CO-OPERATIVE MERGER AS A STRATEGY FOR COMMUNITY ENTERPRISE DEVELOPMENT: THE PHILIPPINE EXPERIENCE

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ABSTRACT

Co-operatives provide local households with access to goods and services at cost while encouraging self-help and democratic participation. In contrast to traditional investor- owned firms, these co-operatives enforce shared values and contribute to the development of social capital within communities. Unfortunately, only about one third of the number of registered co-operatives, consisting of small, fragmented community organizations in the Philippines, was considered active.

This paper suggests co-operative merger as an alternative strategy from a theoretical and empirical perspective. A key distinction is made between mergers involving investor- owned firms and those of co-operatives. The economic nature of co-operatives draws upon a list of potential problems and opportunities for streamlining the merger process. A merger is deemed as a force that –unfreezes the status quo and may disrupt the existing organizational inertia. However, this type of strategy is envisioned to reinforce the community resources and potentials for effective delivery of services to members.

Keywords: co-operatives, investor-owned firms, mergers, turnaround strategy

INTRODUCTION

The importance of co-operatives in a contemporary rural society cannot be undermined. As an antithesis of competition, co-operatives provide a range of opportunities for development to occur at the grassroots. Managing these opportunities are the member- patrons, with varying entrepreneurial interests, skills, and motivations. They come together and join efforts by utilizing the limited resources of their communities in pursuant of their common goals.

Evidences of the contribution of co-operatives in improving the economic and social wellbeing of people can be found throughout the world. In the Philippines, co-operatives play a significant role in shaping the rural economy (Sibal, 2001; Pagdanganan, 2002; Deriada,2005; Castillo et al., 2006) Poverty, unemployment, and social exclusion called for Filipino households to unite and co-operate. With majority of the poor living in rural areas, local co- operatives have become an efficient means of delivery of basic services at cost. Many types of co-operatives exist today to render such services as credit, livestock marketing, farm supply, consumer, dairy marketing, insurance, utilities, and housing. By these efforts, co- operatives have made these services available to those who are less privileged.

As co-operatives operate in increasingly competitive markets, they are expected to respond with flexibility and innovation in order to remain economically viable and socially relevant. Patron-invested co-operatives and new-generation co-operatives have emerged in the West as a radical departure from traditional models. Managerial tools and strategies developed by profit-oriented firms have gradually been employed in the co-operative undertakings to benchmark efficiently their performance with corporate counterparts. There is even the threat of demutualization where members abandon the co-operative ideals to seek for commercial ends. This is the reason why they must be constantly reminded to remain faithful to the fundamental motive of the enterprise which is to serve the community at large.

Mergers and acquisitions figured prominently in the development of co-operatives due to capital constraints (Hudson and Herndon, 2002; Richards and Manfredo, 2003). The corporate merger –waves in Europe and America influenced co-operatives to exercise this strategy. While a worldwide trend of amalgamating small co-operatives into larger units continues, a similar trend hardly occurs among co-operatives in the Philippines (Abao and Villegas, 2003). Studies on co-operatives are conducted frequently to elevate public awareness and understanding of their existence and contributions to society. On the many issues that challenge the co-operative movement today, co-operative merger has become a priority for an in-depth study. Given the dearth in literature on the subject, there is a need to document cases on co-operative mergers to shed light on issues surrounding them.

In this context, the authors present an exploratory study of co-operative merger as a strategy for community enterprise development. This paper draws upon the theoretical literature on co-operative merger and highlights the experience of two Philippine co-operatives - Soro-Soro Ibaba Development Co-operative (SIDC) and Co-operative Life Insurance and Mutual Benefit Services (CLIMBS) - by understanding the context, process, and outcome of their merger transactions.

The paper is structured as follows. Section 2 provides a general overview of co- operatives and its underlying principles and economic theories. Section 3 outlines the experiences of the co-operative movement in the Philippines. Section 4 discusses co- operative merger as an alternative turnaround strategy for community enterprise development and Section 5 summarizes the discussion and suggests some directions for future research.

THE NATURE OF CO-OPERATIVES

The Statement of Co-operative Identity of the International Co-operative Alliance (ICA) defines a co-operative as –an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. They operate on the principle that people benefit when they voluntarily pool their resources to supply themselves with services at cost while equitably sharing the risks and rewards of their effort. This user-owned, user-benefited, and user-controlled characteristic of co-operatives is central to their existence (Barton, 1989).

