

A Cooperative's Governance and Response to Rising Expectations

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Abstract

This is a descriptive case study. It is an evaluation of the corporate governance and corporate citizenship of the MSU-IIT Multi-purpose Cooperative in relation to its responses to the needs of its members and the community. Data were gathered through surveys, interviews, observations, focus group discussions, and content analysis of documents and were treated both quantitatively and qualitatively.

From 38 members and P86.20 initial asset, the MSU-IIT MPC grew to more than 30,000 members, more than P400 million in assets, and 103 employees in 32 years. By helping liberate members from usurers and by improving their economic plight, the MSU-IIT MPC provided a model for a self-help initiative for peace building and development.

The contribution of the cooperative to the community was made possible by its corporate governance and corporate citizenship. The Board of Directors of the cooperative provided it with strategic guidance, effective risk management, good supervision, effective monitoring, and effective strategies.

The cooperative needs a code of ethics and ethical conduct, improved disaster management, and widespread articulation of its core values. The corporate citizenship of the cooperative should be institutionalized and focused on the triple bottom line: people, planet and profit.

Keywords: cooperative, corporate citizenship, corporate governance, environmental sustainability, risk management, rising societal expectations, strategic guidance.

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Introduction

Cooperatives are vehicles for promoting self-reliance and harnessing people power towards the attainment of economic development and social justice (Art. 2, Chap. 1, RA No. 9520). Trust in the capability of cooperatives to usher development is the reason why cooperativism is constantly employed by the government as a strategy in pursuing development especially among the depressed sectors.

This is shown in the case of the Department of Agrarian Reform (DAR), which organized its beneficiaries into cooperatives to promote sustainable development in Agrarian Reform Communities (ARCs). Likewise, efforts were made to organize some demobilized MNLF combatants into cooperatives following the 1996 final peace agreement by the government and the MNLF. This is to enhance collective responsibility in sustaining livelihood programs provided to former combatants. Even the electrification program of the Philippines adopted the cooperative strategy to advance its mission. However, in most instances when the cooperative organization is used, the structure is emphasized while little attention is given to substance. Lack of attention to cooperative culture and cooperative processes turned many cooperatives into fronts of fraud instead of vehicles for development. Due to bad governance and mismanagement, many cooperatives especially those organized by government agencies failed.

The figures from Coop Life Insurance and Mutual Benefit Services (CLIMBS) in 2009 are revealing. Of the 69,500 registered coops in the Philippines, only 20,913 are viable; 48,600 are no longer operating; 686 coops have assets of P15M to less than P100M; and only 124 coop primaries have assets of more than P100M (Lumasag, 2009). Less than one-third have survived among the registered cooperatives in the Philippines. Among the survivors, half percent, these surpassed P100 million in assets. Even with the more optimistic figures from the Cooperative Development Authority (CDA), a bleak cooperative landscape is painted. Large coops with assets of more than P100 million constitute only 1.5% of the total registered cooperatives while the micro coops with assets of P3 million and below constitute 73.6%. Among the causes of the

failure of many cooperatives are poor governance, mismanagement, inadequacy of reserves, absence of internal controls, and lack of prudential rules and regulations (Juarez, 2008).

Cooperatives struggling for viability have a limited contribution to the well being of their members. Likewise, their contribution to the community and to other stakeholders is nil. Among the more viable cooperatives, economic improvements and mobilization of members towards collective development initiatives are observable. However, contribution to ecological governance and to the communities where they operate is still minimal. In Iligan, the involvement of cooperatives in environmental activities such as solid waste management, tree planting, coastal clean-up and other related activities is still minimal. Until 2009, cooperatives in Iligan have no budgetary provision for community concerns like charity and environmental projects. It is only in 2010 that MSU-IIT MPC in compliance with Art. 86 (3), Chapter X of R.A. 9250 which requires the allocation of not less than 3% of the net surplus of the cooperative for community development or for projects or activities that benefit the community where the cooperative operates, that the cooperative provided an allocation for its Corporate Social Responsibility (CSR) Fund. This placed MSU-IIT MPC among the first cooperatives in the Philippines that has institutionalized its corporate social responsibility towards the community and the environment.

Methodology

This was a study of the corporate governance and corporate citizenship of MSU-IIT MPC in relation to its fourth mission which is "to provide quality products and services fully satisfying the needs of its members" (Pakigsayud, Vol. XXV, No. 2: 2). It looked into the response of the cooperative to the needs of its members and expectations of the community. The need of members focused on the products and services of the cooperative which included savings and credit facilities, health care, insurance and education. The community expected to be able to participate in the affairs of the cooperative and to avail of quality products and services. The community also expected that the cooperative increased its involvement in community development.

Although a cooperative, MSU-IIT MPC is treated as a corporation in terms of governance. Like a corporation, the cooperative has a governing Board of Directors and its members as its shareholders. The distinctive characteristic of a cooperative organization is that its shareholders are also its clients or customers.

Personal interviews and survey of the members of the Board, management and staff, members of standing committees, and pioneering members were used in gathering data on the corporate governance of MSU-IIT MPC. The questionnaires and interview guides used in data gathering were adapted from the Report on the Observance of Standards and Codes (ROSC), which is based on OECD principles on corporate governance. Key informants were interviewed to find out whether the cooperative complied with the requirements of government agencies which include the Cooperative Development Authority (CDA), Bureau of Internal Revenue (BIR), Social Security System (SSS), Philippine Health Insurance (PHILHEALTH) and PAG-IBIG. Additional interviews with the coop accountant, coop treasurer, General Manager, Human Resource Officer and other officials on the growth and performance of the cooperative were conducted.

