

# Reflecting the Values and Principles of Cooperativism in the Financial Management of Cooperatives

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## Abstract

This paper explored the values and principles of cooperativism in the financial management practices of cooperatives. This paper argues that the values and principles are embedded on the financial indicators particularly in the observable patterns of growth in membership and in the paid-up capital.

## I. Introduction

The cooperative movement had made significant contributions to the different societies worldwide since 18<sup>th</sup> century. The movement began in England and France and they had succeeded in forming cooperative institutions to meet their common economic, social, and cultural needs. Generally, a cooperative (also known as *co-operative*, *co-op* or *coop*) is an autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled business (R.A. 9520). Cooperatives are formed on the principle of democratic and participatory governance by the members who, themselves, use their services.

Cooperatives possess some peculiarities with other types of organizations. Its members live in the principle of *cooperativism* where everyone unites to address issues, face challenges, and attain a common purpose together. They elect functioning officers to oversee the operation of the cooperative. They adopt a “one-man, one-vote” principle that regardless of their contributed share capital, members have equal voting rights. The members are expected to patronize the services of their respective cooperative and help in the furtherance of their common vision. But similar to other forms of organizations, the cooperatives also have a high level of vulnerability regarding operating disruptions due to fund management, weak internal control system, and unstable leadership structure which may result to inconsistent and unclear interpretation and implementation of cooperative policies and procedures. Definitely, internal interventions may be necessary to ensure successful management of cooperatives. Furthermore, because of their great communal role and impact, they need to manifest a strong organizational sense.

Financial management has an important role not only to cooperatives but also to every enterprise, it has a very important role in achieving financial success of a business. Financial Management refers to the efficient and effective allocation of money or funds in such a manner as to accomplish the objectives of the organization. Further, financial management serves as a measurement tool whether an entity had succeeded from meeting its aspirations which includes the values and principles. Financial management success indicates that the entity has fulfilled its mandate and purpose which was formulated by the owners or by those people that were given authority.

Members in a cooperative must have to understand their roles and obligations to their cooperative. Financial information can be used to measure the value system and principles commonly believed by members and the management team. If values and principles are not well defined, the cooperative becomes vulnerable

to risk of failure and sooner or later it will eventually die. In a collectivist perspective, if members display individualistic than a collective behavior then it becomes frailty. In this sense, collective behavior must be observed in a social institution and the members must be imbibed with their social role to their cooperative. Collective action must become part of the values and principles of every cooperative.

In a cooperative, the members would elect the board of directors to create an effective decision-making system and leadership for the group. The board of directors only have the power to oversee and implement the shared goals of the cooperative within the financial capacity of the cooperative. Members are the most important part of the team and they have the greater responsibility to the cooperative because they have to provide capital to the cooperative in the form of paid-up shares. Paid-up shares are indications of the members' commitment to the team and it represents their long-term financial pledge to the cooperative. Payment of paid-up would infuse funds to the cooperative that would be used to provide greater services and maintain volume of member transactions.

This research aims to explore the values and principles of cooperativism in the financial management practices of cooperatives. In general, cooperatives are self-help organizations and success can be realized only if the members themselves are much interested in their own cooperative (Dayanandan, 2013). Thus, when the members understood their role to their cooperative then they would be willing to work collectively as a team in order to realize their overall goal. For instance, a cooperative member must be willing to contribute paid-up capital in order to sustain the cooperatives operation.

## Methodology

### *Data gathering collection technique*

The data sets come from the submitted statement of operations of about 788 cooperatives in one region of the Philippines. An on-the-job (OJT) group of students were assigned the collection of data with specific instructions on the format of encoding and the variables collected for the study. The collection and encoding of data covered a period of seven years from 2011 to 2017. Older data sets cannot be included since there were no records retained prior to 2011. The permission to gather data of the audited financial statement of the cooperatives is covered by an agreement between the cooperative agency and the university who did the study.

### *Treatment and analysis of data*

The identification of the variables used in the study was based on the relational dimension in which the patterns of membership and paid-up shares were analyzed with an *a priori* assumption that cooperatives' paid-up shares is increasing as the number of members is also increasing. Since cooperatives are voluntary organizations, joined members must accept given responsibilities, encourage participation, and eliminate discrimination. Hence, it should be observed that the members should be willing to commit their funds to the cooperative if a shared objective prevails. The increase in paid-ups shares also indicates the members' collective action in which they feel sense of ownership to their cooperative and they could gain long-term benefit through their collective action. The increase in paid-up share would also indicate the members' willingness to fulfil their social-obligation in a social contract perspective. The payment of paid-up shares manifests their willingness to abide with the values and principles of cooperativism in which the members (new and old) are fulfilling their social and economic obligation to their respective cooperatives.

