

## AN ASSESSMENT OF THE FINANCIAL CONTROL SYSTEM AND FINANCIAL STATUS OF CREDIT COOPERATIVES IN THE PROVINCE OF ANTIQUE\*

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**Abstract:** *Coop managers of 15 credit cooperatives in the Province of Antique were personally interviewed and their financial statements were examined to assess their financial control system and financial status. The findings revealed that most of the coops had moderate to strong financial control system and had borderline to healthy financial status. Most of the coops paid current and long-term obligations and distributed dividends to their members. The coops' extent of financial control and financial status significantly varied according to their years of existence, initial capital, number of members, number of employees, and educational attainment of managers. No significant relationship exists between the coops' financial status and extent of financial control.*

### INTRODUCTION

Records show that despite many reported successes of cooperatives, still many have failed. Most of those which failed were credit cooperatives. Failure has been attributed to many reasons, some of which are poor management, lack of training of members, lack of qualified officers, lack of cooperation and continuous education among members and lack of capitalization (Benares, 1989). These reasons, however, are mostly perceptions expressed by cooperative members or patrons. The causes of the failure and their significant bearing on cooperative's performance have not really been conclusively established.

An analysis of relationship between performance of cooperatives and selected variables

could bring light to some doubtful connections between them. An examination of the organization's non-financial aspects, may yield important findings than can be used as basis for improving cooperative performance. If an organization's financial status can be affected by its financial control system, it would be interesting to examine whether this also holds true in cooperatives.

### OBJECTIVES OF THE STUDY

This study aimed to determine the extent of financial control and the financial status of credit cooperatives in the Province of Antique and to ascertain the relationship between extent of financial control and financial status. The study further determined whether the extent of

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financial control and the financial status of the cooperatives are related to certain financial and non-financial factors, namely, capitalization, number of employees, number of members, number of years of existence, managers' educational attainment, kinds of loans extended to members, sources of capital other than paid-in and dominant economic activity.

**THEORETICAL AND CONCEPTUAL FRAMEWORK**

This study is anchored on Homes and Overmyer's Principles of Internal Control (Holmesland Gvermfer, 1979), which evaluate the financial as well as the administrative functions of the company. Since effective financial internal control is based upon the concept of charge and discharge of responsibility and duty, the 11 Cardinal Principles of Internal Control were used to measure the extent of financial control employed by credit cooperatives. It is assumed that when a credit cooperative complies with

these principles, it is more likely than not, to have a strong internal control. It is assumed that when proofs of accuracy are utilized, such as utilization of double-entry bookkeeping; utilization of controlling accounts, use mechanical devices, and issuing operating instructions for each position, financial reports are accurate and reliable, transactions are properly recorded and accounted for and these are expected to lead to profitable undertaking (Steninhoff and Burgess, 1989, p.82).

Extent of internal control and the financial status of cooperatives, which serves as the dependent variables of this study, are expected to vary according to capitalization, number of employees, members, and years in existence, kinds of loans extended to members, source of capital other than paid-in, dominant economic activity, and educational attainment of manager. These are the study's independent variables. Figure 1 shows the assumed flow of relationship among the target variable of the study.

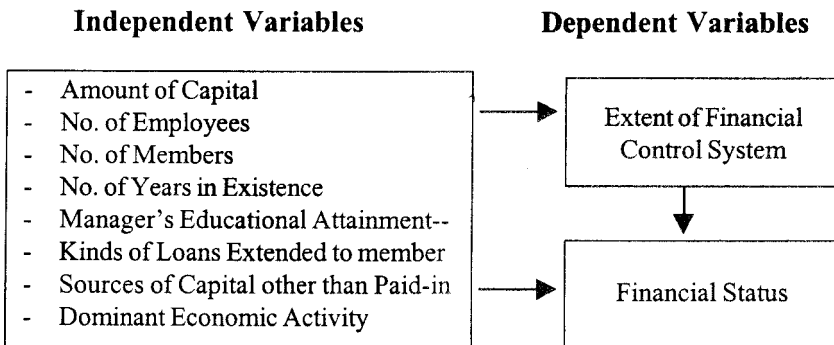


Figure 1. Assumed flow of relationship among the target variables of the study.

## HYPOTHESES

1. Extent of financial control significantly differs according to capitalization, number of years in existence, number of members, number of employees, educational attainment of managers, type of loans extended to members, sources of capital other than paid-in, educational attainment of managers, and dominant economic activity in the locality.
2. The financial status of credit cooperatives significantly differs according to capitalization, number of years in existence, number of members, number of employees, educational attainment of managers, type of loans extended to members, sources of capital other than paid-in capital and dominant economic activity in the locality.
3. There is no significant relationship between the coops' extent of financial control and the financial status of credit cooperatives.

