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NONPROFIT ORGANIZATIONS AND LIQUIDITY RISK IN ADEKUNLEAJASIN UNIVERSITY, AKUNGBAAKOKO, ONDO STATE, NIGERIA

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Abstract

Non-profit making organizations have gained more popularity in recent times in Nigeria. Just like profit making organizations must satisfy the need of their different stakeholders as at when due, non-profit making organizations have the responsibility to meet the need of their members or beneficiary at the appropriate time. This call for the question of how liquid and risky is the liquidity base of non-profit making organizations. Consequent upon this fact, this study examined the liquidity risk of non-profit making organizations in AdekunleAjasin University, AkungbaAkoko, Ondo State focusing on cooperative societies operating in the institution.

The study made use of primary data which were sourced from members of selected cooperative societies through the administration of questionnaires. The study employed multistage sampling technique to ensure that the cooperative societies are well represented. The cooperative societies were stratified into four strata and simple random sampling method was adopted to randomly select the respondents across each stratum. A total of forty (40) questionnaires were distributed and collected. The study employed descriptive statistics and percentages to analyze the collected data.

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The result revealed that cooperative societies in AdekunleAjasin University respond to members request quickly and grant full amount of loan requests made by members. However, it was discovered that there was no significant relationship between liquidity risk of the cooperative societies and their quick response to loan request. Also, it was discovered that salary of members is the source from which contributions are made to their cooperative societies and so it is reliable and contributions are made promptly. Furthermore, the result showed that interest rate chargeable on loan is cheap and also terms of loan are appropriately structured to ensure convenience of repayment.

The study concluded that non-profit making organizations (cooperative societies) in AdekunleAjasin University are liquid to meet the requests of their members as at when due and also the riskiness of their liquidity base is very low given the promptness of members contributions as well as repayment of loan according to schedule. Deductions by bursary at source and prompt remittance should be sustained and wholesale funds providers should leverage on the liquidity of cooperative societies to grant loans at mutually beneficial margins.

Keywords: Non-profit organization, Cooperative Societies, Liquidity, Risk, Contributions.

1. Introduction

Non-profit organizations are institutions established for a public or mutual benefit other than generating profit for owners or investors (Salamon, 1999). They can take variety of forms from informal neighborhood associations, local churches or traditional charities serving the poor to labour union, self-help groups or museums, hospitals and large universities. Non-profit organizations are organized, self-governing, non-profit distributing and voluntary. According to Anheier (2014), the non-profit distributing does not mean that non-profit organizations cannot generate profit but they cannot distribute it to owners or directors. The profit must be used to support the operation of the organization.

A firm is liquid if it can meet its cash demand promptly and efficiently and have funds to take advantage of profitable opportunities when they occur. According to Rose and Hudgins (2013), a firm is liquid if it has access to immediately spendable funds at reasonable cost at precisely the time needed. In similar fashion, Macdonald and Kosh (2006) opined that a firm is liquid if it can meet payment and clearing obligations in a timely and cost effective manner. These definitions suggest that liquidity can be achieved internally by deliberately having cash or near cash assets or externally by maintaining its ability to raise liquid funds in a timely and cost effective manner. A firm facing liquidity risk will either dispose its assets at very low prices or borrow externally at ridiculously high interest rates thereby eroding its profits. Funds demands occur to cooperative societies either as loan requests from members, need to pay for cash supplies or need to settle outstanding debts to creditors when they fall due. Inability to meet these needs result to liquidity risks of low earnings, member's dissatisfaction, defection and stoppage of monthly contribution by members which aggravate the firm's liquidity crisis.

To ensure successful operation of any organization the importance of financial liquidity cannot be overemphasized. In this regard, non-profit organizations are not exception. However, just like for-profit organizations, liquidity decision is part of sound financial management. As it is important for profit-making organizations to maintain sound liquidity so as to meet their maturing obligations so also it is of utmost importance that non-profit institutions maintain a sound working capital position so as to be able to fulfill their mandate.

