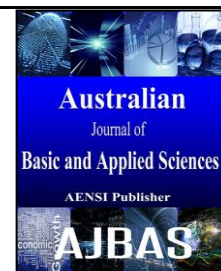




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Financial Performance of Income Generating Projects of Surigao del Sur State University

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ABSTRACT

On studying the FINANCIAL PERFORMANCE OF INCOME GENERATING PROJECTS OF SURIGAO DEL SUR STATE UNIVERSITY for a study period of five year 2009-2010 to 2012-2013. This study used the document analysis method. Research-made questionnaires are the primary tools for the gathering of data. To clarify and substantiate the answers given by the key informants, short follow-up questions are made during the interviews. The study reveals that the implementation of the budget is satisfactory. Ratios help to summarize large quantities of financial data to make quantitative judgment about the financial performance of the firms. Profitability ratios indicate there is a decrease in the profit level, utilization of fixed assets and working capital in the last fiscal year. Thus the company can take necessary steps to improve sales and profit. As a result it can be concluded that the economic conditions and performance of the organization is doing well, but still to be improved.

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INTRODUCTION

Rationale of the Study:

Present – day conditions demand a necessity for the school to venture on Income Generating Projects (IGP) in order to survive. Consequently, the school administration finds it difficult to offer academic programs attuned to the demands of the local and international labor market. The state universities and colleges for this reason maximize the use of their resources to generate income without necessarily shifting the burden of their students.

The Higher Education Modernization Act of 1997 which mandates the government schools to provide quality higher education at the least cost the state universities and colleges are encouraged and authorized to undertake revenue-raising for its maintenance and other operating expenses.

A venue for convenient training session in different fields like agriculture, vocational and fishery, professional education, information technology, research and other trade crafts, IGP would enable the faculty and staff of SUC with working abilities to become productive members of the school as well as, the students to earn while learning, and the young people in the community to have more job opportunities (Unified Manual of Operation for IGP of SSPSC, 2008).

What then are income generating projects? Income generating projects or IGP refers to the business activities of the State Universities and Colleges to support the needs of the various activities for instruction, research, extension, production and maintenance and other operating expenses.

SDSSU have three (3) types of IGPs that are currently making, food production projects, manufacturing and services projects.

The school started its income-generating activities using some of its resources and facilities like the Training Center, conference room, a canteen and a computer center. The school experienced the economic difficulties, when in fact it started expanding its business activities through the making of bluebooks, student uniform, merchandising, crop production, fishpond culture and even livelihood assistantship to the faculty and employees imposing a very minimal interest.

Other campuses ventured into services, production, short-term courses, etc. which eventually augmented their school income.

The modules, books and laboratory manuals made by some faculty members were produced by the school and sold to students. It does not only help the school to generate income but also the faculty members who were given incentives and royalty for the manuals and books they have authored.

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It is within this context that the researcher thought of conducting this study with the objective of finding out the financial performance of the income generating project of Surigao del Sur State University for the fiscal year 2009-2013. The researcher was interested in finding out the major factors that determine the economic performance of the organization.

Theoretical Background:

This study was guided by "The Agency Theory" as initially put across by Jensen & Meckling, (1976) and later expounded on by Gerrit Sarens & Mohammad J. Abdolmohammadi, (2010). Gerrit & Mohammad theory also has connotations with the Theory of Firm articulated by Nicolai J. Foss, *et al.*

The agency theory implies that a company comprises of link of agreements between its owners of economic resources (the principals) and the managers (the gents) who are charged with the use and control those resources. (Jensen & Meckling, 1976).

Agency theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are adequately served by officers.

In addition also, an assumption of agency theory is that principals and agents act rationally and use contracting to maximize their wealth. There is a significance of this theory may be the "ethical threat" problem (Jensen & Meckling, 1976) which indicates that in an effort to make the best out of their own wealth, agents may face the problem of acting against the interests of their principals.

Agency theory has served as the dominant theme for empirical examinations of the relationship between equity ownership and financial performance (e.g., Thomsen & Pedersen, 2000). The roots of agency theory are primarily grounded in the seminar work of Berle and Means (1932). Berle and Means suggested that a fundamental shift occurred in the early 1900s when owners no longer actively managed their firms. Instead, professional managers with little or no equity in the business had been acceded day-to-day management responsibility. Given this, the alignment of interests between owners and managers may be compromised. Accordingly, a central principle of agency theory is that high-ranking corporate officers, acting as the agents of shareholders, can pursue courses of action inconsistent with the interests of owners (e.g., Eisenhardt, 1989; Jensen & Meckling, 1976; Shleifer & Vishny, 1997).