On the satisfaction of the members, secondary data were used from a micro-market study conducted by MASS-SPECC, which used focus group discussions in data gathering. On the coop's responses to the needs of entrepreneur members, interviews focusing on members doing business in the Palao market and its surroundings were conducted in the Palao Branch of MSU-IIT MPC. Data gathered were treated qualitatively and quantitatively. Findings were presented in narrative form.

Analytical Framework

The concepts of corporate governance and corporate citizenship were used in analyzing the ability of MSU-IIT MPC to respond to the needs and expectations of its members.

a) Corporate Governance

Corporate governance refers to "an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities

with good business savvy, objectivity and integrity" (O'Donnovan, 2003). The fundamental components of the principles of corporate governance include sincerity, confidence and integrity, performance orientation, responsibility and accountability, mutual deference, and commitment to the organization (OECD, 2004). The Board of Directors and the management should align the behavior of members to the values of the organization. Senior executives should be candid and ethical in their conduct, especially in situations concerning conflicts of interest, and disclosure of financial reports.

The commonly accepted principles in corporate governance include the roles of the BOD towards management and other stakeholders and the responsibility of the management for effective, ethical, transparent operation; equitable treatment of shareholders and its other stakeholders (Business Roundtable, 2002). The Board is responsible in instituting good governance. It must be independent in monitoring managerial performance and achieving an adequate return for shareholders while preventing conflicts of interests, balancing competing demands, and ensuring that the corporation complies with laws on taxation, competition, labor, environment, equal opportunity, health and safety laws.

The sixth principle of corporate governance by the Organisation of Economic Co-operation and Development (OECD), which refers to the responsibilities of the Board was used as the framework for this study. Based on this principle, the study looked into the strategic guidance of MSU-IIT MPC; risk and disaster management of the cooperative; the performance of the Board of Directors in terms of monitoring the management, performing its accountability to the cooperative and shareholders, ensuring ethical operations, and in the articulation of the values of the cooperative.

The role of the Board of Directors (BOD) is vital to the performance of a cooperative. It is mainly responsible for monitoring managerial performance and for achieving profitability for the shareholders (OECD, 2004). The BOD should deal fairly with other stakeholders' interests including the community necessitating the observance of environmental and social standards (OECD, 2004).

b) Corporate Citizenship

The corporate citizenship of MSU-IIT MPC was analyzed in terms of its compliance with the requirements of government agencies and its activities that are contributory to the promotion of respect for human rights and environmental sustainability.

The impact of business to the community is known in terms of poverty reduction, environmental sustainability and conflict resolution. For survival, business must have timeless core values and enduring mission that transcends financial bottom line. These provide direction and alignment that put stability into a business as it faces change. They are instruments in pursuing organizational mission by providing guidelines for the behavior of members (Bell, 1999). The core values and purposes of an organization must be shared by workers. Values provide meaning to what people do beyond their pay check, thus giving them the sense of "industrial citizenship" (Drucker, 1946, cited in Birch, 2003). An individual citizen is a member of a community who participates in the pursuit of community objectives. Same is true in business. In 1886, the US Supreme Court declared that corporations are persons entitled under the Fourteenth Amendment to the same protection given to living citizens (Barnes, 2006). Therefore, like an individual citizen, "when businesses are granted the legal and political rights of individual citizens through incorporation, they are also ascribed, explicitly and implicitly, a set of responsibilities" (Gardberg, 2006). The explicit responsibilities of a company are those stipulated in laws or regulations by government regulatory agencies. The implicit responsibilities are the expectations of various stakeholders, which include the respect for human rights and environmental sustainability. The performance of these responsibilities makes a company a corporate citizen.

Responses to Rising Needs and Expectations

The MSU-IIT MPC is a 32-year old community cooperative founded in 1978 as an institution-based, close-type cooperative by the employees of Mindanao State University-Iligan Institute of Technology (MSU-IIT). It started as a credit cooperative with 38 members who made initial deposits of P86.20 each. Its operation later expanded into a

consumers' store, a photocopying center, a bookstore and a cooperative school (Jumawid, 2009).

On December 31, 1978, the coop posted an asset of P2,291.00. By January 16, 1979, a day before its first General Assembly, this was almost doubled into P4,184.48. In 1986, the coop had its first million pesos in assets after eight years of operation (Dangkulos, 2009).

By mid-1990s, MSU-IIT MPC peaked in its membership. All the qualified faculty and staff of the Institute, which numbered 1,000, already joined the cooperative. As membership reached a dead end, business was also getting saturated. While it continued to grow in its assets, there was no corresponding growth in demand for its products and services from its members which never exceeded 900. As the income of the cooperative went on a standstill, a debate ensued on whether to open up to the community or not (Sanchez, 2009).

After years of debate, the Board of Directors adopted two important resolutions in 2000. The first is to professionalize management and the second is to open up to the community. When the Board decided to open up to the community, it also decided to retain MSU-IIT in the name of the cooperative for its historical significance. However, from the original MSU-IIT Employees Multi-purpose Cooperative (MSU-IIT EMPC), the word "employees" was dropped transforming it into MSU-IIT MPC.