Financial management of non-profit organizations is similar to financial management in the commercial sector in many respects; however, some differences shift the focus of a non-profit financial manager. A profit-making enterprise focuses on profitability and maximizing shareholder value. A non-profit organization's primary goal is not to increase shareholder value; rather it is to provide some socially desirable need on a continuous basis. A non-profit organization generally lacks the financial flexibility of profit-making enterprise because it depends on resource providers whose main purpose for joining the organisation is not to maximize profit. Non-profit organization must demonstrate its stewardship of donated resources — money donated for a specific purpose must be used for that purpose. That purpose is either specified by the donor or implied in the organization's stated mission. The management and reporting activities of a non-profit organization must emphasize stewardship for these donated resources.

Generally, several books have been written by different authors on financial management in not-for-making organizations (see Theunis& Erika (2011), Blackbaud (2011), Barned (2009)). However, one of the least researched areas in the management of non-profit making organizations in Nigeria is liquidity management. Though few studies have been carried out in some African countries and developed countries (see Karanja and Karuti (2014), Berta and Ronelle (2015), Michalski (2012), Zietlow (1997)). But these studies do not consider liquidity risk in not-for-profit organizations in the Nigeria context. Therefore, this paper attempts to ascertain the liquidity risk of non-profit organisations, with particular reference to cooperative societies operating in AdekunleAjasin University, AkungbaAkoko, Ondo State. This will be achieved by making conclusions from responses of members of the cooperative societies. The specific objectives include; firstly, to examine the relationship between type of cooperative societies and response to loan request. Secondly, to analyze the independence between promptness of member's contribution and type of cooperative society.Thirdly, to assess the relationship between type of cooperative society and members' convenience of loan repayment.

2. Literature review

Concept of liquidity management in non-profit organization

Kallberg and Parkinson (1993) defined liquidity as a situation where an organization is financially flexible. Also, liquidity has been defined as the ability of organizations to augment its future cash flows (Maness &Zietlow, 1998). The concept of liquidity decision in non-profit making organization is almost a neglected issue both in textbooks and journals in Nigeria with the exception of few scholars from developed countries such as Wacht (1984a, 1984b) and Gronbjerg (1991).

A non-profit organization's resources or assets are best managed from the going concern perspective, which assumes no limitation on the organization's future existence. Management must be sure that the organization has sufficient liquid assets available to finance current operations. The goal is to maintain an optimum balance between available assets and invested or growing assets so as to be able to pay its debts in a timely manner and meet other financial responsibilities. After budget is developed, the non-profit institution must focus on smoothly financing current operations by making the most efficient use of current or liquid funds, and by maximizing available and obtainable resources to enhance return on the resources or capital. Maximizing resources involves analyzing the costs and benefits of various sources of non-profit revenues. Two possible sources of income are business income and planned gifts. Business income earned by a non-profit must be segregated between that earned in pursuit of its mission and that from activity undertaken simply to make money.

Budgeting and cash flow planning in Non-profit making organization

Budgeting is an important aspect of financial management for non-profit making organizations. It is a tool for developing strategic plans that takes financial outcome into consideration. The expected financial outcomes assist the boards and management to monitor and evaluate the plans. It must be noted that most non-profit making organizations operate without large reserves from which to draw. So, there is need for proper budget preparation so as to provide financial information needed by the management to decide if the developed strategic plans align with the operation of the organization or not (Barned, 2009). Information on cash flow can be gotten from the financial forecast as contained in the financial budget. Cash is a vital resource for a not-for-profit organization. To maintain financial viability, the organization must have enough cash to pay its bills. Accrual basis financial statements can report an excess of revenues over expenses but this does not necessarily mean that there is cash in the bank. This is because cyclical and seasonal fluctuations also have an impact on an organization’s cash flow. Cash inflows and outflows for most not-for-profits typically fluctuate throughout the year. This increases the importance of the budgeting process because obligations must be met on a timely and consistent basis. The organization must plan ahead for those periods when cash inflow tends to be less than cash outflows. To solve this problem non-profit organization may make use of two options, either to postpone expenditures or accelerate constituent billings. Organizations need to plan from day one to build working capital reserves equivalent to at least several months of operating expense. When excess cash reserves have accumulated, the organization must plan for temporary cash investments to maximize the return on those resources. Therefore, sufficient money should be kept in federally insured, interest-bearing accounts to maximize an organization’s yield on its cash. Short term investments of excess cash should be chosen to balance maximization of interest earned with emergency access to the invested cash. Some options are certificates of deposit, treasury bills, and other money market assets.