Characteristics of Measuring:

The goal approach directs the ownersmanagers to focus their attentions on the financial measures. It include profits, revenues, returns on investment (ROI) (Duchesneau and Gartner 1990; Smith,

Bracker, and Miner 1987), returns on sales (Kean et al. 1998), and returns on equity (Richard 2000; Barney 1997).

Financial measures are objective, simple and easy to understand and compute, but in most cases, they suffer from being historical and are not readily available in the public domain. Inaccessibility, concealment (Covin and Slevin, 1989), completeness (Sapienza and Grimm 1997), accuracy (Brush and Wanderwerf 1992) and timeliness (Sapienza, Smith, and Gannon 1988) of data make comparisons among the sectors challenging and futile. Further, profits are subject to manipulations and interpretations.

The combinations of these two measures help the ownersmanagers to gain a wider perspective of measuring and comparing their performance, in utilizing the resources, competitiveness and readiness to face the growing external pressure including globalizations.

Depending on the duration of a project or plan, results and returns can be measured based on the short or long-term measures. Short-term measures, generally based on the financial returns, are for evaluating projects that will complete within twelve calendar months while the long-term measures, usually based on the non-financial returns, are useful for projects that may take twelve months or more.

The short-term financial measures, which include revenues and profitability, reflecting an organization's current state of performance may not necessarily serve as a useful guide or prediction for the organization's long-term survival (Birley and Westhead 1994).

However, by accumulating the revenues and profits, these may become a useful pool of resources for future growth, expansion plan, help push the organization over its survival threshold (Barney 1997) and support its growth strategy (Haber and Reichel 2005). Phillips (1999) argues that profitability in the short run is an important factor in the organization's ability to achieve its long-term goals such as increased market share, brand names and reputations.

Low profitability for a given period may not necessarily reflect deficiency of the ownersmanagers, massive investments are being channelled into long-term projects that may lead to future growth or for meeting the internal (for example securing resources, sudden demand of employees on wage hike) or external requirements (for example, meeting the regulatory requirements).

This means that while the goal approach emphasizes on achieving the predetermined targets, it is necessary for the ownersmanagers to consider the time frame of completing the process (Haber and Reichel 2005). In reality, time is a crucial factor that could affect survival and extent of receiving the continuing supports from the external stakeholders.

In this respect, performance should be measured based on a holistic approach that incorporates its

financial measures. McDougall and Oviatt (1996) report that an increase in sales volume is due to the past efforts and performance, customers' satisfactions and continuing referrals by the existing customers. In effect, most SMEs use both market shares and returns on investments as measuring indicators, reflecting on the holistic approach of using the financial and non-financial measures. This study fills the gap by incorporating time axis in the analysis.

A vocational school should be enterprising in order to be self-liquidating and self-sustained in their operation. It means that it can take care of expenses of the maintenance and other operating expenses even without or will less allotment coming from the National Government (Ang, 1998).

Pursuant to the Unified Manual of Operations for Income-Generating Projects of the Philippine Association of State Universities and Colleges provides among others that the primary reason for the establishment of income-generating projects in state universities and colleges are to: (a) strengthen instructions, research and extension functions of State Universities and Colleges as Income-Generating Projects provide facilities and technologies necessary for the hands-on experiences of students, extensionists, entrepreneurs and farmers. The projects served as "silent salesman" of the SUCs and powerful tools in disseminating technologies; (b) generate additional income for the school to enable flexibility in financial management and attain fiscal autonomy; (c) provide venues for faculty and staff members to hone their business acumen and augment their income; (d) provide model projects that students may replicate after graduation. (e) serves as the vital contribution of SUCs to countryside development through the production of quality materials and other products; and (f) provide the institution the opportunity to maximize the utilization of its resources.

Chien-Ta Ho & Yun-Shan Wu (2010) This paper conducted a review of the literature and five-power analysis to aggregate financial ratios appropriate for the study. Five-power analysis in the study is a combination of liquidity, asset utilization, leverage, profitability, and growth. Future research could set up a particular model for the preliminary selection of financial ratios to make studies of this kind more complete.

Jose M. Moneva, Eduardo Ortas (2010) in his study Corporate environmental and economic performance: a multivariate approach evaluated the significance of the link between corporate environmental and financial performance in order to show managers how an adequate management of environmental factors could contribute to the financial success of the firm. The results support the idea that enterprises that obtained higher rates of environmental performance show better financial performance levels in the future.

John Irton (2010) in his study Financial Statements why it is necessary for all business? States that the purpose of financial statements is to give information regarding the financial situation, performance and changes in financial position of a venture that is helpful to a broad range of users in making economic decisions. Financial statements should be comprehensible, appropriate, reliable and comparable. Reported property, liabilities and equity are directly connected to an organization's financial situation. Reported income and operating cost are directly linked to an organization's financial performance.