For more than twenty years, the cooperative employed a part time manager, which later became a general manager, as its economic activities expanded. This part time general manager and his division managers were either faculty or staff of MSU-IIT who served for at least two hours a day and were compensated on honorarium basis. Following the decision to professionalize management in 2000, a full time general manager was recruited in 2001. Likewise, in the same year, the cooperative began to recruit members from the community.

In early 2003, the first branch of the cooperative was opened and a salaried branch manager was appointed. By opening up to the community, the cooperative exposed itself to changes in its new environment, in addition to the changes it was already trying to cope with.

As of July 31, 2010, MSU-IIT MPC has a total of 33,283 members, of which 22,268 are regular members; 8,655 are associate members; 1,111 are members in microfinance; and 1,249 are students. It operates in

Cagayan de Oro City; Iligan City; and Maranding, Lanao del Norte. Its school, the MSU-IIT Coop Academy, offers services from nursery to high school. A contingent of 103 employees, 17 security guards and 22 student assistants support operations in its ten branches and its one satellite office. Its average monthly payroll is P863,519.07. By December 31, 2009, its total assets was P420,028,406; total gross income, P70,438,247; and, net surplus for distribution, P28,324,043 (Pakigsayud, Vol. XXVII No. 1). Compared to the figures from 2008, the 2009 asset of the coop grew by 24.04%; its total gross revenue grew by 23.08%; and its net surplus for distribution grew by 25.41%.

The steady growth and development of MSU-IIT MPC has set a model for the cooperative sector which became a subject of study by many cooperatives in the Philippines during "lakbay-aral" (study tour) visits of their leaders. Its growth, along with changes in the local and global business environments demands for the reengineering of some of its processes and procedures, aside from structural adjustments, in order to respond to the growing expectations of its members.

a) Participation

Due to its unique condition, MSU-IIT MPC has introduced structural innovations to institutionalize sectoral participations. While maintaining the representation of faculty and staff in the Board, community representation was provided when the coop opened itself to the community. It has also pioneered the representation of the youth in its Board and it encouraged the representation of women. To provide more frequent participation of members in decision-making and in monitoring the affairs of the cooperative, two general assemblies are conducted annually, in contrast to only one required by the Coop Code.

Among the Board committees, is the Gender and Development Committee, which was established in response to global concerns on women's rights and role in development, and the committee on youth affairs, which looks into the participation of students in cooperative activities. In 2010, a committee on corporate social responsibility was created to focus on the coop's responsibilities towards the community and the environment. The Board allocated P400,000 as initial budget for this committee

b) Satisfaction of Members

In July 8-20, 2010, MASS-SPECC conducted a micro-market study in the 10 branches of MSU-IIT MPC, to find out the degree of satisfaction of members in terms of products and services, as well as on how the coop staff deal with them. The study also aimed to find out the reasons for their satisfaction.

The results of the study reveal that loan products are the most patronized among the different products of the cooperative. Loan products include petty cash loan, time deposit loan, equipment loan, COSA Real loan, medical loan, MICRO Enterprise loan, short term loan (STL), multi-purpose loan (MPL), loan against deposit (LAD), and Loan for Entrepreneurs to Advance Development (LEAD).

It was found out that in a scale of 1-10, the average satisfaction level of members in all branches is 9.33. Using the same scale, their satisfaction level on how the coop staff deals with them is 9.53. Members suggested more products which the coop should provide them, and they also expressed the need for improvements in the way the staff serve members.

The other products patronized by members are savings, mortuary and coop care. In savings, there is regular savings product that offers an interest rate that is 1% higher than prevailing savings interest rate offered by banks. There are also special savings deposit products that include time deposit, kiddy savings, youth savings, Cooperative Savings for Real Estate Acquisition (COSA REAL), College Allowance Fund (CALF), Pension Plan, Retirement Plan, mortuary plan and Sunshine Plan or mutual benefit assistance fund for the family of members who died. Each product was designed for a specific purpose based on the needs of members.

c) Reasons for Satisfaction

Members are satisfied with the products and services of the cooperative because of the following reasons:

1. The coop provides assistance during urgent financial needs. By borrowing from their own cooperative, members maintain their dignity knowing that they are providing business for their cooperative.

2. Members are able to avoid loan sharks and other lending institutions which ask for a 5%-10% straight interest. In the coop, they only pay 1.25%-2% in diminishing balance for its loan products, except LEAD and MICRO Enterprise loans which demand 2.25% straight interest. They are also aware that a part of the interest they pay will return to them in the form of patronage refund. This is reflected in the increasing net surplus for distribution to members.
3. Some members are able to buy back their loans from other lending institutions with the use of borrowed fund with lower interest from the cooperative. Prior to joining the cooperative, many members are heavily indebted to a "bombay," an ethnic Indian lender and other money lenders. Oftentimes, they are forced to incur another loan with similarly high interest rate, to service their existing loan. This phenomenon, locally termed "pakang-pakang," lead to increasing and continuing indebtedness. With the borrowed fund, which has lower interest from the coop, and financial counseling, which is a requirement for loan releases, many members have graduated from "pakang-pakang."
4. The coop has made life easier for many poor members by lending them funds for house improvements, tuition fees and hospitalization of family members.
5. Some members are able to start businesses with borrowed capital from the coop. One growing financing cooperative, the MIKRO Coop, organized and operated by members of MSU-IIT MPC, started with borrowed capital from MSU-IIT MPC. This enterprise is now branching out in Lanao del Norte and Misamis Occidental.
6. Some members are able to aggressively expand their businesses with the support of the MSU-IIT MPC. Tita Fannies Chicken and Laempo Haus, a favorite eatery of Iliganons, is now open for franchising after ten years of operation. Loans from the coop helped finance its aggressive expansion. Like the MIKRO Coop, Tita Fannies is one of the success stories among the entrepreneurial ventures supported by the MSU-IIT MPC.
7. Some members are satisfied that they are able to prepare for their future financial needs through special savings. These are the sunshine plan and mortuary plans in case of death, pension and