Once cash reserves exceed the amount needed for one operating cycle, longer-term investments need to be evaluated. Investment policies must weigh the permissible level of risk to the organization's resources in relation to expected returns. Any equity or debt investments chosen will depend on the board's written investment policy. If the not-for-profit is a trustee on a charitable remainder trust, then it is under a duty to the ultimate beneficiary to invest and manage the funds of the trust as a prudent investor would, in light of the purposes, terms, distribution requirements and any other circumstances of the trust.

Under common law, the not-for-profit owes a fiduciary duty to its contributors and grantors to use gifts for the purposes for which the funds are given. A mechanism for tracking donated money and its use must be in place. Many organizations achieve this by isolating restricted gifts. There can be additional accounting expense associated with a restricted gift. Grant expenditures often require very specialized reporting to granting agencies.

Theoretical review

There are several theories that explain why nonprofits exist. While some of the theories are based on economic argument (market failure, contract failure and government failure theories) others focus on ideas related to politics and communities.

Market failure theory:

The market theory explained that the market system is capable of supplying private goods which are consumed by individuals such as food or car. However, Ott and Dicke (2016) opined that market system have the challenge of providing public goods which are supposed to be meant for collective consumption. The government is expected to solve this problem by employing tax as an instrument where everyone will pay for whatever they consume since no one can be excluded from the consumption of these public goods. Unfortunately government has her own limitations. Therefore, nonprofits often complement the public sector in providing public goods.

Contract failure theory:

This theory is traced to Ott and Dicke (2016) which relates to business sector. Contract failure occurs when there is "information asymmetry" which means that consumers are unable to ascertain the real costs or the quality of the service. This can be as a result of several reasons. Possibly the service might be too complex judge or the consumer may not be competent to evaluate the service such as child in kindergarten. At times it could be because the service is not consumed by the person who pays for it therefore the consumer does not have necessary information to evaluate its quality. Based on some of these reasons, consumers tend to trust nonprofits more because they understand that their main aim is to serve the public and they do not seek profit for personal gain.

Government failure theory:

Citizens seldom have a complete agreement on what public goods should be provided. Some people, for example citizens who belong to certain religious, ethnic or other minority groups, have needs that most other electorates do not. Government usually responds to the "average" electorate, to the needs of the minority therefore, the minority needs are often satisfied by nonprofit sector in areas where the population is most diverse since many different needs have to be met in such places.

Liquidity Management Theories

These are strategies for ensuring that financial firms stay liquid and avoid liquidity risk. These strategies are spot on when applied to co-operative societies engaged in thrift and loans activities. The strategies are asset liquidity management, borrowed liquidity management and balanced asset and liquidity management.

Asset Liquidity Management:

This strategy call for storing of liquidity by holding cash, near cash assets or marketable securities are sold to realize cash and supplement available in cash assets. Mishkin, Matters and Giuliodori (2013) definition of liquidity management is in line with the asset liquidity management theory where they defined it as the acquisition of sufficiently liquid assets to meet firms obligations. The strategy is otherwise called asset conversion strategy. It may necessitates the selling of assets below optimal value and incurring transactio cost of selling such assets; furthermore, implicit in this strategy is the cost of interest accruable on sold securities which constitute opportunity cost.

Borrowed Liquidity Management:

This calls for the borrowing of spendable funds when there are demands for liquidity, otherwise called purchased liquidity or liability management. The strategy has the advantage that firms can keep its assets in high yielding non-liquid assets rather than in cash and short term marketable securities whose yields are either zero or low respectively. Secondly, it permits firms to leave the composition and volume of its asset portfolio unchanged if it is currently satisfied thereby ensuring portfolio stability. Shortcomings of this strategy include scarcity of funds when needed and high cost of borrowing. The knowledge of the fact that a firm is in dire need of funds spreads fast and fund suppliers increase interest rate which consequently results into reduced earnings.

Balanced (Asset and Liability) Liquidity Management:

This involves a healthy combination of the two strategies of asset liquidity management and borrowed liquidity management. Cost of asset liquidity management is avoided when borrowed liquidity is adopted and vice versa. The use of both strategies in a healthy mix will therefore reduce aggregate cost. Some of expected liquidity needs will be met from cash and sales of marketable while some others will be met by advance arrangements for lines of credit from suppliers of funds.