### *The curve estimates*

The study made use of curve estimate regression models to plot the relationship of paid-up shares and number of members. Specifically, linear, quadratic and cubic were used to identify the appropriate model to measure the correlation of the paid-up shares and number of members. A 7-year panel data series were used as an input in generating curve estimations. The graphs made use of the trial version of the Statistical Package for the Social Sciences (SPSS) which was then analyzed and used for interpretation.

### *Analysis of data*

This paper employs a triangulation technique to intertwine the results of the study with the actual governance set up of the cooperative and its scholarly implication to the existing school of thought on the collectivist and social contract theory which is dealt with as more political concepts than social and economic concepts. To lend credence on the analysis and interpretation of data, key informant interviews and focus group discussions will support the intuition of the results and the interpretation and analysis of the researchers.

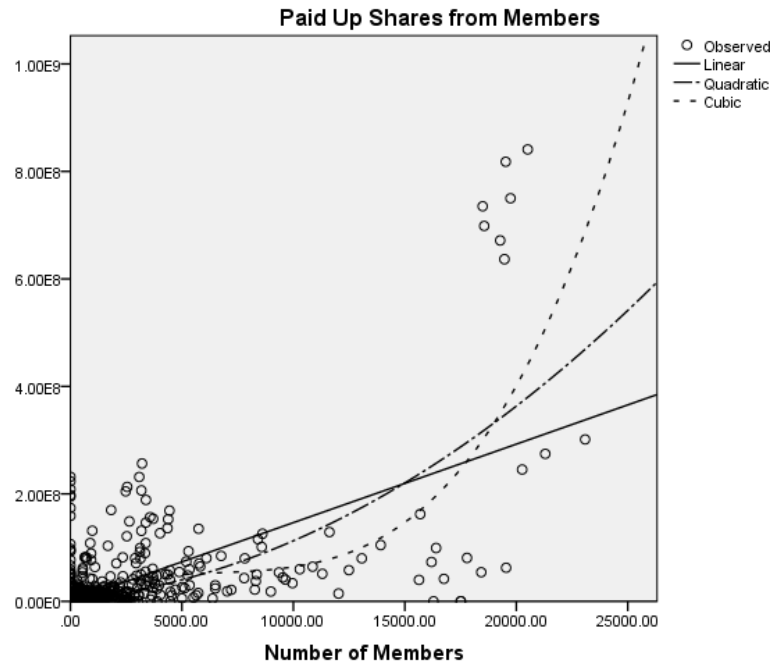
The type of research that was used in this study is Random Research Method. Random research is essentially about collecting random numerical data to explain a particular phenomenon, particular questions seem immediately suited to being answered using quantitative methods. This allows generalizations of results from a sample to an entire population of interest and the measurement of the incidence of various views and opinions in a given sample. It generally focuses on measuring social reality. This kind of research is either descriptive or experimental research, and the kind of quantitative research used in the study was descriptive research method because the data collection method that was used was paper surveys, face to face interview with questionnaires.

## Results and Discussions

**Table 1.** Model Summary and Parameters to Assess the Values and Principles of Cooperativism along Financial Management

Model	Coefficient of Correlation	F-Value	Sig.	b1	b2	b3
Linear	.433	2511.191	.000	14602.467		
Quadratic	.470	1460.376	.000	3926.785	.704	
Cubic	.511	1144.496	.000	20125.593	-2.748	.000

For the region, the appropriate model that is best fit to explain the relationship of number of members and paid-up shares from members is cubic having a coefficient of correlation of 0.511. The cubic would reveal positive correlation of number of members and paid-up shares from members. This indicates that when number of members increases, paid-up shares also tends to increase.



# Figure 1. The relationship of number of members and paid-up shares

The result reveals that in spite that the number of members is increasing, the pattern for growth in paid-up shares is slow which depicts a scenario that the cooperative members are not committed to paying their subscribed shares. As observed, the cooperatives in the seven provinces in on region in the Philippines that the paid up shares from the members is low and regression estimates reveals slow growth of paid-up shares regardless that the number of members are increasing. The result may affirm the findings of Puusa, et al. (2016) in their study that an increase in number of members may not be a validating factor in increasing commitment from members and having a larger group would bring more people who are not so actively involved in which they may also bring dissidence and disagreements.

