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Effective Financial Management as a Remedy for Failure of Co-Operative Societies in Nigeria: A Study of Success Co-Operative Multi-Purpose Society (CMS) Ltd. Rugipo, OWO

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Abstract:
Finance no doubt is the life wire of all business organizations which needs to be sufficiently made available towards meeting the overall business objective. The success or otherwise of any business organization depends on financial management acumen of business managers. Many co-operative societies fail because majority of the operators know little or nothing about financial management. This study is set out basically to highlight the importance of financial management in the successful management of co-operative societies. Data were collected from both primary and secondary sources. Structure questionnaires were distributed to selected forty (40) respondents to elicit firsthand information from them. Relevant literature was also reviewed. Data collected were analyzed through simple percentage. The result of the analysis reveals that there is high correlation between effective financial management and business successes. The study is concluded by recommending that qualified personnel should be employed to oversee the finances of the co-operative societies.

Keywords: *Financial Management, Co-operative Society, Capital Market, Management of Funds, and Profit Planning.*

1. Introduction

Omuya (1993), defines financial management as the managerial activity which is concerned with the planning and controlling of the firm's financial resources. It is a form of applied economic which is concerned mainly with the future and the use of information based on forecast for making decision.

According to Owoputi (2010), the subject of financial management is of immense interest to both academics, and practicing managers. It is of great interest to academician because the subject is still developing and there are still certain areas where controversies exist for which no unanimous solutions have been reached and such areas require further research. Practicing managers are interested in the subject because among the most crucial decision of the firm are those which relate to finance. Understanding of the theory of the financial management, provides business managers with conceptual and analytical insights to make such decision skillfully. Firms create manufacturing capacity for production of goods, some provide services to customers, while others sell their goods or services to earn profit all these activities are made possible with sound financial standing. They raise funds to acquire manufacturing and other facilities, thus, the three most important activities of a business firm are:

a) Finance
b) Production
c) Marketing

A firm secures whatever capital it needs and employs it (finance) in activities which generate returns on invested capital (production and marketing activities). Financial management is best defined by the function of financial manager.

Owoputi (2010) posits that the subject of financial management is of immune interest to both academician and practicing managers. A firm managed by competent financial managers would no doubt be able stand the test of time because a sound financial management knowledge with as the firm to forecast with some degree of accuracy and co-ordinate budgeting activities.

2. Theoretical Frame Work

2.1. Definition of Financial Management

Oyetade (2000) defines financial management as that managerial activities which is concerned with the planning and controlling of the firm's financial resources and related activities. Though it was a branch of economic till 1890. As a separate activity or discipline it is of recent origin. Up till today financial management has no unique body of knowledge of its own, and draws heavily on economics and accounting practice for its theoretical concepts.

The subject of financial management is of immense interest to both academicians and practicing mangers. It is of great interest to academicians because the subject is still developing, and there are still certain areas where controversies exist for which no unanimous solutions have been reached yet. Practicing mangers are highly interested in this subject because among the most crucial decisions of the firm are those which relate to finance, and an understanding of the theory of financial management provides them with conceptual and analytical insights to make those decisions skillfully.

2.2. Financial Procedures and Systems

Pandey (2004) opines that for the effective execution of the finance functions, certain other functions have to be routinely performed. The concern procedures and systems, and involve a lot of paper work and time. They do not require specialized skills of finance. Some of the important routine finance functions are:

a. Supervision of cash receipts and payments and safeguarding cash balances.
b. Custody and safeguarding of securities, insurance policy documents and other valuable papers.
c. Taking care of the mechanical details of new outside financing.
d. Record keeping and reporting.

The finance manager in the modern enterprises is mainly involved in the managerial finance functions, the routine finance functions are carried out by executives at lower levels.

2.3. Roles of Financial Manager

According to Saheed (2009) a financial manager is a person who is responsible in a significant way to carry out the finance functions. Financial manager occupies a key position in any business organization. He is one of the members of the top management team. The financial manager is responsible for shaping the enterprise, and is involved in the determination of most vital decisions of the allocation and management of funds. In the discharge of his duties, the financial manger needs to have a broader and for-sighted outlook, and must realize that his actions or in-actions have far-reaching consequences on the firm because, they influence the size, profitability, growth, risk and survival of the firm.

