyze the financial performance of the multi-purpose cooperatives in Ifugao: 1) Descriptive analysis which transforms raw data into a form that will make them easy to understand and interpret; re-arranging, ordering and manipulating data to generate descriptive information (Zikmund, 2003) and 2) quantitative analysis using selected financial performance measures like Profitability analysis, liquidity analysis, solvency ratios and operating efficiency measures.

This study was conducted in Northern Philippines located in a mountainous region characterized by rugged terrain, river valleys and massive forest. The subject of the study is the eight cooperatives located in different municipalities. Table below shows that most of the cooperatives have been in operation for more than two decades.

Table 1: Profile of the Cooperatives

Name of the Cooperative	Date Established	Location
Piwong Multi-purpose Cooperative	1991	Hingyon, Ifugao
Hojap Multi-purpose Cooperative	1998	Asipulo, Ifugao
Ifugao Global Entrepreneurs Multi-purpose Cooperative	1993	Lagawe, Ifugao
Kalanguya Cultural Community Multi-purpose Coop.	1976	Kiangan, Ifugao
Lagawe Multi-purpose Development Cooperative	1984	Lagawe, Ifugao Bambang, Nueva Vizcaya
Lamut Grassroots Savings and Development Coop.	1980	Lamut, Ifugao
Tam-an Banaue Multi-purpose Cooperative	1991	Solano, Nueva Vizcaya
Banaue Savings Dvelopment Coop.	1985	Banaue, Ifugao

This research was designed using secondary data. Data and information have been extracted from annual reports of these Eight cooperatives 3 years back specifically their audited financial statements. A letter was sent to each of the eight Cooperatives to ask permission to obtain a copy of their annual reports and audited financial statements from year 2016 to 2018. The data collected was classified, tabulated and analyzed as per objective of the study.

Results and Discussions

Liquidity Analysis of the Multi-purpose Cooperatives

To measure the liquidity of the multi-purpose cooperatives, the study used current ratio and quick/acid test ratio. Both measures will show if the cooperatives can able to pay its obligation when they become due.

According to Sathya and Umarami (2015), the Industry standard for current ratio is 2:1 and 1:1 for quick/acid test ratio. As portrayed in table 1, only one cooperative has a current ratio above the industry norm, all of the six multi-purpose cooperatives fall below the standard. But in the quick/acid test ratio, all of them has computed ratio above the industry norm of 1 which only means that all of these seven multi-purpose cooperatives have the ability or capacity to pay its obligations when they become due. But there is a possibility that they might run out of cash because the excess cash on top of its current liability is so little. These multi-purpose cooperatives then need to increase their current ratio up to the industry standard of 2 to ensure financial solvency.

Table 2: Liquidity Analysis

Ratio	Name of Cooperative	Mean	Median	Std. Dev	Min	Max
Current Ratio	Piwong	1.61	1.61	0.02903	1.58	1.63
	IGEMCO	3.40	2.85	1.2850	2.49	4.87
	KCMDC	1.46	1.46	0.0224	1.47	1.48
	Hojap	1.80	1.79	0.228	1.59	2.05
	LMDC	1.62	1.64	0.0317	1.59	1.65
	LAGSADECO	1.42	1.36	0.134	1.34	1.58
	TAM-AN	1.41	1.39	0.334	1.08	1.75
	Banaue Savings	1.65	1.65	0.214	1.63	1.67
Grand Mean		**1.79**				
Quick/acid test Ratio	Piwong	1.51	1.52	0.0078	1.51	1.52
	IGEMCO	3.40	2.85	1.281	2.49	4.87
	KCMDC	1.40	1.39	0.03576	1.37	1.44
	Hojap	1.63	1.62	0.2178	1.42	1.86
	LMDC	1.63	1.64	0.0316	1.59	1.65
	LAGSADECO	1.33	1.26	0.1426	1.24	1.50
	TAM-AN	1.32	1.36	0.4068	0.90	1.72
	Banaue Savings	1.65	1.65	0.214	1.63	1.67
Grand Mean		**1.73**				

Source: Audited financial report of the multi-purpose cooperatives 2016-2018

Leverage Analysis of the Multi purpose Cooperatives

To analyze the solvency of the Multi-purpose cooperatives, the Debt to total asset ratio (DTA) and Debt to Equity ratio (DTE) were used. These solvency ratios examine the soundness of the long-term financial position of the cooperatives. The debt to asset ratio (DTA) and debt to equity ratio (DTE) is used to define the total amount of debt related to assets. The higher the ratio, the higher is the financial risk to the lenders.