Different groups became interested in forming co-operatives in their own locale because of their economic appeal as well as community orientation. Hence, co-operatives can be found across economic strata from a *barangay* (village) level to national and multinational ranks as in the case of Rabobank Group in the Netherlands and Mondragón Co-operative Corporation in Spain. They differ in terms of the scope of their services and in size based on the volume of activities, their assets, net savings, and membership.

There are two broad types of co-operatives. A producer co-operative assumes the processing and marketing functions of members-patrons. They are owned by farmers or craftsmen who share production facilities to add value to their products. On the other hand, a consumer type of co-operative performs acquisitive and distributive activities including the provision of public utilities. Its members are those people who buy the goods or use the services of the co-operative. They may serve as direct consumers of products manufactured by producer co-operatives. In some cases, both producer and consumer functions may also be applied by a single co-operative as in the case of a feed milling co-operative that operates a meat shop. Whatever form of activity they are engaged in, co-operatives maintain a common economic goal, that is, to minimize cost, as opposed to corporate entities which aims to maximize profits and increase the shareholder value of capital providers.

By tradition, co-operatives share a set of universally accepted principles: a) voluntary and open membership; b) democratic member control; c) member economic participation, d) autonomy and independence; e) education, training, and information; f) co-operation among co-operatives; and g) concern for the community. These principles were codified in the Statement of Co-operative Identity which was largely based on the values and practices of the Rochdale Society of Equitable Pioneers. It must be remembered that there were a few attempts to establish –co-operatives type of organizations but the success of Rochdale was brought about by these principles. As a result, the Rochdale model became the forerunner of modern co-operation.

Throughout the twentieth century, a number of literature sought to explain how co- operatives function as extension of the farm, a vertical integration or a firm (Feng and Hendrikse, 2008). In his Theory of Co-operation, Frank Robotka (1947) outlined the defining features of the co-operative model which are still applicable to a certain extent. His arguments are summarized as follows:

a) A co-operative is a business organization or firm. As a firm, it is a decision-making unit. Participants in a co-operative subject their individual decision-making to a joint decision-making. However, their decisions are limited to those activities being coordinated. They surrender their autonomy to this extent but still exist as separate economic units.
b) A new risk-bearing entity emerges upon formation of a co-operative. This is because the risks that are inherent in the conduct of the business are shared by the participants in their collective or organizational capacity.
c) A co-operative is a nonprofit organization. It does not generate profits nor does it incur losses. Since it is an extension of the entrepreneurial function of individuals, the receipt of payment for the sale of a good or service is considered as a collection of the co-operative on their behalf. On the other hand, the expenses it incurs in the

delivery of the service represent an amount collectible from them. Any resulting overcharge is returned to the members by means of a patronage dividend.

d) The individuals‘ obligation to the co-operative consists primarily of patronage. Since they have taken up themselves to engage in co-operation, they are expected to comply with the terms of agreement and utilize the facilities jointly owned by them.
e) A co-operative provides service at cost since its activities are part of the entrepreneurial function of each individual. It is traded at a cost basis or until revenue is adequate to cover the cost of the good or service and other incidental charges.
f) Patronage dividend (or patronage refund) is a device for adjusting transactions to a cost basis and distributing the overcharge or net surplus. This surplus belongs and will be allocated to individuals by means of dividends in proportion to the volume or value of their transactions.
g) The capital contribution of individuals is not viewed as an investment to acquire profit, but their advanced payment to the co-operative as a precondition to availing its service. Capital is also likened to a co-operative liability such that any part of it which has not been absorbed by the cost of the services accrues on their behalf.
h) Interest on capital is not considered as a return of investment or residual income. Any interest paid to individuals for the co-operative‘s use of their resources represents an opportunity cost which compensates disproportionalities in capital contributions.
i) Control of the co-operative is vested not on capital as in the case of stock corporations. The basis of co-operative control is patronage, because the individuals are the ones who assume the risks of the co-operative activity and not capital.

These arguments of Robotka, as with those of Emelianoff (1942) and Phillips (1953), became staples of co-operative literature and paved way to further discussions on the subject. Later, Feng and Hendrikse (2008) suggested that co-operative is a system of attributes. In particular, it is ‒a firm, conceptualized as a system. The system consists of attributes capturing on the one hand the processor as a system and on the other hand that many farmers collectively own the co-operative enterprise, i.e., the vertical integration aspect, and that usually multiple attributes of a farm enterprise are involved, i.e., the ownership of assets of the co-operative and the transaction relationship with it. By analyzing the various concepts on agricultural co-operation, they carefully integrated the views on the nature of co- operatives as either extension of the farm, a vertical integration, and a firm.