Empirical Review

As earlier noted, studies on liquidity decisions of non-profit making organizations are very scanty considering the Nigeria context. However, few studies have been carried out by some scholars on issues bordering on liquidity and financial sustainability or vulnerability of non-profit making organizations in Africa and Europe.

Karanja and Karuti (2014) conducted a study on the assessment of factors influencing financial sustainability of non-governmental organizations in Isiolo County, Kenya. The study operationalized financial sustainability as a measure of an organization’s ability to meet all its resource and financing obligations, whether these funds come from charges or budget sources and fulfill its mission and serve its stakeholders over time. The study which covered all the Non-Governmental Organizations (NGOs) in Isiolo County, Kenya adopted a descriptive research design. The study concluded that funding Non-Governmental Organizations (NGOs) is a challenge and that there are government policies that interfere with smooth running of NGOs. The study therefore recommended that government should as a matter of urgency put in place policies that will ensure financial sustainability of NGOs and ensure the participation of NGO management when making policies that will affect their financial sustainability in Kenya.

Berta and Ronelle (2015) investigated the financial vulnerability of Ugandan NGOs. According to the study, NGOs depend on the external environment for their financial resources which impact on them negatively as a result of their constraint to credit and their inability to raise own capital and to engage in profit-making activities. This, in turn, renders them financially vulnerable. The study adopted methodologies used by previous studies in developed countries to predict financial vulnerability in developing countries. The study used data from 295 NGOs in Uganda to explore possible relationship between organizational characteristics and financial vulnerability. While confirming the results of previous studies, the study affirms that revenue concentration and surplus margin are significant predictors of financial vulnerability. The study as well recognized the existence of equity as a variable which can help manage financial vulnerability. The study also submitted that larger and community funded NGOs are less likely to experience financial vulnerability.

In a study carried out in Poland, Michalski (2012) examined the empirical relation between liquidity measures and efficiency in Polish Nonprofit Organizations. According to the study, Polish nonprofit organizations are important part of general social policy in Polish economy and they have been well identified in healthcare, education and many other socially important areas. The study opined that considering the efficiency of nonprofit organizations, from the perspective of donors, it is important the way the managing team utilize the resources of nonprofit organization. Also, the efficiency of nonprofit should be considered within the context of their risk. The study recognized that one of the fastest means to be out of business is the lack of liquidity. From the data collected by the study from Polish nonprofit organizations it was revealed that there is average high level of efficiency measures like return on equity (ROE) and return on asset (ROA). The study concluded that the high levels of liquidity measures indicate high level of risk sensitivity.

3. Methodology

This study was conducted in AdekunleAjasin University, AkungbaAkoko, Ondo State, Nigeria. The University was chosen because there are different cooperative societies in the university which operate as non-profit making organization. The population of the study includes all cooperators in different cooperative societies in AdekunleAjasin University, AkungbaAkoko. The study made use of primary data which was sourced from respondents (cooperators) through the distribution of questionnaires. A total of 40 copies of questionnaires were distributed to respondents across the cooperative societies in AdekunleAjasin University. Multi-stage sampling technique was adopted to ensure that adequate facts were gathered from the respondents. Firstly, stratified sampling method was used to group the entire population (cooperative societies in AdekunleAjasin University) into four strata. Thereafter, simple random sampling technique was adopted to randomly select the respondents from each of the four stratified cooperative societies. Data collected were analyzed using descriptive statistics and chi square analytical technique.

4. Discussion of Result

Relationship between Types of Cooperative Society and Liquidity as Measured by Opinion of Members

In Table I below, the opinion of the members of the cooperative societies about some selected liquidity factors are tabulated across the types of cooperative societies and the results of the Chi-square test of relationship are, also, shown. Half of those who disagreed that their cooperative societies were responding fast to loan request were members of the SSANU cooperative society (50.0%). More than a third and more than a tenth were members of Security (37.5%) and general cooperative (12.5%) respectively; while none of the members of ASUU cooperative society reported disagreement about the opinion. Those who were indifferent about the opinion were the same proportion of a quarter among ASUU (25.0%) and general cooperative (25.0%) societies; while no member reported being indifferent among the SSANU cooperative society, and half of the cooperative members who were indifferent about the opinion were members of the Security cooperative society (50.0%). However, there is no significant relationship between the opinion about the fastness of the cooperative societies to loan request and the types of cooperative society (χ^2=9.291, $p>0.05$).