The standard for debt to asset ratio is <0.5:1 (Ganga, 2015). Table 2 shows that most of the cooperatives have a debt to asset ratio above .5. This shows that more than 50% of the funds

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of the multi-purpose cooperatives were financed through borrowings. This figure is not good, since this put the cooperatives at a high financial risk.

Aside from Debt to asset ratio, the debt-to-equity ratio is the most recurrent measure to examine the indebtedness of any organization (Cabrera, 2020). This specifies the percentage of funds coming from borrowings. Table below shows that all of the multi-purpose cooperatives had debt to equity ratio higher than 1 from year 2016 to 2018. Since all of the multi-purpose cooperatives had a debt-to-equity ratio higher than 1, it shows that more of the funds came from external sources or from credit. This then suggest that these cooperatives must lower their Debt-to-equity ratio by fully utilizing first their equity before resorting to credit.

Table 3: Analysis of leverage ratio of the Multi-purpose cooperatives

Ratio	Name of Cooperative	Mean	Median	Std. Deviation	Min	Max
Debt to total assets (DTA)	Piwong	0.63	0.65	0.0430	0.58	0.65
	IGEMCO	0.76	0.76	0.0195	0.75	0.79
	KCMDC	0.63	0.63	0.008	0.63	0.65
	Hojap	0.62	0.61	0.0487	0.59	0.68
	LMDC	0.62	0.62	0.0137	0.61	0.64
	LAGSADECO	0.66	0.64	0.0081	0.63	0.64
	TAM-AN	0.61	0.65	0.0185	0.41	0.77
	Banaue Savings	0.61	0.61	0.0487	0.60	0.63
Grand Mean		**0.64**				
Debt to equity ratio	Piwong	1.69	1.85	0.291	1.36	1.88
	IGEMCO	3.34	3.27	0.403	2.98	3.78
	KCMDC	1.74	1.71	0.0644	1.70	1.82
	Hojap	1.74	1.59	0.329	1.52	2.12
	LMDC	1.66	1.61	0.098	1.59	1.77
	LAGSADECO	1.74	1.77	0.0604	1.67	1.68
	TAM-AN	1.99	1.88	0.363	0.69	3.41
	Banaue Savings	1.61	1.62	0.0491	1.53	1.70
Grand Mean		**1.93**				

Source: Audited financial report of the multi-purpose cooperatives 2016-2018

Analysis of the Profitability ratio of the multi-purpose cooperatives

The profitability ratios are used to assess the ability of the cooperative to earn income for the benefit of the members. It is very much important to measure the earnings of the cooperative because this will direct the next step the management would take. These ratios provide a reliable indicator in measuring the financial performance of the cooperatives. Results of these ratios is primary helpful to the management and the stakeholders.

According to S&P 500 index, the benchmark of the overall market, the industry standard for return on assets is 1%, 7% for return on equity and 11% for net profit margin or the overall profitability. From the table below, it shows that the assets and equity of six of the multi-purpose cooperatives (Piwong, Hojap, KCMDC, LMDC, Banaue Savings and LAGSADECO) are utilized well to produce income as shown by its profit margin that ranges from 28% to 61% which is above the industry standard. The two cooperatives on the other hand (TAM-AN BMPC and IGEMCO) had a net profit margin below 10%. Thus, there is a need for these two

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cooperatives to improve their profitability by minimizing their operating and administrative expenditures.

