UNIVERSITY OF THE PHILIPPINES - MINDANAO
SCHOOL OF MANAGEMENT

Designing a Framework for Assessing the Operating Performance of a Cooperative Enterprise towards Financial Sustainability: The Case of DARBCO, AMSKARBEMCO and DARBMUPCO

Ellson, Adela G.[1]
Acuña, Thaddeus R.[1]
Antepuesto, Chino Luis I

[1]Faculty of the School of Management, UPMindanao
[2]Graduate of BS Agri-Business Economics, School of Managem

Why this study?

- to present factual data that validated general observation that cooperatives' financial performances are poor and that decision makings are inadequately supported with financial results
- a need to significantly enhance sound financial management not just to improve but ensure financial sustainability in the long run

Main Thrusts of Cooperatives

- Economic enterprise
- Social enterprise

Main Thrusts of Cooperatives

- Economic enterprise
  - Financially viable and sustainable enterprise
  - Financial transparency
  - Strong internal controls system
- Good economic performance supports and advances further the 'social enterprise' dimension

Methodology

- In-depth financial analysis of the financial (operating) performances of the subject cooperatives, namely, AMSKARBERMCO, DARBMUPCO & DARBCO, in terms of:
  - asset investment decision
  - capital structure decision
  - income distribution decision
- Assessment of the documentation and recording processes

Results and Discussion: FINANCIAL VIABILITY

ASSET INVESTMENT DECISION

- agri-based cooperatives have over investments in assets
  - PPE composition over total assets – 35% to 70%
- Asset investments have low impact to revenue growth

Results and Discussions

- Asset investments have low impact to revenue growth

	2009	2010	2011	Average
AMSKARBEMCO	-32.0%	-31.6%	3.0%	-20.2%
DARBMUPCO	18.3%	-1.2%	1.4%	6.2%
DARBCO	27.5%	-10.0%	-2.2%	5.1%

Results and Discussions

- PPE utilization efficiency *(per 1 peso of PPE)*

	2009	2010	2011	Average
PPE Turnover Ratio				
AMSKARBEMCO	0.45	0.33	0.36	0.38
DARBMUPCO	1.89	1.92	1.98	1.93
DARBCO	9.19	1.19	1.51	3.96
Return on PPE				
AMSKARBEMCO	0.01	(0.13)	0.01	(0.03)
DARBMUPCO	0.03	0.02	0.07	0.04
DARBCO	0.17	0.02	0.03	0.07

Results and Discussions

- No clear policies to guide evaluation and review of asset investments in terms of:
  - ✓ additional revenues
  - ✓ increase in net surplus
  - ✓ impact to capital structure

Results and Discussions

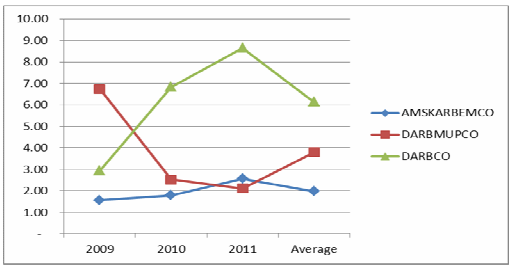
CAPITAL STRUCTURE PERFORMANCES

- Heavy dependence on external Sources of financing (*ave.% over total assets*)

	AMSKAR BEMCO	DARB MUPCO	DARB CO
External sources			
Trade & other payables	58.6%	36.2%	20.4%
LT loans	2.3%	34.0%	59.6%
Internal sources			
Share capital	28.8%	19.2%	9.3%
Savings deposits	4.8%	2.8%	1.9%

Results and Discussions

- High financing leverage (debt-to-equity)



Results and Discussions

- Impact of high debt-to-equity
  - ✓High solvency/bankruptcy risk
  - ✓Low net surplus due to high financing costs
  - ✓Low ROE

Results and Discussions

INCOME DISTRIBUTION DECISIONS

- Allocation & distribution of net surplus as dividends on share capital

	2009	2010	2011	Average
AMSKARBEMCO	0.02	(0.16)	0.01	(0.04)
DARBMUPCO	0.27	0.07	0.18	0.18
DARBCO	0.30	0.25	0.24	0.26

Results and Discussions

- Inappropriate distribution of interest on capital (dividends) & patronage refund
  - ✓ increasing trade receivables
  - ✓ high allowance for bad debts
  - ✓ impact:
    - distribution of income not realized to cash
    - reduction in cash flow

Results and Discussions

- Inappropriate policy on distribution of interest on capital (dividends) & patronage refund
  - ✓ no guidelines as to when to release cash dividends
  - ✓ no retention policy

Results and Discussions

- Factors affecting distribution of dividends
  - ✓Low liquidity – average current ratio is less than 2
  - ✓Low savings & share capital *(replacement funds)*
  - ✓High cash requirement for working capital
  - ✓Low profitability

Results and Discussions

FINANCIAL TRANSPARENCY

- low integrity of financial statements
- limited disclosures on real financial performances to members

Results and Discussions

- Internal control weaknesses
  - poor documentation, record-keeping & reporting
  - inadequate financial records of growers
  - lack/inadequate financial policies

Results and Discussions

- Lack of skills/low competency
  - ✓ poor analytical skills
  - ✓ inability to draw action plans/strategies from financial performance
  - ✓ inability to formulate clear policies to strengthen internal controls

Conclusion

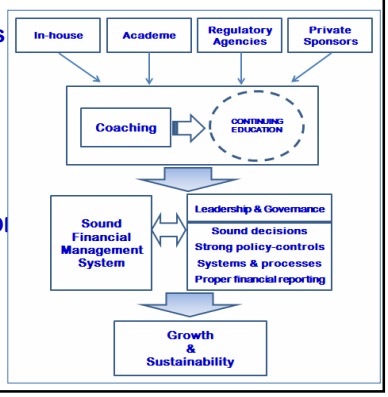
POOR financial management resulted to:

- undesirable financial performances
- inefficiencies in utilization of resources
  - low productivity
  - low returns

Recommendations

Proposed framework for sound financial management:

STRENGTHEN IMPLEMENTATION OF CONTINUING EDUCATION & TRAINING DEVELOPMENT



Other Recommendation

- CDA to implement strict monitoring on the appropriateness of audited financial statements submitted by the cooperatives and imposed heavy penalties to both auditor and cooperative- auditee for non-compliance for financial reporting standards or inappropriate AFS

End of Presentation. . .