retirement plans for retirement, CALF for college education, and Coop Care for health care.

8. Members are happy that the coop has taught them values of thrift and savings. These values help them manage the balance sheet of their families.

d) Support for Entrepreneurship

When MSU-IIT opened itself to the community in 2000, one of its objectives was to be able to support small entrepreneurs who borrowed from lenders who charged a straight interest of 5%-10% monthly and who usually collected repayments on daily basis. In 2003, the coop opened its Palao branch to focus on the capital needs of vendors, stall owners, and other small businessmen at the Palao market. As of now at least 15% of the small entrepreneurs in Palao market (i.e. sari-sari store owners, vegetable vendors, fish vendors, rice retailers, fruits vendors,) are members of said branch, and at least 30% of the P95 million loan exposure (as of September 14, 2010) by the branch, are from small entrepreneurs (Diaz, 2010).

To respond to the capital needs of small entrepreneurs, the coop developed a loan product called Loans for Entrepreneurs to Advance Development (LEAD). The rate of interest is 2.25% straight. Although it has a higher interest than the MPL which is 1.25% - 2%), LEAD does not require a co-maker for loans of P30,000 and below; it does not also require a collateral which is an additional requirement of the MPL for loans higher than P30,000. The LEAD is based mainly on the member's capacity to pay while the MPL depends largely on the fixed deposit of a member. Although LEAD has a higher interest rate than the other loan products of the cooperative, it is still lower than the 5%-10% interests of other lenders. The coop borrower is also entitled to a patronage refund at the end of the year for availing of the loan product of the cooperative.

There are other indicators which show improvements among small entrepreneur members. These are repeated borrowings, expansion of business, acquisition of market stalls by ambulant vendors, and acquisition of additional stalls for stall owners (Diaz, 2010).

In September 17-20, 2010, 131 small entrepreneur members of the Palao branch were interviewed. Their answer revealed that 110 (83.97%) members borrowed from the cooperative for business purposes while the

remaining 21 (16.03%) members availed of other coop products like health care, sunshine plan, mortuary plan and petty cash.

There are 120 (91.60%) respondents who said they were satisfied with the services and products of the cooperative. This coincides with the findings of the MASS-SPECC micro market study two months earlier. Moreover, 121 (92.37%) indicated that the coop was able to help them in their business. Of these, 100 (76.33%) revealed that they were able to borrow additional capital for their business, while 6 (4.58%) borrowed to start their business. The others were helped by the coop through other means such as: emergency fund for 13 (9.92%) respondents; tuition fund for 13 (9.92%) respondents; fund for other needs (dividends, low interest loans, projects) for 11 (8.40%) respondents.

Loan is the most patronized among the products of the coop as affirmed by 106 (80.92%) members. This is followed by the Sunshine Plan which was availed of by 59 (45.04%) respondents. The other products availed of by the respondents are: petty cash (10.68%), purchase order (10.68%), COSA Real (3.82%), savings (3.05%), and mortuary (.76%).

The lowest loan made by respondents is P1,300 while the highest is P1,000,000. The weighted average for the first three loans is P16,562 for the first, P28,755.75 for the second, and P45,840 for the third. This shows an increasing trend of succeeding loans which according to Renan Diaz, the Palao Branch Manager, is an indicator of business expansion (Diaz, 2010). The increasing loans that respondents contract also indicate their increasing capability to pay and their good repayment record. Good repayment record, especially for increasing loans, indicates an expansion of business. Among the requirements for the approval of LEAD loans are investigation and verification by the loan officer of the documents and business plan submitted as attachments to loan applications.

The Corporate Governance of MSU-IIT MPC

The discussions on the corporate governance of MSU-IIT MPC includes the strategic guidance set by the Board, the risk management strategy, the role of the Board in supervising and monitoring management, disaster management, code of ethics and ethical conduct, code of conduct based on professional standards, and articulation of the values of the cooperative.

a) Strategic Guidance of MSU-IIT MPC

The Board of Directors (BOD) of MSU-IIT MPC has provided strategic guidance to the cooperative by facilitating the crafting of its vision and mission and by setting its objectives. The Board also helped determine the core values of the coop.

The process of setting the strategic direction of the cooperative took three years of consultations and planning activities involving various stakeholders. This was triggered by the rapid growth of the cooperative which led to its opening into the community. Strategic direction provides long term basis for decision making and for managing the cooperative.