The result implies that the members and the management have a weak understanding of the values and principles of cooperativism. For instance, the members manifest their voluntariness and willingness to become a member through their commitment to continuously contribute capital for the cooperative. In terms of democratic control, their support and approval to the BODs and management are observed through their payment of paid-up capital since the members' contributed capital serves as the lifeblood of any venture or project proposed by the BODs and the management. The economic participation also of the members are manifested in their willingness to contribute capital since operating assets are mobilized through paid-up capital and growth can only be achieved when members would always support their cooperatives. Further, the desire of the members to have an autonomous and independent entity can only be achieved when the cooperatives have accumulated enough capital in order to pursue its business operation. Overall, since the members were not committed, their respective cooperatives may not be able to pursue other cooperative principles such as education, training and information; cooperation among cooperatives; and concern for community since they are hard-up in bringing in internally generated funds for them to generate more funds and support other cooperative principles.

The result manifests that the members have weak understanding of collective attitude and individualistic behavior seems to be more apparent. The members tend to serve their ulterior motives and they view cooperatives simply as a source of insurance, loans and dividend. For instance, the members are not much interested in their cooperative and they tend to ignore their obligation to pay their share capital. There were also few of them who were willing to pay and ignore their social obligation of paying their subscribed shares as stated in the cooperatives' by-laws. Moreover, some of these members pattern their behavior to their fellow members. There are instances also that even though some members are willing to pay higher, they would only pay small amount because their fellow members only pays minimally. There is a weak understanding that the payment of share capital is essential for the cooperative to maintain and sustain its operation and non-payment of the members of their subscribed share capital becomes highly precarious as their respective cooperatives may not be able to cope with their financial and operating needs. This means that the cooperatives may be hard-up in acquiring resources for the cooperative and in paying needed expenses. The members' willingness to become a team player is essential in the growth and longevity of their cooperative because cooperatives are autonomous and highly dependent on the members' willingness to become part of the team.

It manifest among the cooperatives that there were few members who are willing to pay their shares and most of the members paid low amount of share capital. Seemingly, the members do not regularly pay their subscribed shares which may hinder the cooperatives' growth. The result does not fully conform to the cooperatives' values and principles wherein most members do not practice their collectivist norm and they do not exercise economic participation through their regular payment of their share capital. Due to this, the cooperatives should motivate their members to add their share capital regularly to have more funds to use in the business operations (Oras, 2010). Members' contribution is the common source of the fund of cooperatives, more participation from the members would effect to a closer achievement of the cooperative's goal. The members' share capital is very important in order for the cooperative to maintain and sustain its operation but the members themselves are not doing their part to pay their share capitals so there is difficulty for the cooperatives to acquire resources for the cooperative and in paying the expenses needed.

Those members who are willing to become a team player are helpful in the growth and longevity of their cooperatives because they want to be part of the cooperatives.

## Conclusion

Values and principles manifested by members in a cooperative can be reflected in the financial indicators. The research reveals that among the cooperatives, there is a weak understanding of the cooperative values and principles like member economic participation and wherein the members are not willing to pay their subscribed shares. If the members are not willing to contribute to the cooperatives' paid up shares then this could hinder the cooperatives to achieve their goals. It manifest that members have weak understanding in the overall values and principles of cooperativism as it was manifested in the financial management of cooperatives. The cooperatives' finances portrays behavioural nuances in which patterns of paid-up share reveals the commitment of the members. The slow growth pattern in paid-up shares could explain the failures of most cooperatives and their inability to grow. The study suggests that cooperatives should strengthen the commitment of their members and they should not focus on recruiting members with ulterior motives. Every member participating in a cooperative must have full understanding on the values and principles of cooperativism that must be expressed in terms of their economic participation. The lack of support of the members to their respective cooperatives often hinders their growth and it can lead to the cooperative's demise. In this sense, the members' acceptance and commitment to the values and principles of cooperativism are vital to the longevity and survival of cooperatives. This also call for a paradigm shift among cooperative leaders in which they should focus on recruiting members who are committed to the cooperative principles rather than focusing on the increase in the number of membership.

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