## RESEARCH DESIGN AND METHODOLOGY

This is a study of 15 credit cooperatives in Antique. A questionnaire based on the 11 Cardinal Principles of Internal Control accompanied by a brief information sheet was administered to the coop managers. In addition, the coops'

financial statements were examined to determine their status and performance. The respondents were asked to indicate how often a coop employed a particular procedure and each response was given a weighted score: 1 for "Never," 2 for "Rarely" (1 to 2 times), 3 for "Sometimes" (3 to 4 times), 4 for "Always" (five or more times). The sum of the weights of the responses represented a coop's overall extent of financial control and categorized as follows: "strong financial control" (34-44), "moderate financial control" (23-33), and "weak financial control" (11-22).

The Altman's Z score was used to predict bankruptcy using financial ratios, which included: the ratios of working capital to total assets, cumulative retained earnings to total assets; earnings before income taxes to total assets; equity to book value of total liabilities; and sales to total assets. The sum of the ratios represented a coop's financial status. These ratios were computed based on the audited financial statements (from 1988-1992) of the credit cooperatives.

## RESULTS AND DISCUSSIONS

### Financial and Non financial Characteristics of the Cooperatives

Table 1 shows that the majority of the 15 credit cooperatives studied started small, with 60% of them starting with an initial capital of less than P1,000. The rest had less capital.

After several years of operations most of the cooperatives apparently have grown financially, with the majority (60%) posting a capitalization of more than P1,000,000 in December 30, 1992 (Table 1). Some of the coops have apparently expanded operations through increase in membership and infusion of additional capital.

Twelve of the 15 cooperatives (80%) had been operating for more than 25 years. Slightly more than half (53%) of the cooperatives had more than 800 members, the rest had fewer. Most of them had five or less employees and the managers of most (80%) were college-educated.

All the cooperatives extended income generating/provident loans to

**Table 1.** Distribution of Credit Cooperatives According to Financial and Non-Financial Characteristics.

Categories	Number (n=15)	%
<b><u>Initial Capital</u></b>		
Small (P1,000.00 or less)	9	60
Large (over P1,000.00)	6	40
<b><u>Capitalization as of December 31, 1992</u></b>		
Small (1,000,000.00 or less)	6	40
Large (over P1,000,000.00)	9	60
<b><u>Years in Existence</u></b>		
Short (twenty five years or less)	3	20
Long (over five years)	12	80
<b><u>Number of Members</u></b>		
Few (800 or less)	7	47
Many (over 800 members)	8	53
<b><u>Number of employees</u></b>		
Few (five or less)	10	67
Many (over five employees)	5	33
<b><u>Educational Attainment of Managers</u></b>		
College undergraduate	3	20
College graduate	12	80
<b><u>Kinds of loans extended to Members</u></b>		
Income Generating/Provident loan	15	100
Other Special Purpose loan	0	0
<b><u>Sources of Capital Other than paid-in</u></b>		
Private loans	11	73
Government loans	4	27
<b><u>Dominant Economic Activity in the locality</u></b>		
Farming	14	93
Business/trade	1	7

their members. To finance their operations, 11 of the cooperatives obtained loans from the private sector; 4 borrowed from government entities. Fourteen of the cooperatives were situated in municipalities outside of San Jose, the capital town of the Province of Antique, where the other one was established. The dominant economic activity in almost all the municipalities was farming, while in San Jose it was business/trade.

### **Extent of Financial Control of the Cooperatives and its Variation according their Financial and Non-Financial Characteristics**

On the whole, the 15 cooperatives studied exhibited “moderate” extent of financial control as indicated by an over-all mean score of 32.25. The cooperatives’ extent of financial control was noted to vary significantly according to certain financial and non-financial factors (Table 2).

**Capitalization.** Cooperatives with capitalization ranging from P1,000,000 or more as of December 31, 1992 exhibited significantly higher mean extent of financial control score (37.11) than those with less capitalization. The former had strong financial control, while the latter had moderate financial control. The t-test result of 3.93 was significant at 5% level. This means that cooperatives with bigger capital tended to have stronger financial control system than those with less capital.

### **Number of years of Existence.**

Cooperatives that existed for more than 25 years obtained a higher mean score (34.97) in financial control than those which had been in existence for less than 25 years (23.00). The extent of financial control of the former was strong, while that of the latter was moderate. The difference between means ( $t=2.8998$ ) was significant at 5% level, which means the older cooperatives were more stable than the younger ones. The cooperatives which had existed for more than 25 years may have generated big income, paid their loans and distributed dividends to their members.