The Board of Directors and the management develop strategies during bi-annual strategic planning conference of the coop and these are reviewed annually in relation to the evaluation of the performance of the cooperative at the end of each year.

b) Risk Management

MSU-IIT MPC has effective risk management. Risk management is a strategy that ensures for sustainability and profitability of the coop. It is a process where the cooperative predicts, prevents, and mitigates the effects of risks that threaten to disrupt operations. It covers risks faced by its assets such as its employees, properties, loans and investments. Risks faced by these assets include sickness, disability, and death for employees; fire, floods, and earthquake for buildings, office supplies and coop documents; bankruptcy of depositories and disasters for investments; non-payment of loans due to death, disability or absconding in case of loans.

All employees of MSU-IIT MPC are members of the cooperative. As such, they are covered by a mutual benefit program called the "Sunshine Plan," which covers P75,000 worth of insurance in case of death. It also insures their dependents and biological parents. In 2009, the coop paid a total of P7,197,500 in Sunshine Plan benefits for its members (Pabillar, 2010).

All regular employees are also insured by the coop through two insurance companies, Pioneer Insurance and Coop Life Insurance and Mutual Benefit Services (CLIMBS). Pioneer Insurance provides a P50,000 protection, while CLIMBS provides a P300,000 coverage for accidental death, P75,000 for death by natural cause as well as a daily accident benefit of P300/day for up to 30 days (Cloa, 2010).

All employees are also members of the Coop Care, a pioneering cooperative health care insurance founded by MSU-IIT MPC. This provides health care benefits on top of those covered by the Philippine Health Insurance Corporation (PHILHEALTH).

In addition to using insurance as a strategy in risk management, systems and procedures are also in place to avoid disruptions in operations due to sudden death or serious illness of key personnel. The coop occasionally rotates the assignment of some employees, to familiarize them with basic coop tasks in the cooperative so that when one is absent, anybody on slack time or anybody who is not busy could assume the absentee's task. There are also alternate signatories for important documents and negotiable instruments just in case the main signatory is absent for whatever reason.

All buildings and other properties of the cooperative are insured against fire and other calamities. Loans of members are insured under the CLIMBS' Loan Protection Plan (LPP). This is important because lending is the main business of the coop and it is also the most risky. Lending is the main source of coop revenues, amounting to 93.3% of its total net surplus and employing more than 80% of its manpower in 2008 (Pabillar, 2010). In 2009, the coop released P532,394,000 in loans, which provided the coop with P55,913,698 in gross revenue (Pakigsayud, Vol. XXVI, No. 2).

A co-maker is required for loans below P30,000 and collaterals are required on top of a co-maker for higher loans. But these forms of protection only guarantee that loan repayments can be collected, they do not prevent delinquencies. To avoid delinquencies, a collection system is used by collectors, which includes visits, text messages, phone calls and reports to the barangay for mediation. In 2009, the coop's delinquency rate by Portfolio at Risk day 1 is 6.06%, higher than the international standard of 5% but lower than the 10% acceptable rate in the Philippines (Benegrado, 2010).

The coop deposits its money in MASS-SPECC and in NATCCO to avail of interest rates higher than those of banks. As of January 1, 2010, the coop has a total of P48,517,231.71 in temporary investments both in MASS-SPECC and in NATCCO. By investing in MASS-SPECC and in NATCCO, MSU-IIT MPC is helping establish a central fund, which is part of a bigger risk management scheme designed by the cooperative movement in the Philippines to help ensure stability in the coop sector.

c) The Role of the Board

In performing its role, the Board acts on an informed basis, and always takes into consideration the best interest of the cooperative and its stakeholders. The policies it formulates are applicable to all branches. To avoid differences in the implementation of policies, the Board supervises a project for the development of policy manuals in various coop operations.

According to the OECD (2008), the supervisory function of the Board of Directors in corporate governance involves reviewing and monitoring the corporate strategy of the corporation, which includes the annual budgets; business plans; performance objective; corporate performance; major capital expenditure; acquisition; branching; selection and compensation of manager; formal and transparent election process; accounting and financial reports; compliance with laws and standards; and disclosures and communications.

c.1) Annual Budget

As practiced, the annual budget of MSU-IIT MPC is prepared by the management and reviewed by the Board before it is presented in the General Assembly for approval. Once it is approved, the management implements it. The Board monitors the implementation of the budget through the monthly reports of the treasurers and accountant.

c.2) Business Plan and Performance Objectives

The management prepares the business plan of the coop based on the strategic plan prepared by the Board. This constitutes the activities and resources needed for the year.

The management also prepares its performance objectives. This includes among others, the number of new members to be recruited, volume of savings and loan releases, delinquency rates, trainings, and net surplus. These are presented to the Board for approval and they serve as bases in granting performance bonuses at the end of the year.

c.3) Major Capital Expenditures and Acquisitions

Most of the expenditures of the cooperative are routine and are reflected in its annual budget, which is approved by the General Assembly. Major capital expenditure and acquisitions are reviewed by the Board before these are presented to the General Assembly for final approval. Among the major acquisitions incurred by the coop is real estate. Major expenditures were incurred in the construction of buildings in Tibanga and Palao branches. The buildings in Hinaplanon are those of the Coop Academy. The General Assembly is very sensitive when it comes to major acquisitions because the land bought for coop housing in Barangay San Roque in 1994 is the coop's biggest non-performing asset due to the delayed implementation of the housing project.