Mark T. Soliman (2008) in his study The Use of DuPont Analysis by Market Participants founded that a change in asset turnover is positively related to future changes in earnings.

This paper contributes to the literature along three dimensions. First, the paper adds to the statement analysis literature and finds that the information in this accounting signal is in fact incremental to accounting messages studied in prior research in predicting future earnings. Second, it contributes to the literature on the use of accounting information by examining immediately and future equity return responses to these components by investors. Finally, it adds to the literature on analysts' processing of accounting information by again testing immediate and delayed response. Taken together, the analysis indicates that the DuPont components represent an incremental and viable form of information about the operating characteristics of a firm.

Ratios then are constructed to judge a comparative performance. Financial ratios served the similar purpose in the financial performance of the income generating projects of SDSSU. Financial ratios quantify many aspects of a business and are an integral part of the financial statement analysis.

Fundamentally, analysis of financial statements are set to answer a wide-range of questions of users. The analysis done aims to probe the company's profitability, liquidity, asset utilization and leverage. The analyze done seeks to examine the company's: *Profitability*. This pertains to the ability of the firm to yield a sufficient amount of return on business sales assets and invested capital. It also refers to the company's capacity to generate earnings vis-à-vis its expenses and other relevant costs incurred during a given period. *Liquidity and stability*. Liquidity is also referred to as working capital position or short-term financial situation. It is the ability of the firm to meet or pay its current or short-term maturing obligations. *Asset utilization*. This pertains to how efficient the company is in managing its resources. It also refers to the firm's speed or pace in turning over accounts receivable, inventory and long-term assets. *Debt-utilization or leverage*. This pertains to the overall debt status of the company. It measures the degree of how the firm is financed. The debt is

evaluated using other variables like assets, equity and earning power. (Anastacio, et.al 2010).

The importance of using the financial analysis methods in the Income Generating Projects of SDSSU is represented by providing the appropriate and accurate information to know the reasons for the deviations and then to evaluate the company's performance.

While the above-mentioned studies may have some similarities with this paper, it is not a duplication of them in the sense that the time, respondents and environment are distinct and different.

Flow Of The Research Process:

The INPUT of this study consisted of the profile of the IGP's their financial performance in terms of: profitability ratio, Leverage ratio, and Liquidity ratio.

The PROCESS will utilize the document analysis method. The responses of the interviewees will be tallied, processed and tabulated. They will then be presented, analyzed, and interpreted.

The OUTPUT of the study is a proposed strategy to implement improvement schemes in the financial performance of the income generating projects of SDSSU.

Problem:

Statement of the Problem:

This paper studied the financial performance of income generating projects of the six campuses of Surigao del Sur State University (SDSSU).

Specifically, this study sought to answer the following questions:

1. What is the profile of the income-generating projects of the six campuses in terms of:
 - 1.1 kinds of business;
 - 1.2 source of capital;
 - 1.3 amount of capital funding; and
 - 1.4 number of years of existence?
2. What is the financial performance of income-generating projects considering the following areas:
 - 2.1 Profitability ratio;
 - 2.2 Leverage ratio;
 - 2.3 Liquidity ratio; and
 - 2.4 Traditional analysis ratio
3. Based on the results of the study, what financial strategies may be proposed to improve the existing performance of IGP's?

Significance Of The Study:

This study is deemed to benefit the following groups and individuals:

SDSSU Board Of Regents:

The SDSSU Board of Regents will be able to know the financial performance thus, guides them in the formulation of policies aim at strengthening the operations of income-generating projects.

Surigao Del Sur State University Administration:

The study will provide invaluable benefits to the Surigao del Sur State University Administration ensuring improve financial performance and ultimately ensure attainment of the institutional objectives. This study will provide the school administrators a current picture of the schools' income generating projects and the financial performance of the IGP in the business operations and at the same time help in designing such programs to the identified strengths and weaknesses of the services and plan for alternative solution to overcome such shortcomings.

Campus Directors:

The findings of the study will encourage the school administrators to support in the operations of income-generating projects.

Faculty:

The study will help them to motivate and provide a base – line data that will guide them and may arouse their interest to perform their functions well and that they may apply what they have imparted inside the classroom.

Students:

This study will inspire them to be a part of the IGP and that they may realize the importance of "On the Job" Philosophy of training(s) at the same time earning while studying.

Parents:

The findings of the study will give information to the parents about the significance of the IGPs as it will help augment the school income.

Community:

The findings of this study will help them realize the importance of IGP's and understand their role in relation to the community development.

Researcher

The study can provide relevant information to conduct follow-up studies on the delivery of services in the public and private sectors.