Perhaps the most striking feature of a co-operative may be found in the definition according to ICA's Statement of Co-operative Identity. As a voluntary association, it provides the venue for people to –participate in the public spheres of society, while as a business enterprise, it offers a means to compete in a free economy (Fairbairn, 2003). This –association-enterprise duality provides the unique character that differentiates co-operatives from investor-owned firms. This also dictates that success in a co-operative undertaking lies in a careful balance of both its economic and social functions. An oversight in either one of these would undermine its existence.

As community enterprises, co-operatives allow individuals with little wealth to subscribe to their services and subsequently claim ownership to them by way of patronage and exercise of democratic rights. This makes them suitable in a developing country like the Philippines, where the feasible solution to empower the poor requires mutuality, self-help, and autonomy. However, co-operatives are never without problems. Unless they examine their conduct and learn from the experiences of other firms, the economic tide would sweep them away from sustained economic and social development.

THE PHILIPPINE CO-OPERATIVE MOVEMENT

Co-operatives were introduced in the Philippines during the American Regime in the early twentieth century. The country's first co-operative law, the Rural Credit Act, was signed into law in 1915, while the Co-operative Marketing Law took effect twelve years later to help farmers organize themselves into marketing co-operatives. However, these state- initiated co-operatives ceased to operate following the outbreak of the Second World War.

During the post-war rehabilitation period, state policies on rural co-operation were revived. Regulatory agencies were set into place along the Small Farmers' Co-operative Loan Fund that funded the activities of the farmer-members. With the eventual threat of communism taking over in the countryside, the government passed Republic Act No. 821 of 1952, from which the Agricultural Credit and Co-operative Financing Administration (ACCFA) came into existence. ACCFA organized the rural folks into Farmers' Co-operative Marketing Associations (FACOMAs) and extended collateral-free loans funded by the United States Agency for International Development. Unfortunately, the nonpayment of credit resulted to the demise of a majority of FACOMAs as farmers saw these loans as dole outs. In 1963, the Agrarian Reforms Code was passed and created six government agencies to assist in the land reform program of the state. Three of these aimed to advance co-operative development: Land Bank of the Philippines, Agricultural Credit Adminstration, and Agricultural Productivity Commission.

In 1972, martial rule was declared, bringing with it the vision and promise of the so-called New Society and consequently, renewed commitments in agricultural reforms. To prepare tenant-farmers in their role as potential landowners, the agrarian reforms program required them to join a village association called *Samahang Nayon* (SN). This provision found its way in Presidential Decree No. 174 and Letter of Implementation No. 23, two important laws on co-operative development at the time. SNs were pre-co-operatives that guaranteed the loans of farmers for land purchased from their landlord. In turn, the members of SN were given farm education and training. They also placed their savings in their SN and exercised discipline. These SNs were then graduated or converted into full-fledged co- operatives called the *kilusang bayan* which eventually formed a network of area-marketing co-operatives, a co-operative banking system, and a co-operative insurance system. Sacay (1974) noted that the main thrust of PD No. 175 and LOI No. 23 was the promotion of social justice and social equity. However, it was tied with the agrarian reforms program and this downplayed the development of non-agricultural co-operatives. SNs were too politicized as with other state-initiated co-operatives. After two decades since the inception of the policy, the number of active SNs began to decline.

The reinstatement of democratic rule in 1986 became a turning point for genuine co- operativism in the country. Co-operative advocates became optimistic with the passage of two co-operative laws in 1990: Republic Act No. 6938 (Co-operative Code of the Philippines) and No. 6939 (An Act creating the Co-operative Development Authority [CDA]). Individuals could engage in any business activity through co-operation without fear of state interference. Within a few years, the co-operative movement became a visible network albeit still in an emergent phase. Currently, it has a party list representation in the House of Representatives through the National Confederation of Co-operatives (CO-OP- NATCCO).

As a sector, the co-operative movement in the Philippines is young compared to those in Germany and UK which have spanned three centuries of existence and have sustained their development. Table 1 provides statistical background on the development of

Philippine co- operatives. From 570 co-operatives registered in 1939, their numbers had grown to a total of 69,490 by 2007. Based on the 2007 CDA annual report, the co-operative movement claimed a total paid up capitalization of P13.89 billion. In terms of economic output, total volume of business transactions was P78.5 billion while total salaries and wages paid was P2.9 billion. The contribution of co-operatives in the GDP was about 16 percent in 1997 but decreased to12 percent in 2003.