**Number of Members.** Cooperatives with over 800 members exhibited significantly stronger financial control (mean score = 38.78) than those with less than 800 members (mean score = 25.86). Based on their scores, the extent of financial control of the former was strong, while that of the latter was moderate. The t-test result of 5.19 was significant at 5% level. Big membership may have allowed cooperatives to build-up capital, hire more employees of duties and have better control of their finances.

**Number of Employees.** Cooperatives with more than five employees exhibited a strong financial control, while those with less had moderate financial control. The former obtained a significantly higher extent of financial control score

**Table 2.** Average Extent of Financial Control Scores and Test for Differences Between Means According to Selected Characteristics of Cooperatives.

Category of Credit Cooperatives	N	Mean	SD	t-test	Description
Overall Extent of Financial Control	15	32.25	5.63		Moderate
<b><u>By initial capital</u></b>					
Small (P1,000 or less)	9	31.89	8.24		Moderate
Large (over P1,000)	6	33.50	7.94	3.9332*	Strong
<b><u>By capitalization as of Dec. 31, 1992</u></b>					
Small (P1,000,000 or less)	6	25.67	6.25		Moderate
Large (over P1,000,000)	9	37.11	5.01	3.9332*	Strong
<b><u>By years in existence</u></b>					
Short (five years or less)	3	23.00	2.00		Moderate
Long (over five years)	12	34.92	6.87	2.8993*	Strong
<b><u>By number of members</u></b>					
Few (800 or less)	7	25.86	4.98		Moderate
Many (over 800 members)	8	38.38	4.37	5.1864*	Strong
<b><u>By number of Employees</u></b>					
Few (five or less)	10	28.60	6.50		Moderate
Many (over five employees)	5	40.40	2.41	3.8665*	Strong
<b><u>By educ. Attainment of Managers</u></b>					
College/Undergraduate	3	25.67	3.06		Moderate
College Graduate	12	34.25	7.82	1.8240*	Strong
<b><u>Sources of Other Capital</u></b>					
Private Loans	11	32.18	7.82		Moderate
Government Loans	4	33.50	9.15	.2771	Strong
<b><u>Dominant Economic Activity</u></b>					
Farming	14	32.07	7.72	No test	Moderate
Business/Trade	1	39.00	0.00		Strong

\*Significant at 5 % level

(40.4) than the latter (28.6). The t-test result of 3.86 was significant at 5% level. This suggests that with adequate staff cooperatives can achieve better internal control.

**Educational Attainment of Managers.** Cooperatives with college-educated managers demonstrated a better financial control system (mean=34.25) than

those with managers who were undergraduates (25.67). The extent of financial control of the former was strong, while that of the latter was moderate. The t-test result of 1.8240 was significant at 5% level. Apparently higher education prepared the managers to make logical management decisions in terms of cooperative operating procedures.

**Sources of Capital other than Paid-in.** The data further show that cooperatives that availed of government loans other than paid-in capital showed better financial control score (33.50) than those who availed of private loans other than paid-in capital (32.18). The former had a strong financial control while the latter had moderate financial control. The t-test result, however, (0.2771) was not significant at 5 % level. This means that irrespective of their source of loan, the financial control system of the cooperatives remain to be moderate to strong.

**Financial Status and Its Variations According to Selected Variables.** The data in Table 3 show that on the whole the 15 cooperatives had healthy financial status as indicated by an overall mean of 4.75. This means that the cooperatives were viable and were earning enough to pay current as well as long-term obligations and distribute dividends or surplus to its members. The mean scores ranged from 3.01 to 8.65 which show that cooperatives were homogenous in terms of financial status.

**Amount of Capital.** Cooperatives with initial capital of more than P1,000 also exhibited a slightly higher mean financial status score than those who started with less capital (Means=4.78 and 4.21, respectively; t-test= .5430). The difference between the two means, however, is not statistically significant at 5%

level. The data further show that cooperatives with capital ranging from P1,000,000 or more as of December 31, 1992 had healthier financial status (5.04) than those with less capital (3.54). The t-test result however (.5286) was not significant at 5% level. This does not necessarily mean that cooperatives with bigger capital have more funds or resources available for cooperatives operations are stable. capital.

**Number of Years of Existence.** The cooperatives which have been in existence for more than 25 years registered a slightly higher mean financial status score of 4.67 but is not significantly higher than the mean of those which existed for less than 25 years (t-test =.9033). This means that the length of existence of the cooperatives does not affect their financial status.