c.4) Branching

The Board is careful in exercising its supervision of the branching activities of the coop. Benchmarking activities with other cooperatives are made and criteria for branching are established. But problems have occurred due to the inexperience of the Board. For instance, the Kiwalan and Buruun branches failed to hit profitability on target time.

c.5) Selection and Compensation of the General Manager

After 22 years of employing part time managers the Board of Directors hired a full time General Manager in 2001, following the decision to open the coop to the community in 2000. The General Manager appoints the other coop personnel and the Board confirms the appointments. Every appointment goes with a compensation package approved by the Board in 2006. The initial compensation package for the General Manager in 2001 was negotiated by the Board. With the

implementation of the 2006 compensation scheme, the salary of the General Manager was fixed and no longer negotiable.

c.6) Performance of Management

The Board monitors the performance of management and there are already cases where a branch manager was replaced. However, no one at the managerial level has yet been terminated. There is no standard succession plan established in the cooperative, but a procedure for hiring replacements is in place. The performance of management is monitored monthly by the Board and major assessments are made at the end of every semester when the semi-annual report of the external auditor is presented to the Board for discussions with management. During said discussions, adjustments in strategies and activities are made.

c.7) Election Process

The Board does not directly oversee elections within MSU-IT MPC. Based on the Cooperative Code (RA 9520), an Election Committee whose members are elected is created. This committee oversees elections and election related activities in the coop. However, the committee is monitored by the Board through its election budget and election policies. As part of the election process, trainings in leadership and governance are required for candidates for elective positions. These are implemented by the Education Committee of the Board chaired by the Vice Chairperson.

c.8) Conflict of Interests

The coop has mechanisms to prevent conflicts of interests of management, board, members and stakeholders. These include the Audit and Supervisory Committee, the External Auditor, and the Bids and Award Committee. These groups monitor the behavior of coop officials in relation to the interests of the coop and submit their observations for printing to the *Pakigsayud*, the official organ of the cooperative which is distributed to members during general assemblies.

c.9) Accounting and Financial Reports

The Board ensures the integrity of the accounting and financial reporting systems in the cooperative. Financial reports are regularly prepared by management and presented to the Board for review every month or anytime required by the Chairperson of the Board. The Board also engages an independent external auditor who prepares audited financial reports twice a year. All financial reports pass through the scrutiny of the Board.

c.10) Governance Practices

The Board monitors the governance practices of MSU-IIT MPC. Seminars on good governance are regularly conducted by the Educational Committee for aspiring coop leaders. All members of the Board are required to take the Credit Union Directors Competency Course (CUDCC) of the National Confederation of Cooperatives (NATCCO) and the Association of Asian Confederation of Credit Unions (ACCU). A similar course is also given to managers.

c.11) Disclosures and Communication

The Board oversees disclosures and communications in MSU-IIT MPC. It prepares official and uniform pronouncements and manages sensitive information during assemblies to avoid confusion. Before assemblies, the Board meets to agree on how information is to be relayed to the members. There are assigned Directors to discuss specific issues which are potentially controversial.

c.12) Fairness and Commitment

The Board does not show bias in dealing with the affairs of the cooperative. Directors are committed to their responsibilities, which include policy formulation, trainings, and attendance in assemblies. They ensure timely and accurate disclosure of all material information in the cooperative, including its financial situation.

c.13) Accessibility of the Board to the Management

The General Manager of the coop is required to attend all meetings of the Board. He has a part in Board meetings, which is to report the activities of management and answer questions from the Board. He is also a member of the Executive Committee chaired by the Chairperson of the Board.

The branch managers, the accountant and the Human Resource Officer are also required to attend the second meeting of the Board each month. The Board has access to the cooperative's financial and operating results as well as material issues regarding employees and other stakeholders. Members of the Board have access to the governance structures and policies of MSU-IIT MPC. They delegate to the General Manager the authority and responsibility of managing the daily affairs of the cooperative.

c.14) Monitoring Management

The Board monitors management through its various committees and through regular reports rendered by the General Manager during Board meetings. It oversees the in-service trainings and professional development of coop personnel that include *laktay aral*, trainings, seminars, and graduate studies. The cooperative has provided additional allocations for the human resource development of its personnel on top of the mandatory Cooperative Education and Training Fund (CETF).

c.15) Experience and Expertise of Board Members that can Contribute to the Enhancement of Coop Operations

Members of the Board are highly educated. They have been members of the cooperative for more than two decades and some are even pioneering members. As of the end of 2010, only one member of the Board is known to have come from the private sector. Although their employment with the government has not given them the opportunity to be exposed in the operations of private business, their long experience with the cooperative has enhanced their contributions to its operations. Moreover, the members of the Board have been exposed to various trainings, educational tours, and conferences in the cooperative sector,

which gave them opportunities to learn from the best practices of other successful cooperatives in the Philippines and abroad.

d) Disaster Management

The disaster management of MSU-IIT MPC is weak. Security guards are posted in all branches and basic fire-fighting equipment are available in its buildings. However, while required fire exits are available in its Tibanga and Palao buildings, there are no signages pointing to exits. Aside from its narrow doors, the Tibanga building has no alternative exits in case of emergency. No employee is trained in disaster management; no fire drill has been conducted; no first aid kit and no first aid training is available for staff to mitigate the impact of a disaster. No instruction on what to do in case of an earthquake, a fire, or a bomb threat is seen in any branch. There is no disaster management response group to respond in the event of disaster. There is no communication protocol in the event of a disaster and no branch has a security camera to document movements and transactions to deter possible criminal and terroristic acts.