The financial manager must therefore have a clear understanding and a strong grasp of the nature and scope of the finance functions. The main functions of the financial manager can therefore be summarized as follows:

a. Raising of funds
b. Allocation of funds
c. Management of funds
d. Profit planning
e. Knowledge of capital market

a) Raising of Funds: It is one of the notable functions of the financial managers to source for funds required by an enterprise. He is responsible for the determination of the right source(s) of fund to be raised by the firm, given the situation of the firm. He would have to put such variables as cost, availability, mode of repayment etc. into consideration before determining the source of finance.

b) Allocation of Funds: The development of a number of management skills and decision making techniques facilitated the implementation of a system of optimum allocation of the firm's scarce financial resources. Thus, in a modern enterprise, the basic finance function is to decide about the expenditure and the demand for capital for such expenditures. The financial manager must therefore be vast in the efficient allocation of funds by providing answers to these questions:

i. How large should an enterprise be?
ii. How fast should it grow?
iii. In what form should it hold its assets?
iv. How should the required funds be raised?

c) Management of Funds: Closely attached to allocation of funds is management of funds. When the funds have been efficiently allocated, the next thing is to ensure that proper monitoring and supervision mechanisms are put in place so that the funds are not mis-managed. Proper management of funds would make the firm while improper management of funds would mar the firm.

d) Profit Planning: The functions of the financial manager may be broadened to include profit planning function. The term profit planning refers to the operating decisions in the areas of pricing, costs, volume of output and the firm's selection of product lines. Profit planning is, therefore, a pre-requisite for optimizing investment and financing decisions. The cost structure of the firm i.e. the mix of fixed and variable costs has a significant influence on a firm's profitability.

e) Knowledge of Capital Market: Financial manager must as a matter of necessity have dealing with capital market where the firm's securities are traded. He should fully understand the operations of capital market and the way in which securities are valued. He should also understand how risks are measured because greater percentage of business decision involve one risk or the other.

According to Oyetade (2001), financial management is the planning of the activities in respect of securing of funds and subsequent application of such available funds to an organization in the most profitable manner. This involves two activities.

i. Locating the various sources of finance
ii. Ensuring an efficient utilization of such fund in order to achieve the overall objective of the company.

To achieve these, the following decisions have to be made:

i. Finance decision: this is the identification and the timing of the various sources of the finance i.e. where and when do we get new fund.
ii. Investment decision: this is the selection of the available project or investment i.e. what project do we undertake how much do we allocate to each project.
iii. Dividend policy: this involves the determination of how much of internally generated fund do we retain for growth and therefore how much of such internally generated fund do we pay out to the provider of finance.

In taking these decision, the predetermined objective of the company must be taken into consideration.

2.4. Objectives of Financial Management

Saheed (2009) asserts that:

2.5. Maximization of profit:

i. The most commonly pressure objective of management is the maximization of the value of the firm (i.e. maximization of profit relative to investment).
ii. Growth and survival: maximization of profit does not necessarily require a firm of large size, however, corporate power is often a function of size and this may become a management objective. This is likely in non-profit making organization.
iii. Risk reduction: risk avoidance may be the primary objective and profit been a secondary objective in an organization with high risk e.g. oil prospecting industry for instance it is very profitable if a rich strike is made but ruinous if the exploration proves abortive.
iv. Personal aspirations: important objective of a manager may be the improvement on the condition of its employees.
v. Social objective: an organization may be concerned with improving the working condition of its employees.
vi. Efficiency: this may be the objective of charitable organization and public service by providing required service not available in the market at minimum cost.
vii. Orderly liquidation: once it has been decided to liquidate a company either due to financial crisis or failure of its commercial viability it may be the management objective to balance the conflicts of interests of employees. Shareholder, customers and creditors to fulfill contractual obligation.

Finance is concerned with all of the monetary aspect of a business such as expenditure on plant and equipment, fund raising, dividend payment, auditing account control, credit sales and stockholder relation.