Given that these figures exclude those co-operatives which failed to submit their annual data to CDA, the information presented above may contain a significant underestimate. For example, only 9,564 co-operatives or 14.0 percent of the total number disclosed their paid up capitalization in 2007, while the GDP contribution rate for the same year was based on data submitted by 9,690 co-operatives or 14.2 percent of the total number. Under the Co-operative Code, all co-operatives are required to submit their financial reports annually to CDA. Failure to do so may be grounds for CDA to cancel a co-operative‘s authority to operate.

This seeming disinterest of co-operatives to comply with reportorial requirements provides a symptom to weaknesses in the co-operative movement. Another striking statistics is the ‒survival rate of co-operatives. As of 2007, only 30 percent of the registered co- operatives were classified as still operating, a similar percentage represented those ‒non- operating co-operatives (Table 2). About 20 percent and 19 percent of the number had ceased their operations and had cancelled their certificate of authority to operate, respectively. These figures represented a significant decline in the survival rate of co- operatives in 2000 which was 59 percent.

Three major reasons were traditionally attributed to the underdevelopment of co- operatives in the Philippines: lack of co-operative education, inadequate capital, and poor management (Sacay, 1974). The same can be said of co-operatives at present time. Studies of Emmanuel Velasco, the Co-operative Foundation of the Philippines, Inc. and Leandro Rola (as cited in Sibal, 2001) emphasized that lack of education and training correlated with the following causes of co-op failures: a) lack of capital; b) inadequate volume of business; c) lack of loyal membership support; d) vested interest and graft and corruption among co-op leaders; e) weak leadership and mismanagement; and f) lack of government support.

One problem which this paper attempts to address is the failure of co-operatives to maximize scale of operations. Abao and Villegas (2003) observed that co-operatives in the Philippines lacked the number in terms of membership size. The average membership in Germany in 2000 was approximately 2,105 individuals per co-operative, while South Korea‘s was 1,442 per agricultural co-operative. In 2001, Thailand had an average membership of 1,441 per co-operative, regardless of type, and 1,396 per agricultural co-operative. For the Philippines, they only had an average membership of 46 members per co-operative and 48 members per agricultural co-operative. The Co-operative Code requires a membership of not less than 15 persons, the same number required for organizing a corporation. During the SN period, the minimum number of persons needed to form an SN was 25. This situation calls for a strategy to energize those underperforming co-operatives. Since the economic viability of a firm is correlated with its size, the authors suggest co-operative merger as a means to capture sustained growth and push the enterprise forward.

CO-OPERATIVE MERGER AS A STRATEGY FOR COMMUNITY ENTERPRISE DEVELOPMENT

A merger is an acquisitive type of activity where business firms are combined under a single ownership. It shares a common characteristic with terms such as business combination, joint venture, consolidation, or strategic alliance, where organizational capacity, skills, resources, and coverage are pooled together through creative partnerships. In the case of a merger, the acquired organization ceases to operate and surrenders its net assets to the surviving entity. The result is a cohesive organization that has a single business interest.

Mergers are deemed as a turnaround strategy which is defensive in nature. It arises as a response to economic change. Rue and Byars (2006) noted that such a strategy is used ‒to reverse negative trend or overcome a crisis or problem. It consists of a well-thought plan to realign the direction of the organization. Stepping into this direction eventually unfreezes the status quo. An enterprise, no matter how viable its operations might be, should not be lulled into a false sense of comfort. Its current plans and processes have to be examined to ensure that those techniques which resulted in failure are not reapplied. In the case of a financially distressed company, it should plan a change in top management, redefine its strategic focus, and develop careful programs for investments or divestments. Even marginal players in the industry are expected to come up with solutions to improve their performance. Turnaround management through merger and consolidation can help them quickly expand their business and avoid economic stagnation.

THEORETICAL PERSPECTIVE

Given the proliferation of small and weak co-operatives in the Philippines, the merger process should facilitate development of the enterprise. However, its economic function needs to be clarified. As conventional wisdom dictates, an increase in the number of firms leads to ‒more competitive conduct, lower price-cost margins, reduced profitability of firms, greater output, higher consumer welfare, better allocative efficiency, and increased total welfare. (Shaffer, 1994) A decrease in their number is said to produce an inverse effect. Since the market demands an optimal number of firms to arrive at equilibrium, mergers may be seen as anti-competitive if exploited by capitalists. On the other hand, it can also relieve the market from increased concentration and correct inefficiencies by weeding out those underperforming firms. In the case of Philippine co-operatives, mergers can maximize scales by combining together those with duplicate functions or having small units absorbed by larger, more viable co-operatives to achieve a cost advantage.

