CHAPTER – I

INTRODUCTION

1.1 INTRODUCTION

The financial sector, in the developing Indian economy, is experiencing a radical transition phase. It is undergoing a transformation towards a vibrant and competitive system with a variety of financial institutions, having diversified risk profiles, intermediating in various segments of the financial market. In the changing environment, many established industries with glorious records of accomplishment are facing fresh and afresh challenges due to stiff competition. The sphere of banking is one another important quarter into which the rays of light have penetrated and the present day banking leave little traces of its tradition.

Right from the founding of the Reserve Bank of India (RBI) in 1935, the Indian Banking System has experienced series of changes in its form and functions. Promulgation of the Banking Regulation Act 1949, the State Bank of India Act 1955, Amendments of the Banking Laws (as applicable to Cooperative Societies) Act. 1965, Banking Companies (Acquisition and Transfer of undertaking) Act. 1969 and 1980 (Nationalisation of 14 and 6 major Commercial Banks in 1969 and 1980), etc. and the implementation of banking sector reforms as per Narasimham Committee Report, 1991, are the various milestones in the path of progress of a consolidated banking industry in India. The present banking industry in India is being controlled and monitored by RBI and it consists of a wide network of branches of banks, throughout the country, functioning under public sector, private sector (including foreign banks) and cooperative sector. Today in India, Banking Sector indicates the integrated financial strength of the country and plays an effective role in propelling the country’s economic growth (Chidambaram, 2006). The Indian Banking Industry, the spine of the country’s financial system, has been the premier industry where the changes are very swift. The changes in banking during the last decade are umpteen and are unparallel when compared to the entire period of banking history in India. Indian Banking System consists of Public Sector Banks, Private Sector Banks and Cooperative Banks.
To meet the globalised challenges, consolidation of Banks has been taken up both in public and private sector. Such efforts are not yet taken in the cooperative sector. RBI has given status of scheduled bank to some of the cooperative banks. Duel control of cooperative banks by RBI and State Government causes legal and administrative issues in taking decision on consolidation of cooperative banks. Poor corporate governance is the main weakness in the cooperative banking system. This study is aiming at the identification of hurdles on the way of consolidation of cooperative financial institutions and to find out the ways and means to remove them.

The Cooperative banks are identified by the people as their ‘NATIVE BANKS’, because of their proximity, simple systems and procedures, known employees, etc. Further, the Cooperative banks provide area-specific schemes and services in mobilizing savings as well as meeting the credit needs of the local population. The continued loyalty exhibited by the members / customers have proved to be the strongest force with which the Cooperative banks are striving hard to overcome the odds and obstacles posed by the reforms. However, the performance of the Cooperative banks including urban cooperative banks have been a cause of concern in the recent years especially in the context of the ongoing phase of financial sector reforms. However, the Dual Control developed confidence in the minds of customers / members of the cooperative banks; decision-making process is highly affected. This is the reason why cooperative banks could not improve their performance.

In the emerging competitive banking scenario and with the pressing requirements to comply with the provisions of prudential norms, cooperative banks could not strengthen their capital and improve their asset quality. Further, the advanced / sophisticated products lure customers and services marketed by Public and Private Sector Banks. So, cooperative banks are loosing their customers day by day. The Industrial Cooperative Banks, the Cooperative Land Development Banks, The Primary Cooperative Agriculture and Rural Development Bank, and few other financial institutions under cooperative banking system are almost remaining defunct or vanished. The Central Cooperative and State Cooperative Banks are thriving due to the support of State Government. The
Cooperative Urban Banks could survive as they enjoy certain special support by RBI. Today some of the Urban Cooperative Banks have introduced computerization and extend improved competitive products and services to their customers. Technology adoption in cooperative banking is not a choice, but a compulsion for survival. Jalgaon Janata Cooperative Bank, in the remote part of Maharashtra, is able to introduce biometric ATM facility, surpassing leading public and private sector banks in that area. Some prominent urban cooperative banks like Cosmos Cooperative Bank and Saraswat Cooperative Bank have led the consolidation process in the cooperative banking sector. Consolidation of cooperative banks will provide comfortable size to face tough environment, will help to expand the market and market share, will facilitate adoption of technology banking, will help to emerge as strong entity to resist the onslaughts of big banks and will create a branded image among the customers/members. Consolidation provides the bank with new capabilities, technologies and products, helps to overcome risks and increases its market power and reach.