The return on assets measures the net income produced by total assets during a period. It measures how efficient a business can manage its assets to produce profits. From the table below, most of the computed ROA of the cooperatives are below 10%, this means that the cooperatives are earning less than 0.01 for every peso of assets invested.

The return on equity measures how efficient a firm can use the money invested by the members to generate profits. As shown from the table below: KCMDC, Piwong MPC, Hojap MPC, Lagawe MDC, Banaue Savings and LAGSADECO generated a return on their equity of above 15%, it shows that these multi-purpose cooperatives earned 0.15 for every peso invested by the members. LMDC had the highest ROE in 2017 which is 39% which means that LMDC is generating 0.39 for every peso of the shareholder's equity.

Return on Capital employed (ROCE) is a useful metric to compare how efficiently the business utilized their capital. A high ROCE indicates that the cooperative is efficiently utilizing its capital, while a low ROCE shows that the business is not employing its capital effectively. On the Table below, IGEMCO, Hojap MPC and TAM-AN BMPC had a low return of capital employed (ROCE) for the past 3 consecutive years, this indicates that these cooperatives did not use their capital but resorted to external sources to fund the operation of their business. This situation is unhealthy since this takes the cooperative at a high financial risk. LMDC is said to be efficient in deploying its capital as shown by its ROCE from 2016 to 2018. KCMDC, Piwong MPC, Banaue Savings and LAGSADECO have a fair ROCE of 10% to 14% for the last 3 years. It shows that the use of their capital is minimal and had borrowed much for the sustenance of the business.

Table 4: Profitability analysis of the Multi-purpose cooperatives

Ratio	Name of Coop	Mean	Median	Std. Dev.	Min	Max
Return on assets	Piwong	0.062	0.064	0.0062	0.06	0.07
	IGEMCO	0.0028	0.0028	0.0009	0.0029	0.003
	KCMDC	0.055	0.056	0.0044	0.05	0.06
	Hojap	0.039	0.042	0.0144	0.02	0.04
	LMDC	0.082	0.081	0.0102	0.07	0.09
	LAGSADECO	0.047	0.049	0.0039	0.04	0.05
	TAM-AN	0.012	0.012	0.0007	0.012	0.013
	Banaue Savings	0.036	0.039	0.0042	0.0283	0.0421
Grand Mean		**4.1%**				
Return on Equity	Piwong	0.25	0.26	0.0326	0.22	0.28
	IGEMCO	0.029	0.031	0.0069	0.022	0.036
	KCMDC	0.192	0.190	0.0095	0.18	0.20
	Hojap	0.194	0.181	0.0557	0.15	0.26
	LMDC	0.326	0.307	0.0572	0.28	0.39
	LAGSADECO	0.15	0.15	0.0123	0.14	0.16
	TAM-AN	0.038	0.039	0.016	0.02	0.05
	Banaue Savings	0.095	0.10	0.0100	0.076	0.11
Grand Mean		**15.9%**				

Return on capital employed	Piwong	0.12	0.13	0.015	0.13	0.14
	IGEMCO	0.004	0.004	0.00039	0.0037	0.0045
	KCMDC	0.14	0.14	0.0024	0.14	0.14
	Hojap	0.072	0.063	0.0380	0.04	0.11
	LMDC	0.21	0.21	0.0331	0.17	0.24
	LAGSADECO	0.13	0.13	0.0102	0.12	0.14
	TAM-AN	0.033	0.035	0.014	0.02	0.08
	Banaue Savings	0.10	0.11	0.0120	0.08	0.12
Grand Mean		**10%**				
Overall Profitability/net profit margin	Piwong	0.46	0.47	0.0315	0.43	0.50
	IGEMCO	0.058	0.054	0.0104	0.05	0.07
	KCMDC	0.475	0.489	0.0534	0.42	0.52
	Hojap	0.33	0.30	0.0644	0.28	0.40
	LMDC	0.57	0.57	0.0280	0.55	0.61
	LAGSADECO	0.41	0.42	0.0276	0.37	0.43
	TAM-AN	0.08	0.078	0.0060	0.08	0.09
	Banaue Savings	0.35	0.36	0.0360	0.31	0.36
Grand Mean		**34%**				

Source: Audited financial report of the multi-purpose cooperatives 2016-2018

Analysis of the Operating efficiency of the multi-purpose cooperatives

The operating efficiency ratio shows how well a business uses its assets and liabilities to generate income. This is a good metric to measure a business' short-term or current performance.