There are specific differences between mergers involving investor-owned firms and mergers involving co-operatives. Using Robotka‘s arguments as a point of departure, the differences are summarized below:

a) A co-operative considers each merger candidate as a potential service unit or branch while a corporation views the firms to be acquired as potential investments.
b) A co-operative will effect a merger transaction if this will add value to services being provided to the members of the co-operative. Meanwhile, corporate shareholders are concerned only with the services that will be provided by the new corporate unit or branch, inasmuch as these units boost their investment returns (i.e., through increase in market share, diversification, and geographic growth).
c) The merger transaction is carried out by means of mutual agreement of co-operatives interested in the transaction (e.g., by at least two-thirds vote of the members of the general assemblies of the co-operatives concerned). This is opposed to a corporate merger which may be done by gathering the required number of stockholder votes and capturing the net assets of the firms to be acquired as in the case of hostile takeovers.
d) Upon execution of the merger process, the surviving co-operative modifies the scope of its activities with respect to the newly incorporated unit or branch. However, it maintains the same character (i.e., as the extension of the entrepreneurial function of individual units) which is limited by the exercise of the individual‘s autonomy. In the case of a corporation, the acquired units will form part of the same corporate entity which exists independent of the stockholders.

e) By virtue of a merger, the former members of the acquired co-operative become new members of the surviving co-operative, subject to the requirements for membership of the latter. However, the former stockholders of the acquired corporation may be invited by the remaining stockholders or may be barred from admission, as in the case of a corporate buyout.
f) The same theories apply with respect to the sharing of risks borne by the surviving co- operative to the newly incorporated unit or branch, the obligation of members patronize them, their nonprofit existence, the provision of their service at cost, and the application of patronage dividends with respect to their transactions.

Richards and Manfredo (2003) claimed that the search for synergy clarifies the motivation for co-operative mergers. Citing the works of other economists, they summarized the benefits of a merger to include the following: revenue enhancements through more market power, cost reductions through economies of scale, lower internal transaction costs, or improved managerial performance in general. Summing these up, the most important benefit derived from the process concerns the provision and delivery of service to the members.

EMPIRICAL PERSPECTIVE

As mentioned earlier, the Philippines has had little experience in co-operative mergers. Only a few co-operatives subjected themselves in the process. In this section, the experiences of two co-operatives are described with respect to the context, process, and outcome of their merger transactions. SIDC was selected to represent the agricultural and primary co-operatives, while CLIMBS, the non-agricultural and secondary (or federative) type. Since merger transactions are hardly documented, the sources of data for the caselets are limited to interviews with the co-operative's officers and review of secondary literature.

Soro-Soro Ibaba Development Co-operative

SIDC is a medium-scale agricultural co-operative engaged in such activities as feed milling, contract growing, retailing, and household financing. It also operates its own farm, rice mill, gasoline station, meat shop, and cable channel. After having been awarded as the best agricultural co-operative for three years, SIDC is one of the few co-operatives that earned the Gawad Pitak Hall of Fame, a prestigious award by Land Bank of the Philippines.

SIDC was established as Sorosoro Ibaba Farmers' Association on March 19, 1969 in Soro-Soro Ibaba, an isolated *barangay* in the province of Batangas. Livestock production is the main source of income of residents. Fifty-eight famers contributed two hundred pesos each and pooled a total of P11,800.00 as starting capital. Victoriano Barte, who is recognized as the –founding father of SIDC, served as both President and General Manager. The Association was registered with the Securities and Exchange Commission (SEC) on March 26, 1969. Its initial capital was used for the construction of a retail store that offered basic commodities needed by the residents of Soro-Soro Ibaba and nearby *barangays*. Since some of them had started poultry and hog raising, feeds and other veterinary products were made available. They also engaged in contract-growing activities and became a dealer of different products which were offered at low prices.

In 1972, the Association was renamed as the Samahang Nayon ng Sorosoro Ibaba and became a pre-co-operative or SN in compliance with the requirements of PD No. 175 and LOI No. 23. In November, 1978, it was registered with the Bureau of Co-operatives Development as Sorosoro Ibaba Consumers' Co-operative. With the passage of the Co- operative Code, it was registered with CDA in 1997 and took its present name.