Definition Of Terms:

For purposes of clarification, the following terms are operationally defined in this study:

Augmentation:

This is the method of enlarging the school income by adding resources derived from auxiliary services or IGPs.

Auxiliary Income:

This is the income derived from the income generating projects that is supplemental to the school budget for a particular academic year.

Capital Build-up (CBU):

It is an additional fund allocated to each project for purposes of expansion and improvement.

Current ratios:

This is a traditional financial ratio used to test a company's liquidity (also referred to as its current or working capital position) by deriving the proportion of current assets available to cover current liabilities.

Debt to total assets ratio:

This ratio measures the percentage of the total assets provided by creditors to the total resources of the firm.

Debt management ratios:

This ratio measures how the firm has financed its assets as well as the firm as the company's ability to repay its long-term debt.

Financial Management:

The art and science of managing the financial resources of an organization. It involves the activities of raising money and using it appropriately.

Financial performance:

It refers to the act of performing economic activity. It also refers to the degree to which economic objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given and can also be used to compare similar companies across the same industry or to compare industries or sectors in aggregation.

Financial statement analysis:

It is the process of identifying financial strengths and weaknesses of the firm by accurately establishing relationship between the items of the balance sheet and the profit and loss account.

Financial ratios:

This is a relative magnitude of two selected numerical values taken from an enterprise's financial statements. Often used in accounting, there are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. Financial ratios may be used by managers within a firm, by current and potential shareholders (owners) of a company, and by a firm's creditors.

Income-generating projects:

These are projects which aim to generate or acquire additional resources out from an auxiliary

enterprise with the purpose of augmenting the school income.

Inventory turnover ratios:

It measures the number of times on average the inventory is sold during the period. Its purpose is to measure the liquidity of the stock.

Gross profit margin:

It is the difference between revenue and the cost of making a product or providing a service, before deducting overhead, payroll, taxation and interest payments.

Legal Bases:

This refers to the various laws, issuances or orders authorizing the State Universities and Colleges to engage in business to support the activities of instruction, research and extension services.

Liquidity ratios:

This measure the short-term ability of the enterprise to pay its maturing obligations and to meet unexpected needs for cash. These ratios are used to judge a firm's ability to meet short-term obligations. Short-term obligations are compared with short-term resources to meet these requirements. Short-term creditors such as bankers and suppliers are particularly interested in assessing liquidity.

Maintenance and Other Operating Expenses (MOOE):

An integral part of the appropriation of the school budget which is used in the maintenance and repair of school facilities and vehicles, communication services, travelling expenses, supplies and materials, rents, illumination, water, etc.

Net profit margin:

Often referred to simply as a company's profit margin, the so-called bottom line is the most often mentioned when discussing a company's profitability.

Profitability ratios:

Measure the firm's use of its assets and control of its expenses to generate an acceptable rate of return. These ratios also measure the success of the company's management in earning a return from the resources entrusted to them. Specifically, profitability ratio can be used to answer such questions as – How much of each sale was management able to convert into profits? And did the company shareholders receive an adequate return on their investments?

Profit margin ratio:

A measure of the percentage of each peso sales that results in net income

Quick ratios:

The quick ratio (quick assets ratio or acid-test ratio) is a liquidity indicator that further refines the current ratio by measuring the amount of the most liquid current assets there are to cover current liabilities.

Ratio Analysis:

Is a useful tool for business owners as well. It measures the health of the enterprise and helps to measure the performance of the company, to diagnose potential problems and to see how well it is doing over time. (Spathis, K., and Doumpos M., 2002)

Ratio of liabilities:

A solvency measure that indicates the margin of safety for creditors. It shows the relative use of borrowed funds compared with resources invested by the owners. It also shows the ability of the business to withstand adverse market conditions.

Receivables turnover ratios:

The ratio used to assess the liquidity of the receivables. It measures the number of times, on the average, receivables are collected during the period.

Return on asset ratio:

Measures the overall profitability of assets in terms of the income earned on each dollar invested in assets.

Return on equity ratio:

Indicates how profitable a company is by comparing its net income to its average shareholders'

equity. The return on equity ratio (ROE) measures how much the shareholders earned on their investment in the company. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors.

Return on Investment (ROI):

This is a profitability measure of an income-generating project, defined as the ratio of the net profit of total revenue.

State Universities and Colleges (SUCs):

It refers to the government high institution of learning authorized by law to put up income-generating projects to augment the school funds to support the various activities for instruction, research, extension and production.

Solvency/Debt ratios:

This ratio measures the ability of the enterprise to survive over a long period. These ratios measure the firm's ability to repay long-term debt.

Times interest earned ratio:

This ratio is also called interest coverage that indicates the company's ability to meet interest payments as they come due.