2.6. Functions of Financial Manager

According to Pandey (2004), the specific function of a financial manager is to ensure that funds are:

a) Made available at the right time
b) Made available for the right length of time
c) Obtained at the lowest cost
d) Used in the most effective and efficient ways
e) Locating sources of finance
f) Cash budgeting
g) Management of company's investment in other companies
h) Project selection
i) Pension finance management

The importance of finance in a company can be seen in chart above. A good financial management will need knowledge of other subjects in order to fulfill his/her duties properly these other subjects include but not limited to Financial and Management Accounting, Laws, Economics, Quantitative methods (including maths/statistics) and taxation.
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2.7. Treasury Function

1. Provision of finance: to establish and execute programme for the provision of the finance required by the business, including negotiating its procurement and maintaining the required financial arrangement.
2. Investor relation: to establish and maintain the adequate market for the company's securities and to maintain adequate contact with the investment community.
3. Short term financing: to maintain adequate source for the company's current borrowing from the money market.
4. Banking and custody: to maintain banking arrangement to receive, have custody of and disburse the company's money and security to be responsible for the financial transparent of real estate transaction.
5. Credit and collections: to direct the grating of credit and the collection of accounts to the company.
6. Investment: to invest the company's funds as required and to establish and coordinate policies for investment in pension and the similar costs.
7. Insurance: to provide insurance coverage as may be required.

2.8. Controller's Function

1. Planning and control: to establish and administer as part of management, a plan for the control of operations. This plan will provide to the extent of required capital in the business, profit and planning programme for capital investment and for financing sales forecast and expenses budget.
2. Reporting and interpreting: to compare actual performance with operating plans and standard and to report and interpret the results of operation to all level of management and to the owners of business. To consulate with management about the financial implication of its actions.
3. Tax administration: to establish and administer tax policy and procedure
4. Government reporting: to supervise or coordinate the preparation of report to the government agencies.
5. Protection of assets: to ensure protection of business assets through internal control system, internal auditing and assuring proper insurance coverage.
6. Economic appraisal: to appraise economic and social fees and government influences and interpret their effects upon business.

2.9. Financial Planning Function

It is intimately interwoven into the fabrics of general management planning of any business – the entire management is concerned with the way in which the resources are acquired.

Invariably the owners of the business have their objective – long term and short term. These objectives are turned into targets for the management. Management should then have plan for achieving such targets. Such plans are usually expressed as budgets – which are essentially financial reflections of the plans.

The reasons for financial planning in the entire exercise of general planning are:

1. To have the right composition of assets i.e. the rights mix of cash, debts, instruments, inventories, equipments etc.
2. To have the right amount of assets for the scale of operations planned.
3. To allow for an orderly raising of capital to finance the acquisition of needed resources.

The financial plan is therefore concerned with:

- i. Raising adequate fund for the enterprise use.
- ii. Judicious employment of funds i.e.

a) Appropriate total assets
b) Appropriate composition of assets

Problems may arise in the following situation:

1. Initial capitalization of a business
2. Expansion programmes
3. Routine programmes

2.10. The Co-operative Movement in Nigeria

In Nigeria, the first Producers' Co-operative society was formed in 1922, to provide cocoa farmers a common front so as to be able to secure loans and fair prices for their produce. Western, Eastern and Northern Nigeria, as Nigeria was then called, passed their Co-operative Laws, which are still in force in the States created from each former Region. The relevant co-operative laws gave additional impetus to cocoa farmers, and soon producers of coffee, rubber, cotton, groundnuts, palm produce, etc. began to promote co-operative societies to cater for their financial interests.

The Consumers' Co-operative Movement rose out of the necessity to provide members with cheaper food items than those obtained elsewhere. The co-operative movement now embraces other groups and includes more than 11,000 societies and 1 million members.

The best developed co-operative societies are in the agricultural areas. Production co-operative societies are gradually growing with the recent campaign launched by the government and the promise of financial help. Recently, there was an upsurge in the number of marketing co-operative societies, as yam sellers, crayfish sellers, rice sellers, garri sellers, etc., began to form themselves into unions for the purpose of securing better prices for their members and reducing competition by restricting membership. However, many of these unions and market associations are not co-operative societies in the real sense but are illegal, trade restrictive, associations. They could become better organized and more efficient by forming themselves into co-operative societies registered according to the law.

Following the widespread scarcity of many consumer goods experienced in Nigeria since 1980, a number of Consumers' Co-operative Societies were promoted for the purpose of obtaining scarce commodities in bulk from local manufacturers/importers and the scraped Nigerian National Supply Company.

2.11. Characteristics of Co-operative Societies

Co-operative societies have the following basic characteristics which are also referred to as basic principles.