Soro-Soro Credit Co-operative (SCC) was one of the largest co-operatives in Batangas. It was formed by employees of SIDC to provide savings and loans facilities in the area. At the time of its establishment, SIDC offered no financing services except for the sales of its feeds and grocery items on credit. One group claimed that there existed a competition between SIDC and SCC due to similarity of their projects, while another group thought their activities complemented each other. Conflict between the two emerged when they realized that residents transacted with them using the same property as collateral. Competition became even more apparent after SIDC launched a savings mobilization program in 1995. This was considered as a threat to the savings and loans function of SCC. Officers of SIDC and SCC thought it wiser to put an end to the supposed competition and considered the possibility of consolidating their position. They hired an expert who provided them with consultative assistance on matters of corporate mergers. Through focused group discussions, an assessment of both co-operatives was conducted. There were members of SIDC who were not members of SCC and vice versa. The merger transaction would compel members of only one co-operative to adopt the other, unless they decided to dissent and settle their investment. Aside from this, the two co-operatives have their separate sets of officers and personnel. Either one of them would have to give up their ranks and bow down to the leadership of the surviving co-operative. It was agreed the SCC would be dissolved and taken in by SIDC since the latter was relatively larger in terms of membership and net worth.

For the merger to take place, at least two-thirds of the General Assembly of each co-operative should respond affirmative to the proposal. The referendum would be included as part of the regular election of the directors or committee members. However, SCC failed to obtain the minimum number of votes during its General Assembly Meeting on March 11, 2001. Since there was initial resistance among the members of SCC, the referendum question was not raised in the SIDC General Assembly Meeting.

The issue was reopened during the consultative meeting on November 11, 2001. SIDC's Board of Directors proposed for the SCC Chairman to consult with his fellow officers. The Chairman was also asked to inform the members about the merger benefits and motivate them to accept the previous proposal. An ad hoc committee composed of executives of both co-operatives was established on March 2002 to disseminate information to members. On April 2002, their officers organized a technical working group. Its task is to prepare the necessary documents to obtain a certificate of merger from CDA.

On April 6, 2002, more than two-thirds vote of the majority was obtained by SIDC during its General Assembly Meeting. The members of SCC also obtained the minimum number of affirmative votes on April 14, 2002. After coming into an agreement, the two co- operatives then discussed the expectations and demands from SCC in a planning workshop held on June 14 and 15, 2002. A request letter was subsequently forwarded to acting CDA Regional Director Mr. Frank Baraquilla to provide legal advice to the technical working group. On May 15, 18, and 22, 2002, the Notice of Merger was published in the Star People's Courier. After legal matters were settled, the financial activities of SCC were absorbed as a new division in SIDC. This Savings and Loans Division then opened its services to the public on September 2002.

Table 3 shows the membership size, assets, and equity of SIDC from 2001 to 2005. The years 2001 and 2002 in particular captured the data during the transition stage. The increase in membership from 2,195 and 5,929 was partly due to the inclusion of former members of SCC. Its assets increased from P310.1 million to P375.8 million while its equity grew from P118.1 million to P148.2 million. However, net surplus was cut down from P50.8 million to P22.0 million. Merger costs could have been the reason for the sharp decrease in its profits although other financial reasons may have existed.

SIDC had another merger experience with a co-operative, this time with San Agustin Primary Multi-Purpose Co-operative (SAPRIMCO) in Nueva Ecija. Established in 1992, SAPRIMCO is engaged in feed milling and contract growing. It was adjudged as the third best agricultural co-operative during the Gawad Pitak in 1999. After years of profitability and sustained growth, it became insolvent with Land Bank of the Philippines, claiming a majority of its assets. Its officers pleaded with the management of SIDC to consider a takeover of SAPRIMCO. This would enable the co-operative to continue serving its members in Nueva Ecija. In 2007, the General Assembly of SIDC agreed to acquire SAPRIMCO and obtained a two-thirds vote in the affirmative. SAPRIMCO‘s former head office was converted into a branch of SIDC and was reopened on January 24, 2008.

A few years back, SIDC acquired the properties of the dissolved Matungao Agricultural Multi-Purpose Co-operative. The assets consisted of a rice mill in Barangay Matungao, Socorro, Oriental Mindoro which was foreclosed by Land Bank of the Philippines. Upon acquisition, SIDC decided to venture into rice milling and sell rice products in its grocery stores. The rice mill had since been upgraded to guarantee high quality of produce to members.