No member of any of the cooperative societies felt indifferent about the opinion on the quickness of monthly remittance to their cooperative societies. Among those who disagreed that their monthly remittance is quickly made into the cooperative accounts, more than a third were members of ASUU (36.4%), more than a quarters were members of SSANU (27.3%), the same proportion of 18.2% were members of Security and general cooperatives. However, among those who agreed, more than a tenth were members of ASUU (11.1%) and SSANU (14.8%), while a third and two-fifths were members of Security (33.3%) and general (40.7%) cooperative societies respectively. Similarly, the cooperative societies do not significantly differ in the opinion of members about quickness of making monthly remittance (χ^2=5.366, p>0.05).

In the same manner, the cooperative societies do not significantly vary in the opinion of members about convenient of repayment structure (χ^2=1.803, p>0.05). The only member who reported disagreement about the convenient structure of repayment was a member of the Security cooperative society (100.0%); this is, also, the same about being indifferent. However, those who agreed that repayment is conveniently structured were about a fifth among the members of ASUU (18.9%) and among the members of SSANU (21.6%); while about a quarter and a third were among the members of Security (24.3%) and general (35.1%) cooperative societies respectively.

Table I. Chi-square Test of Relationship between Types of Cooperative Society and Liquidity as Measured by Response of Members

Response	**Types of cooperative society**					
	ASUU Coop	**SSANU Coop**	**Security Coop**	**Gen Coop**	**Total**	χ^2
Coop responds fast to loan request						
Disagreed	0 (0.0)	4 (50.0)	3 (37.5)	1 (12.5)	8	
Indifferent	1 (25.0)	0 (0.0)	2 (50.0)	1 (25.0)	4	9.291
Agreed	6 (22.2)	4 (14.8)	6 (22.2)	11 (40.7)	27	(p=0.158)
Your monthly remittance is quickly done						

Disagreed	4 (36.4)	3 (27.3)	2 (18.2)	2 (18.2)	11	
Indifferent	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0	5.366
Agreed	3 (11.1)	4 (14.8)	9 (33.3)	11 (40.7)	27	(p=0.498)
Repayment is structured for convenience						
Disagreed	0 (0.0)	0 (0.0)	1 (100.0)	0 (0.0)	1	
Indifferent	0 (0.0)	0 (0.0)	1 (100.0)	0 (0.0)	1	1.803
Agreed	7 (18.9)	8 (21.6)	9 (24.3)	13 (35.1)	37	(p=0.614)

Source: Authors' computation.

5. Summary, Conclusion and Recommendations

This study assessed the liquidity risk of non-profit making organization in AdekunleAjasin University, AkungbaAkoko, Ondo State, Nigeria. Four cooperative societies operating in the University were selected for the purpose of assessing some factors that determine the liquidity risk of non-profit making organization in the University. The result revealed that cooperators indicate that cooperative societies in AdekunleAjasinUniveristy respond to loan request quickly. This is an indication that cooperative societies in the University are liquid to grant members' loan requests on time. However, the study found that there was no significant relationship between liquidity risk and cooperative societies' quick response to loan request of members. Likewise, quickness of members' monthly remittance does not have significant relationship with the liquidity decision of the cooperative societies in AdekunleAjasin University. Similarly, cooperators agreed that the repayment structure allows for convenient repayment of loans but this does not significantly determine the liquidity risk of the cooperative societies in the University.

Therefore, it was concluded that the factors of liquidity risk considered in this study do not have significant relationship with liquidity risk of non-profit making organization (cooperative societies) in AdekunleAjasin University, Akungba-Akoko, Ondo State, Nigeria. Consequently, Deductions by bursary at source and prompt remittance should be sustained. Wholesale funds providers should leverage on the liquidity of cooperative societies to grant loans at mutually beneficial margins.

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