The working capital turnover ratio indicates how efficient is the capital being utilized during the period. A high working turnover ratio is better. From the table above, it shows TAM-AN BMPC has the highest working capital turnover of 1.14 which means that for every peso invested in working capital, it has contributed 1.14 pesos to the total sales and that is good enough. The other cooperatives also had better working capital turn over except IGEMCO which is not efficient in utilizing its working capital.

Table 5: Operating efficiency analysis of the Multi-purpose cooperatives

Ratio	Name of Cooperative	Mean	Median	Std. Dev.	Min	Max
Return on working capital	Piwong	0.46	0.45	0.0211	0.44	0.48
	IGEMCO	0.11	0.10	0.0119	0.10	0.12
	KCMDC	0.44	0.44	0.05060	0.40	0.50
	Hojap	0.46	0.44	0.1774	0.29	0.64
	LMDC	0.42	0.44	0.045	0.33	0.46
	LAGSADECO	0.53	0.52	0.173	0.36	0.70
	TAM-AN	1.02	1.13	0.2946	0.69	1.25
	Banaue Savings	0.27	0.28	0.0152	0.24	0.29
Grand Mean		**0.46**				

Source: Audited financial report of the multi-purpose cooperatives 2016-2018

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Conclusions and Recommendations:

Conclusions

From the analysis made on the financial performance of the eight cooperatives, the study concluded that all of the cooperatives have borrowings but capable of paying their short-term debt when it became due. Although the computed current ratio is below 2, it is still considered good since the cooperative had current assets to pay off its debt when it became due.

1. On profitability – Six of the cooperatives have earned a high return on their investments because they have efficiently utilized their assets, equity and capital to produce income for the cooperatives. The other two cooperatives on the other hand need to exert more effort to increase net income.
2. Leverage – All of the cooperatives had high borrowings, this indicates that they are all facing a high financial risk.
3. Operating efficiency – Most of the cooperatives was efficiently utilizing their working capital. Only one had a low working capital turn-over ratio which indicates that working capital is not efficiently deployed during those years.

Recommendations

The study came up with the following recommendations as a result of the analysis made on the financial performance of the cooperatives.

1. On Liquidity – All cooperatives need to increase their liquidity ratio to meet the industry standard of 2 to become financially solvent. The following is helpful:
   a) Decrease overhead cost, a lower overhead cost has a direct impact on the profitability of the business, this will increase net income. A high net income means more money to pay off credit.
   b) Accelerate collection of accounts receivable. Bill clients promptly to receive prompt payments.
   c) Monitor the money that goes out of the business especially if cash is for non-business purposes.
   d) Review sales and profitability, assess product price and service fees. As cost increases, there a need maybe to increase prices and fees also.
2. On leverage - Since all of the multi-purpose cooperatives had a debt-to-equity ratio higher than 1, it shows that more of the funds came from external sources or from credit. This then suggest that these cooperatives must lower their Debt-to-equity ratio by fully utilizing first their equity before resorting to credit or increase their capital by selling additional share capital and unproductive assets.
3. Profitability – Since two of the multi-purpose cooperatives had a low Net profit margin, there is a need for these cooperatives to increase NPM by minimizing operating and administrative expenses and improve their working efficiency as well as effectively utilized their assets and equity to generate enough profit. This is whole management action, strategies and policies need to be reviewed to be able to have a better profit margin.
4. Since these cooperatives have played their part in local economic development, further researchers may be conducted to help these cooperatives attain a better performance for the benefits of the members and the community like financial planning and control of cooperatives; and applications of financial practices to find solutions to financial problems found in the cooperative operations.

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