DECALOGY OF COOPERATIVES MANAGEMENT

7 MANUAL ON OPERATIONS MANAGEMENT FOR COOPERATIVES

ABSTRACT

This manual describes how a cooperative can setup, manage, and improve its operations. Relevant information including concepts, approaches, and best practices were integrated to create the best possible guide for cooperatives. This manual emphasizes the need to intentionally plan for and execute operations to meet customer expectations in terms of quality, delivery, and price.

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This manual was written by **Aaron Angelo Frio**, under the supervision of **Dr. Eduardo A. Morato, Jr.**, Chairman and President, Bayan Academy for Social Entrepreneurship and Human Resource Development, Inc. This is part of the NATCCO Knowledge Resource Center Project from April 2018 to May 2019.

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I. Foreword

Trust is one of the foundations on which value is created and shared for the benefit of the people. As such, the author duly acknowledges NATCCO for entrusting the development of this operations manual, among others, to Bayan Academy.

The author also extends his gratitude to Ms. Charmaine Pineda for her invaluable efforts in making this project possible, to Ms. Melissa Balmaceda for all the help in securing and drafting this manual, and to Dr. Eduardo Morato for his guidance and insight in refining the details of the manual.

II. How to use the manual

This manual is designed for cooperatives intent on setting-up, managing, and improving operations. It presents a step-by-step guide in establishing proven practices in operations management. This manual describes foundational concepts, steps, processes, examples, and other considerations pertinent to carving out an operating model for cooperatives. In using the manual and developing a cooperative's operating model, it is imperative to stay aligned with their respective bylaws. Exercises are also included after each major topic is discussed for the user to answer in reference to his/her cooperative.

MANUAL ON OPERATIONS MANAGEMENT FOR COOPERATIVES

Part 1: Understanding the Enterprise Delivery Framework (EDF)

Operations management is a function of the intended outcomes that a cooperative strives to achieve. Outputs (e.g. services, products) are then produced to meet the said outcomes. Customer expectations on Quality, Delivery, and Price (QDP) determine what inputs (e.g. labor, time, capital) and throughputs/processes (e.g. loan processing for credit cooperatives) are needed to produce outputs. When inputs transform into outputs, some form of additional value is created (e.g. time, labor, and knowledge are combined to render financial consultation services to customers). Putting together the four elements of input, process, output, and outcome (IPOO), we form what we call an ***Enterprise Delivery Framework (EDF)***—a system that organizations use to create value for its customers.

The main reason why it is important for cooperatives to understand operations is that it sets standards and procedures in place so that customer expectations are met. Time and again, research and reports have proven that organizations that continuously improve their operations (e.g. through process improvement) tend to have more profit and customer loyalty. In the same way, cooperatives that manage their operations well will likely get to keep their members from leaving.

For example, a member of a credit cooperative applies for a loan. The cooperative then takes the application form and all other requirements and begins its process of reviewing the application. If the cooperative's loan review and approval process is slower than what the customer expects, then he or she might get tired and impatient and look for another financial service provider. But if the cooperative has high operating standards and keeps the application process short, pleasant, and within customer expectations, then the member will likely stay and perhaps speak well of your cooperative as a bonus.

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Table 1: Enterprise Delivery Framework.

INPUT	PROCESS	OUTPUT	MARKETING	OUTCOME
<u>Resources</u> • Money • Machines • Manpower • Materials • Methods • Management	<u>Converts Inputs into Outputs</u> • Technology Application • Operating Systems • Work Processes • Work Flow • Layout • Production Scheduling or Service Scheduling • Quality Control Evaluation	Products Produced and Services Rendered	• Positioning • Product • Package • Promo • Place • People • Price	<u>Customer Outcomes</u> • Quality • Delivery • Price <u>Market Outcomes</u> • Sales Volume • Sales Value • Market Reach • Market Share <u>Financial Outcomes</u> • Cost per Unit Product • Net Income • Return on Investment • Return on Equity <u>People Outcomes</u> • Income Earned by Beneficiaries • Benefits Received by Beneficiaries

Source: A Guidebook for Designers and Developers of Livelihood Programs by Dr. Eduardo A. Morato, Jr.