Co-operative Life Insurance and Mutual Benefit Services

CLIMBS is a national co-operative federation that provides protection services to members of co-operatives. It offers life and nonlife insurance, credit life insurance, accident insurance, and health and hospitalization insurance. As a federative type of co-operative, CLIMBS has a membership consisting of various co-operatives. Individual persons who are the policyholders of CLIMBS are also its indirect members through their co-operatives.

The objectives of CLIMBS are as follows: a) create and develop mutual protection service responsive to the needs of and reaching out to the majority of the Filipinos; b) work towards unifying the mutual protection systems in the co-operative movement; c) develop life and non-life insurance systems; d) serve as one of the financial sources of the co-operative movement; and e) develop and establish a dynamic educational and research program, especially in preventive medicine and health for members and the general public.

CLIMBS was initiated in 1971 by the Southern Philippines Educational Co-operative Center and the Misamis Oriental-Bukidnon-Camiguin Federation of Co-operatives. It was conceived as an experiment in mutual protection to rural communities in Northern Mindanao. In 1975, it was registered with SEC as a non-stock corporation and assumed the name of Co- operative Life Mutual Benefit Society. It was then registered with CDA in 1992 after the Co-operative Code took effect. In 1993, the Office of the Insurance Commission (IC) awarded it a license to operate as a mutual benefit association.

CLIMBS is one of the three remaining insurance co-operatives in the country. The Co-operative Insurance System of the Philippines (CISP) is a confederation that offers life insurance plans to members, while Philac Service Co-operative is an agency co-operative that limits itself to sales of nonlife policies. All three co-operatives operate nationwide and in both rural and urban areas. There had been a few attempts in the past to merge CLIMBS and CISP in order to improve delivery of insurance service to members. There was also the pressure in the insurance industry to consider a merger transaction due to the tightening of capitalization requirements. However, the planned merger between the two had been temporarily deferred. Negotiations failed to materialize due to issues involving joint management, resource pooling, and harmonization of manpower strength.

On April 22, 2007, the General Assembly of CLIMBS approved a merger with the Co-op Life Assurance Society of the Philippines (CLASP), a life insurance co-operative. The reason for the merger was the threat of CLIMBS's compulsory pulling out of its shareholdings from CLASP. Under the Insurance Code of the Philippines, an insurance company may invest only up to 10% of its assets in another entity. CLIMBS's investment exceeded that amount prescribed by the law. To remedy this without resorting to a divestment, it agreed to absorb CLASP. This strategy allowed them to establish a single insurance co-operative that offered both life insurance and mutual benefit. Their consolidation was made convenient with the fact that majority of the members of the former are also members of the latter. Under these conditions, the members of both co-operatives consented to the merger process and decided to rename the surviving co-operative as Co- operative Life Insurance and Mutual Benefit Services.

Table 4 reveals considerable growth in the admitted assets, investments, and net worth of CLIMBS. As of December 31, 2007, its financial report disclosed total admitted assets of P181.0 million and total net worth of P125.8 million. It generated premium income of P135.6 million and had a total savings of P12.1 million.

IMPLICATIONS FOR CO-OPERATIVE MEMBERS

After discussing the theoretical perspective of a co-operative merger and the experiences of two Philippine co-operatives on the subject, it is only reasonable to cite its implications for co-operative members, particularly those who either have not yet been acquainted with this strategy or may have been informed about it but are reluctant to abandon status quo. As mentioned, mergers happen in response to economic stresses. This is spelled out by the need for co-operatives to improve the delivery of service to their members and achieve a competitive edge. While much of them may insist on upholding their identity, their bid to continue to operate as autonomous units is challenged by strong economic forces. This requires the subordination of vested interests for the benefit of the entire general assembly. Its welfare should be given the highest priority. Failure to execute strategies against internal pressures and external threats might put the enterprise in an unfavorable position.

A small, underdeveloped co-operative that intends to subject itself to a merger must plan how best to execute the contemplated activity. The motive of this activity should be clear to all the members of the co-operative. Due care should also be observed in selecting potential merger partners. Upon arrival at an agreement to merge, certain rights and obligations will now have to be modified to accommodate the separate organizational cultures and demands of the two co-operatives. At this stage, communication will play an important role in setting the tone for creative partnership. It will create a culture of transparency and openness which will enable them to accomplish a unified set of objectives.