1.2 URBAN COOPERATIVE BANKS (UCBs) IN INDIA

Co-operative credit societies established in urban areas are referred to as urban co-operative banks. In most states, however, no clear-cut definition of an urban co-operative bank is statutorily followed. In Maharashtra State, only those urban credit societies can be called as ‘banks’ which conduct banking business in accordance with Sec. 277F of the Indian Companies Act, 1913 or Sec. 5(b) of the Banking Regulation Act, 1949 and should have a paid-up share capital exceeding Rs. 20,000.

Urban co-operative banks are confined to the municipal area of a town. They are unit banking type and branch banking type. Urban co-operative banks usually meet the needs of specific types or groups of members pertaining to a certain trade, profession, community or even locality. Urban Co-operative Banks are also called Primary Co-operative Banks (PCBs) by the Reserve Bank. The Reserve Bank of India defines PCBs as ‘small-sized co-operatively organized banking units which operate in metropolitan, urban and semi-urban centres to cater mainly to the needs of small borrowers, viz., owners of small scale industrial units, retail traders, professionals and salaried classes’.
The Reserve Bank grants banking licenses to existing/new banks and branches. The Urban Banks Department, established in the Reserve Bank in 1984, monitors and regulates the growth of PCBs. UCBs are unique in terms of their clientele mix and channels of credit delivery. UCBs are organized with the objective of promoting thrift and self-help among the middle class/lower middle class population and providing credit facilities to the people with small means in the urban/semi-urban centres. Because of their local feel and familiarity, UCBs are important for achieving greater financial inclusion.

In recent times, UCBs have shown several weaknesses, particularly related to their financial health. Recognizing their important role in the financial system, it has been the endeavor of the Reserve Bank to promote their healthy growth. However, the heterogeneous nature of the sector has called for a differentiated regime of regulation. In recent years, therefore, the Reserve Bank has provided regulatory support to small and weak UCBs, while at the same time strengthening their supervision.

Prudential norms were also fine-tuned to the evolving circumstances and newer business opportunities were opened for UCBs to enhance their fee-based and other non-interest income. Several important measures relating to improvement in credit delivery, customer service, financial inclusion and financial markets, taken for the commercial banks were extended to UCBs with suitable adaptations. To strengthen the urban co-operative banking sector, the Reserve Bank took several policy initiatives during the year relating to prudential norms, credit delivery, improvement in customer service and enhancement of business opportunities, and financial inclusion.

Urban co-operative banks are regulated and supervised by State Registrars of Co-operative Societies (RCS) in case of single-state co-operative banks. Central Registrar of Co-operative Societies (CRCS) in case of multi-state co-operative banks and by the Reserve Bank. The RCS exercises powers under the respective Co-operative Societies Act of the States with regard to incorporation, registration, management, amalgamation, reconstruction or liquidation. Such powers in case of UCBs, that have multi-state presence, are exercised by the CRCS. The banking related functions such as issue of
license to start new banks/branches, matters relating to interest rates, loan policies, investments and prudential exposure norms are regulated and supervised by the Reserve Bank under the provisions of the Banking Regulation Act, 1949 (aACS).

The draft vision document identified this duality of command as the main cause of difficulties in implementing regulatory measures with the required speed and urgency, and as an impediment to effective supervision. In order to develop greater coordination between the agencies responsible for regulation and supervision of UCBs it was proposed in the Vision Document to have a working arrangement in the form of a Memorandum of Understanding (MoU) between the Reserve Bank and the respective State Governments. As per the commitment made in the MoU with the respective States, the Reserve Bank forms a State level Task Force for Co-operative Urban Banks (TAFCUB) comprising the Regional Director of the Reserve Bank for the concerned State as the Chairman, Registrar of Co-operative Societies as co-chairman, an official each from the Reserve Bank, National Federation of Co-operative Urban Banks (NAFCUB) and the State Federation of the UCBs as its members. TAFCUBs, as per their terms of reference, identify the potentially viable and unviable weak banks in the State and suggest revival plans for the potentially viable banks and a non-disruptive exit route for unviable/weak banks.