e) Code of Ethics and Ethical Conduct

The absence of a Code of Ethics and Ethical Conduct of MSU-IIT MPC causes some confusion in cases like conflicts of interest and assumption of responsibilities. There were cases when actions by some members of the Board and management were questioned by the Audit and Supervisory Committee but the External Auditor could not point to an illegality. There are many acts that are not necessarily illegal and therefore can pass through accounting regulations. An example is the case when the chairperson of the Board or the General Manager negotiates for the insurance of the properties of the cooperative without consulting the Bids and Award Committee. These acts were questioned on procedural ground for having not passed the Bids and Award Committee. The people involved were reprimanded but no punishment was given due to the absence of a code of ethics that defines ethical conduct for the cooperative. The involvement of a commission for

insurance underwriting makes a transaction in the cooperative sensitive because as practiced, a commission is treated as income of the cooperative.

f) Code of Conduct Based on Professional Standards

MSU-IIT MPC has no Code of Conduct based on professional standards. The Board, the management and staff, and all other officials of the cooperative behave according to the values of cooperativism such as volunteerism, thrift, savings, subsidiarity and self-help. But even these values have to be translated into quantifiable or observable professional standards. In the absence of a Code of Conduct based on professional standards, the cooperative occasionally refers to standards from the Civil Service Commission and from other fields, like in accounting and in engineering.

g) Articulation of the Values of the Cooperative

The Board of Directors fails to articulate the values of the cooperative during meetings, programs, seminars and trainings. There is no visual display of the core values of the cooperative in strategic areas in its various branches. There were few occasions when the core values of the cooperative were seen in print. In Pakigsayud for example, where the vision and mission of the cooperative usually appear, the core values appeared only once in 2006 and once in 2007; it didn't appear in 2008 and 2009. They are not printed in calendars, and in invitations for special occasions like Christmas parties, branch inaugurations on anniversaries of branch's founding.

The core values are not articulated in the educational processes of the cooperative. They are not discussed during Pre-membership Seminars which are requirements for joining the cooperative. Likewise, they are not seen in the educational materials of the Coop Academy. The core values of MSU-IIT MPC are spirituality, entrepreneurship, leadership and good governance, discipline, integrity, family solidarity, excellence, and competence.

The Corporate Citizenship of MSU-IIT MPC

a) Compliance with Government Agencies

The seven years record from 2003-2009, show that MSU-IIT MPC complied with the requirements of BIR. All reportorial requirements of the CDA like Cooperative Annual Performance Report (CAPR), Audited Financial Statements, submission of amendments to the coop by-laws, annual General Assembly, and other mandatory requirements have been complied with by the coop. For the PAG-IBIG, PHILHEALTH, and SSS, regular and timely remittances of contributions of members have been made.

b) Promotion of Environmental Sustainability

There are at least four areas in which the coop has supported the advocacy on environmental sustainability. These are in solid waste management, reforestation, human rights, and peace. The solid waste management of the coop comes in the form of the 5S + 1 Program. This program is essentially a solid waste management program because some aspects involve handling of solid waste materials from their source of generation to the time of their collection for the dump site. The reforestation program of the coop is an annual activity which involves planting trees within the mined out area of La Farge Cement Corporation in Barangay Kiwalan, Iligan City. In 2009, the coop firmed up its tree planting program by involving its employees and coop leaders. In coordination with the officials of Barangay Hinaplanon, particularly those in Purok 7, Bayug Island, the coop participated in a mangrove and mahogany reforestation activity in December 5, 2009. The site is extremely vulnerable to erosion and flooding during storm surges.

To uphold human rights, and in participation was the global movement against labor exploitation, the Board has a policy of not buying products from countries known to employ slave labor. Respect for the rights of women is imbedded in its women's representation in the Board and in the various projects for women by the Gender and Development Committee. After the August 18, 2008 MILF attacks in Lanao del Norte, the coop helped evacuees who took refuge in Iligan.

The peace advocacy by the cooperative is in support of the advocacy of Mindanao cooperatives led by MASS-SPECC, whose former CEO Mrs. Sylvia Okinlay-Paraguay was a member of the GRP Peace Panel which negotiated with the MILF. Recently, CDA Region 10 headed by Director Orland Ravanera launched a peace advocacy through cooperativism. During its branch assemblies in October 3, 10, 17, 24, and 31, 2009, the coop adopted the theme, "Promoting Peace through Cooperativism." Until now, however, the coop still has to translate this into specific targets and strategies.

To maintain competitiveness, the coop ensures continuous research and development on its products and systems. When MSU-IIT MPC opened itself to the community, the Board and management made researches particularly on organizational systems that support the operation of a community cooperative. During the transition period of 2000 to 2002, there was a fast and uptight learning process, wherein the Board and management had to benchmark from other cooperatives all over the country and had to undergo many training sessions in order to learn the operation technology of a community cooperative. The learning process was tricky because MSU-IIT MPC had to learn the systems and procedures used by other cooperatives and had to test run it to acclimatize it with its organizational culture. An example is the collection technology which has to find a fit with the culture of the community. In a close type coop, collection is made through payroll deductions but in a community coop, collectors are employed.