1. They are registered under the relevant Co-operative Law. They have perpetual succession, can sue and be sued.
2. They have limited liability like ordinary limited liability companies.
3. A minimum of 100 shares per member at N2 per share is prescribed by Law, which also provides that no member can own more than one-fifth of the total paid-up shares in a society.
4. There are minimum provisions for membership. Production societies are required by law to have a minimum of 6 members; other types of co-operative societies are required by law to have a minimum of 10 members in order to obtain registration.

5. The co-operative society is managed along democratic lines. Since members have equal voting rights, they also have equal opportunity to participate in the management of the society and make inputs to policy. Ultimate control and decision making rests with the members as vital decisions are taken during Annual General Meetings (AGMs).
6. Extra capital is raised through loans from members on which a fixed rate of interest is paid.
7. The amount of profit a member receives from the business is based on the extent of his or her participation. This is known as patronage rebate.
8. There is a primary society at the local level which is federated into a secondary society at the regional level. The Apex societies/unions are, in turn, federated or affiliated to the Co-operative Federation of Nigeria which, in turn, is affiliated to the International Co-operative Alliance.

2.12. Statement of the Problem

It is a common knowledge that the rate of business failure as it affects the management of co-operative societies is alarming. Most co-operative societies run into liquidity problems which may invariably lead to business failure.

2.13. Objectives of the Study

This study is set to achieve three (3) main objectives which are listed below:
1. To identify why co-operative societies, fail.
2. To highlight the roles of financial managers in the management of finances of co-operative societies.
3. To proffer solutions that would assist the ailing co-operative societies.

3. Methodology

The study is an empirical/analytical one. Few questionnaires were drawn to elicit responses from forty (40) respondents which serve as the same size. The data collected were analyzed by simple percentage.

3.1. Data Analysis

Variable	No of Respondents	Percentage (%)
Lack of capital	05	12.5
Economic melt down	05	12.5
Mis-management of funds	30	75
Total	40	100

Table 1: Why do co-operative society fail?
Source: Questionnaire Administered, 2015.

The result of table 1 above reveals that the failure of most co-operative societies is largely due to mis-management of funds as opined by 30 respondents which represent 75% of the entire respondents.

Variable	No of Respondents	Percentage (%)
Yes	36	90
No	04	10
Total	40	100

Table 2: Do financial managers have any role to play in the management of co-operative society?
Source: Questionnaire Administered, 2015.

From the table above, it is clear that financial managers have roles to play in the success of co-operative society.

Variable	No of Respondents	Percentage (%)
Engage qualified and honest financial manager	25	62.5
Give out loan on request	05	12.5
Take on more members	08	20
Guarantee Bank loan for members	02	05
Total	40	100

Table 3: One of the ways to avoid business failure in co-operative societies is to:
Source: Questionnaire Administered, 2015.

From the table 3 above 25 of the 40 respondents representing 62.5% are of the opinion that engagement of qualified and honest financial managers would guide against failure of co-operative societies.

3.2. Conclusion

The importance of financial managers cannot be over-emphasized in the success story of cooperative societies. Financial managers have crucial roles to play in the sourcing for the right capital, efficient allocation of such capital and effective management of funds is inevitable to the survival of cooperative societies.

It is clear that financial management cannot single handled fulfill the desire of increasing productivity and achieving the corporate objective of the cooperative society by the role of financial managers are inevitable to the survival of the societies.

This study reveals that financial management if not carefully handled may impact negatively on the business performance, but should work hand in hand with other units of the society to achieve the corporate objectives of the society. Although, finance has its own universal value, as the life wire of a business but other means of business management are germane to improve work place environment and workers' welfare.

3.3. Recommendations

The first step is to ensure that a round peg is put in a round hole by engaging the services of experienced and qualified financial managers.

The staff so employed should be above board by being transparently honest and discharge his duties with all sense of responsibility.

The management of any business should see financial management as life wire of the business and its management as the key functions.

This entails being honest to the business by detaching self-interest from overriding the business objectives.

There should be deliberate efforts on intelligent monitoring of financial management while the finance function is quite distinct in some firms, it may not readily be observed in some others, which invariable means controlling the activities of the organization.

Setting of standards and strict adherence to the ruler of the game will play a vital role in the management of cooperative societies. This could be by recruiting personnel of high pedigree right from the start just to avoid easy influence, manipulation, distortion of facts and operations.

The effect of this is that financial report and statement would be relied upon for valid evaluation and apportionment which directly aid decision making.

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