In using the EDF to organize and manage operations, cooperatives must *begin with the end in mind*. This simply means that cooperatives must begin by asking the outcomes that they intend to happen, starting with customers' expectations when it comes to Quality, Delivery, and Productivity (QDP), followed by market, financial, and people outcomes. Once the cooperative has an idea about what outcomes they intend to achieve, the next thing to consider is the kind of outputs (products & services) to produce in order to satisfy customers and members of cooperatives. From here, the *how* part is determined by identifying the inputs and throughputs needed to produce specific outputs.

Customer Expectations: Quality, Delivery, and Price

To meet QDP expectations, cooperatives must utilize their resources to acquire the inputs (e.g. labor, time, facilities) needed, and convert these raw inputs into outputs through processes such as loan reviews and approval for credit cooperatives. Hence, the EDF framework is essentially about being able to deliver goods and services based on what customers want and what kind of experience they want to get out of it.

Quality

When customers think of Quality, they always think of the benefits that they receive physically, emotionally, and psychically. As with many different types of enterprises, Cooperatives usually confuse the features of their products and services with the quality expectations of customers. Meaning, cooperatives tend to render a service in a way that they see fit (how they define quality) rather than the kind of quality that their customers expect. In any circumstance concerning the relationship between cooperatives and its customers, the most important thing to do is to talk to the latter and ask about the benefits that they expect to receive—physically, emotionally, and psychically. After such, cooperatives must match that quality expectation by producing goods or rendering services according to how customers expect them to be. In the process of doing so, you will see that more and more customers will be satisfied, and your cooperative will perform better than before.

In the context of credit cooperatives, Quality refers to the benefits that customers want to receive from a loan or a savings-related product. As such, credit cooperatives must work closely with its customers to learn more about the quality expectations of the latter in order to match loan/savings quality expectations.

Delivery

When customers think of Delivery, they think of (1) the desired quantity of goods and services made available at the right time, (2) on the terms and conditions preferred, with the accompanying benefits of warranties, and (3) good after-sales service. In simple terms, customers will always expect what kind of services they want at a certain point in time, how and how long they want the service to be conducted, and what kind of after-sales interaction they prefer. In the context of credit cooperatives, Delivery translates to the efficiency of the loan process from the date of application down to approval, as well as how it was done. In simple terms, delivery asks: (1) how does your cooperative process loans; and (2) how fast does your Cooperative process loans from the day a customer applies to the day the loan gets approved?

As with quality expectations, customers expect certain standards on how they want goods or services to be delivered, and it is the role of the operations officer/manager to ensure that such delivery expectations are met. So, when customers say that they expect the loan to be processed in one week, the operations officer/manager must take the necessary measures to deliver within one week.

In some cases, cooperatives are unable to match the delivery expectations of customers simply because they lack the manpower or other resource capabilities. Such situation will require the cooperative to manage the expectations of its customers by simply walking them through the service process and the time it will take before they can deliver such service. If such situation is true for your cooperative, you may want to consider process improvement plans or operations expansion and capacity building.

Price

When cooperative customers think of Price, they think of the interest rates and service fees. Different customers have different wallet sizes, meaning, some customers have more money to pay for goods or services that are more expensive, while some have less. This is the reason why market segmentation is important. A market segment is defined as a group of people who have the same needs or capabilities that a cooperative can serve. Certain market segments can pay more, while some segments can pay less. Market segmentation is key to determining the interest rates and services fees customers are willing to accept. Another example of which is that some market segments or groups can accept higher interest rates on loans while some can only accept rates that are lower than what other banks offer.

In the context of credit cooperatives, price translates to the effective interest rate of the loan, as well as service fees. Customers usually compare interest rates among banks and other financial institutions to get the lowest possible rate so that they get the best possible price. Because of this, customers expect credit cooperatives to have lower interest rates on their loan products than traditional banks. Credit cooperatives must then look for ways to strike a balance between offering competitive interest rates and turning a profit.