In the area of product development, years of research and development were spent on housing, mortuary, and coop care. These three products are not traditional coop products; hence, the need for research and development. So far, only the coop care has been launched. The mortuary project, which is actually a crematorium, was shelved due to cultural preferences. The housing project is still undergoing fine tuning. In many occasions it was set aside due to other priority concerns of the cooperative where resources had to be focused. It was also gripped by a controversy raised by squatters, a problem not foreseen by the Board due to haste and inexperience.

There are only few community projects of the coop aside from tree planting. These include charity projects like its annual gift giving and visit to jail inmates and to home for the aged, and the livelihood project for the scavengers in Barangay Santiago, where the dumpsite of the city

is located. With the establishment of the cooperative's Corporate Social Responsibility Committee (CSRC), its outreach projects are now being institutionalized.

Conclusion

The continuous growth of MSU-IIT MPC in terms of its assets, membership and increase of products and services to its members, attests to its viability as a vehicle for the economic growth of its members. The high satisfaction of members with the products and services of the coop show that MSU-IIT MPC is responsive to the needs of its shareholders. The development of the cooperative's customized services is a result of research on the needs of members, and of continuing product development. Moreover, the ability of the coop to satisfy the needs and expectations of its members are shown by the following:

- 1) The growing assets of the cooperative and its increasing revenues provided increasing annual net surplus for distribution in dividends;
- 2) The coop responded to the need for representation in the Board of the various sectors where members come from;
- 3) The coop responded to the capital needs of entrepreneur members by providing credit facilities like the LEAD so that members could start their business, or expand their business operations for those who are already in business. By helping small entrepreneurs, the coop is helping reduce poverty through cooperativism, where self-help and collective responsibility are important values;
- 4) Special savings were provided to members in order to help them manage future uncertainties and to empower them to respond to future opportunities;
- 5) MSU-IIT MPC has liberated many members from the vicious "pakang-pakang" cycle fostered by lenders with usurious rates of interest. In effect, exploitation is reduced among lenders who take advantage of the misery of others and who have no intention to see their clients improve their economic conditions;

6) By turning into an open-type cooperative, it opened windows of opportunities for the community to avail of its products and services, and participate in its programs;

7) By inculcating the value of thrift, savings, and self-reliance, the coop empowered members to manage their finances;

8) The coop provided various options and opportunities to poor members by giving livelihood seminars, financial counseling, and credit windows for financing economic activities;

9) The coop has created employment which employs more as it expands and which has remunerations like salaries and bonuses that improve as the coop's economic bottom line improves.

10) MSU-IIT MPC is heightening its peace advocacy and involvement in activities towards environmental sustainability;

11) The coop is strengthening its outreach activities with the creation of its CSR committee and the provision of a budget for its activities.

The ability of MSU-IIT MPC to respond and satisfy the needs of its members is a by-product of its good governance. The strategic guidance provided by the Board set a long term direction that ensures sustainability. The guidance and supervision provided by the Board to the management and the recruitment of a competent General Manager increase the value of the assets of the cooperative. The coop corporate strategies, as well as its risk management, are effective and well supervised by the Board.

The weakness of the disaster management system of MSU-IIT MPC is a threat that needs immediate attention. To date, it has not affected the operations and profitability of the cooperative, but it is a potential time bomb. Likewise, the lack of internalization of the core values of the coop is a potential threat. No immediate effect is felt now but the rapid growth of the cooperative is a centrifugal force that bears disintegrative effect on the cooperative. A set of well internalized core values, which is needed to maintain responsiveness among its members, will strengthen the organizational culture of the cooperative.

The coop's engagement with the community in pursuance of its corporate citizenship is modest but at least it is contributing to peace building, environmental sustainability and human rights. With the institutionalization of its corporate citizenship activities, it can do more in the future. Through its engagement with the community, the coop is

known more in the community, and this helps its recruitment of more members.

Abbreviations/Accronyms

ACCU	Asian Confederation of Credit Union
AUSAID	Australian Agency for International Development
BIR	Bureau of Internal Revenue
BOD	Board of Directors
CDA	Cooperative Development Authority
CETF	Cooperative Education and Training Fund
CLAC	Coop Life Assurance Center
CLIMBS	Coop Life Insurance and Mutual Benefit Services
COSA-REAL	Cooperative Savings for Real State Acquisition
CUDCC	Credit Union Directors' Competency Course
DENR	Department of Environment and Natural Resources
DTI	Department of Trade and Industry
EXECOM	Executive Committee
GA	General Assembly
GRP	Government of the Republic of the Philippines
LEAD	Loan for Entrepreneurs to Advance Development
LPP	Loan Protection Plan
MASS-SPECC	Mindanao Alliance of Self-Help Societies – Southern Philippines Educational Cooperative Center
MORR	Manual of Rules and Regulations
MSU-IIT MPC	Mindanao State University - Iligan Institute of Technology Multi-purpose Cooperative
NATCCO	National Confederation of Cooperatives
OECD	Organisation of Economic Cooperation and Development
PHILHEALTH	Philippine Health Insurance Corporation
PMES	Pre-membership Education Seminar
ROSC	Report on the Observance of Standards and Codes
SSS	Social Security System

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