**Number of Employees and Members.** Cooperatives with less than five employees registered a mean financial status score of 4.96 which is significantly higher than the mean financial status score (3.40) of those with less than five employees (t-test-1.5213). This means that cooperatives with few employees have less operating expenses in terms of salaries and benefits than those cooperatives with many employees.

**Educational Attainment of Managers.** Cooperatives with managers who were college graduates also exhibited a significantly higher mean financial

**Table 3.** Tests for Difference Between Means of Financial Status of Credit Cooperatives According to Certain Factors.

Category of Credit Cooperatives	N	M	SD	t-test
<b>Entire Group</b>	15	4.75	1.71	
<b><u>Initial Capital</u></b>				
Small (P1,000 or less)	9	4.21	1.61	
Large (more than P1,000)	6	4.78	2.51	.5430ns
<b><u>Capitalization as of Dec. 31, 1992</u></b>				
Small (less than P1,000,000)	6	3.54	1.60	
Large (more than P1,000,000)	9	5.04	2.01	.5286ns
<b><u>Year of Existence</u></b>				
Short (less than 25 years)	3	3.52	1.57	
Long (more than 25 years)	12	4.67	2.03	.9033ns
<b><u>Number of Members</u></b>				
Few (800 or less)	7	4.68	2.02	
Many (more than 800)	8	4.23	2.01	.4302ns
<b><u>Number of employees</u></b>				
Few (five or less)	10	4.96	2.13	
Many (more than five)	5	3.40	1.08	1.5213*
<b><u>Educational Attainment of Managers</u></b>				
College undergraduate	3	3.01	0.92	
College Graduate	12	4.80	2.00	1.4759*
<b><u>Source of Capital other than Paid-in</u></b>				
Private loans	11	4.49	1.63	
Government loans	4	4.29	2.98	.1661ns

ns – not significant at 5 % level.

\*Significant at 5% level

status score (4.80) than those with less educated managers. The t-test result was 1.4759, which was significant at 5% level. Better education apparently provides managers better management skills.

**Sources of Capital other than Paid-in.** The table shows that

cooperatives whose source of capital other than paid-in, was obtained from private loans revealed a slightly higher mean financial status score (4.49) than those who obtained loans from government. The t-test results of .1661, however, was not significant at 5 % level.



**Extent of Financial Control and Financial Status: A Correlation**

The correlation analysis between the extent of financial control of the cooperatives and their financial status yielded a Pearson r of 0.17, which is not significant at 5% level. Since the indifferent or negligible

relationship between the two variables is not statistically significant, it can be deduced that the financial status of the cooperatives is not dependent on its extent of financial control (Table 4). The result fails to support the hypothesis that there is a correlation between the two variables.

**Table 4.** Relationship Between Extent of Financial Control Employed and Financial Status Among Credit Cooperatives

Pearson r	Extent of Financial Control	Financial Status
Financial control system	1.0000	-.1694 ns
Financial status	-.1694 ns	1.0000
Clinical Value of r	.4973	

ns- not significant at 5 percent level

**CONCLUSIONS AND RECOMMENDATIONS**

The credit cooperatives in the Province of Antique tend to safeguard their assets against improper disbursements and improper liabilities and they apparently recognize the need for financial control in their operations. The credit cooperatives are financially capable in managing the resources of their members and have good financial managers.

The cooperatives' extent of financial control significantly vary according to number of years in existence, capitalization, number of members, number of employees, and

educational attainment of managers and educational attainment of managers. The cooperatives' financial status is significantly associated only to number of employees and educational attainment of the manager. The cooperatives' extent of financial control, however, did not significantly influence their financial status.

Despite the fact that some cooperatives are careful in safeguarding their assets and other resources, there are still credit cooperatives which employed moderate financial control system, because of inadequate capitalization and educational training of managers.

Although most of the credit

cooperatives studied exhibited healthy financial status, they still need to exert more effort to increase their capital, help the less qualified managers obtain academic degrees which are vital for their positions, and tap prospective and/or existing business/trade potentials in the locality.

The credit cooperatives should also encourage capital build-up among their members or obtain loans from outside sources. This will enable them to increase their area of coverage, thereby increasing the members yield or dividends. In doing so they can improve their membership.

In order to maintain sound financial conditions the credit cooperatives must strive to be control conscious, building upon their number of years in operation, their capital structure as of December 31, 1992 and their number of members. They should also devise other mechanisms to evaluate their financial performance to enable them to monitor or check their operations in order to maintain or further improve their financial health or status.

Since financial control of credit cooperatives are affected by their financial and non-financial characteristics, they should strive to continuously assess their operations and search for new methods to improve their financial control system thereby protecting the investments of the members and creditors.

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