After the merger process has been streamlined, the surviving co-operative may experience different setbacks and challenges. A consolidated general assembly possessing a diversity of talents and skills may run the risk of its members outperforming or overshadowing each other to establish ‗who is who.‘ Former officers of those absorbed units, for instance, may demand leadership in the executive management of the enterprise. Since mergers arise out of a mutual agreement, each of the members should be aware of the limits of his conduct and come to a sense of shared responsibility. After all, mergers require the exercise of trust and confidence by the members because of the fiduciary nature of co- operative relationships. A successful merger means having people come together to build a cohesive structure.

While co-operative mergers have worked well in other countries, the prevailing condition and practices in the Philippines may not be inviting for it to be given a try. At a certain point, the democratic character of co-operatives becomes a limiting factor when members exhaust their rights to pursue their vested interests instead of the supposed common goal. This constraint can be addressed through an aggressive exercise of the basic co- operative values. Also, the experience of successful co-operative movements should enlighten Filipino co-operators on how to deal with their own co-operatives. A sufficient understanding of contemporary global approaches towards the sustainability of the enterprise can effect change in their behavior and cultivate an environment that promises innovation and quality of work life.

CONCLUSION AND DIRECTIONS FOR FUTURE RESEARCH

This paper is an exploratory study which suggests co-operative merger as an alternative turnaround strategy for developing the community enterprise. It is influenced by the need to design a viable solution to the underperformance of co-operatives in the Philippines. First, the theoretical dimension of a co-operative merger was examined by identifying its economic functions and then differentiating it with a corporate merger. A co- operative merger is carried out to increase the value of services being provided to the members at a cost advantage. This decision criterion is confirmed by the search for synergy.

Second, the experiences of SIDC and CLIMBS were described with respect to the context, process, and outcome of their merger transactions. Their experiences lend credibility to the theoretical assertion stated above. Those co-operatives absorbed by SIDC and CLIMBS became service units and branches and were instrumental to further advancing the goals of both organizations. It is hoped that co-operatives in the Philippines will begin to appreciate this strategy which will transform them into sustainable community enterprises.

As an exploratory study, this paper has its limitations. For one, the research methodology does not include statistical measures for ex post assessment of the merger transactions of SIDC and CLIMBS. The authors‘ arguments are solely derived from a narrative understanding of both theoretical and empirical evidences from the Philippines. In this regard, future research may pay more attention to a comprehensive empirical analysis of co-operative mergers. It is preferred that the studies be conducted under the structure- conduct-performance paradigm to clarify the market impact of co-operative mergers. Another research opportunity involves the exploration of other strategy alternatives for a strong rebound. For example, given the problems involving agricultural co-operatives in the Philippines, advocates of co-operation may want to experiment with the new generation model. On the other hand, agrarian reform beneficiaries will likely benefit from the knowledge about the kibbutz system which may serve as a guide for the effective use of community property. The application of interdisciplinary approaches to co-operative development should enrich intellectual discourse within the co-operative movement.

TABLES AND FIGURES

Table 1 : Number, membership, assets, and capital of Philippine co-operatives, 1939 -2007.

Number	1939	1967	1977	1980	1985	1999	2007
	570	1,530	1,897	2,941	3,350	46,020	68,210
Membership (in thousands)	105	555	460	223.7	337	1,649	n.a.
Assets (in million pesos)	3.4	30.5	129.1	280.1	1,053.8	16,993.3	n.a.
Capital (in million pesos)	n.a.	n.a.	129	193.9	627.1	5,967.9	13,890.1

Source: Adapted from Gray Wine Think Tank.

Note: "n.a." denotes that no available data was collected during the reporting year.

Table 2 : Status of co-operatives (in percentage), Philippines, 2000 and 2007.

Status	2000	2007
Operating	59	30
Non-operating	31	30
Dissolved	8	20
Cancelled	3	19
Total	100	100

Table 3 : Membership, assets, and net surplus of SIDC, Philippines, 2001-2005.

Membership	2001	2002	2003	2004	2005
	2,195	5,929	6,493	7,667	8,810
Assets (in million pesos)	310.1	375.8	435.6	474.5	596.7
Equity (in million pesos)	118.1	148.2	150.9	158.4	185.0
Net surplus (in million pesos)	50.8	22.0	19.0	29.1	33.8

Source: Castillo and Medina (2007).

Table 4 : Financial condition and performance (in million pesos) of CLIMBS, 2003-2005 and 2007.

	2003	2004	2005	2007
Admitted assets	60.0	70.9	78.0	181.0
Investments	31.0	57.1	70.2	111.2
Net worth	38.2	52.1	52.1	125.8

Source: Adapted from Valle (2008).

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