The non-disruptive exit route could include merger/amalgamation with strong banks, conversion into society or, as a last resort, liquidation. TAFCUBs also make recommendations on the future set up of unlicensed banks in the State, based on the assessment of their financial position and strength. MoU have already been signed with eight States, viz. Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Rajasthan, Uttaranchal, Chattisgarh and Goa. In each of these States, a task force has also been constituted. These states together account for 45.5 per cent of the total number of UCBs and about 22.0 per cent of deposits of all UCBs. In 2005-06, four TAFCUBs examined the position of over 250 UCBs and made various recommendations on the future course of action for these banks. Based on the recommendations of the TAFCUB, supervisory actions that have been taken include existing banks through mergers with other UCBs, cancellation of license of unviable UCBs and rejection of license applications of
unlicensed co-operative societies. The MoU signed between the Reserve Bank and the State Government envisages signing of another MoU between the Registrar of Co-operative Societies of the State and the Regional Director of the Reserve Bank. This MoU stipulates the broad measures to be taken by the signatories for implementing the recommendations of the TAFCUB for each of the potentially viable/non-viable UCBs that are placed for consideration of the TAFCUB (RBI, Report).

1.3 SCOPE OF THE STUDY
The cooperative institutions are very oldest organizations of the people, by the people and for the people. They are the ‘native banks’ providing all banking needs using simple systems and procedures. Such people-friendly banks are at cross roads after the implementation of financial sector reforms. Consolidation has been identified as the best strategy to make these banks financially strong and organizationally vibrant. The cooperative banks, therefore, have to be sensitive to the concepts of cost effectiveness, commercial orientation, professionalization, accountability, etc. The core capabilities of the banks coupled with the loyalty of the member-customers could energize the banks to perform and progress. The study is to analyze the possibilities for the consolidation of urban cooperative banks in Thanjavur district. For this study, a survey has been conducted among employees and customers. The opinions so collected are used to undertake an in-depth empirical investigation for the emergence of a unified strong Indian Cooperative Banking Sector. The micro level study of the performance of UCBs taking five banks from Thanjavur district will enable to understand the SWOT of UCBs. As all the UCBs are generally follow similar pattern of organization and administration, the findings and suggestion of the study can be applied to UCBs in general.

1.4 NEED FOR THE STUDY
Consolidation concerns not only financial institutions, but also the market infrastructure for making payments and settling securities transactions. Market participants are increasingly seeking to produce interbank payment and securities settlement services in a cost-minimizing approach, leaving the creation of value added payment services to the commercial relationship between a bank and its customer. In this respect, a global trend
towards consolidation is observable both at the horizontal level (e.g. the merger of two securities settlement systems) and at the vertical level (e.g. in the securities industry, the integration of trading, clearing, settlement and custody services within a single institution). Urban Cooperative banks are generally smaller than nationalized banks and private banks and larger than credit cooperatives.

Less profitable and less cost efficient banks are more likely to be an acquirer and a target, though even less profitable and less cost efficient banks are more likely to be a target rather than an acquirer. In addition, a larger bank is more likely to be an acquirer and smaller one a target. These results are consistent with the regulators’ motive for stabilizing the local banking system. Second, acquiring banks improved cost efficiency after the consolidation. Merger and acquisition also raised the loan interest rate and improved profitability and efficiency, particularly, since the latter half of the 1990s. Nonetheless, the improvement of CAR (Capital Adequacy Ratio) after the merger was not sufficient to fill in the initial gap of the capital ratio between merging banks and peers, resulting in the deterioration of the capital ratio of consolidated banks relative to peers. M&As did not contribute to sufficiently stabilize the local banking system despite the regulators’ motive. Third, the consolidation tended to improve the profitability of merging banks when the difference in profitability and healthiness between acquiring banks and target banks were large, which is consistent with the relative efficiency hypothesis (Akhavein, Berger, and Humphrey, 1997). Hence, empirical research on consolidation of urban cooperative banks is the need of the hour that signals an alarm to the banking industry.

1.5 IMPORTANCE OF THE STUDY

This study is important because, the underlying cause is the greater degree of liberalization in the services sector. Consolidation as a practice in the banking arena commenced a couple of decades ago in developed economies like the US and UK. It also gained momentum in some emerging economies like India, Japan, Korea and Malaysia.

The US observed a number of mergers and acquisitions in the late 1990s. About 25 to 30 per cent banks in the country have been merged or closed in the last 2-3 decades. The
domestic lending market in UK has become relatively concentrated because of a wave of consolidations. In Europe too, more than 7,300 bank mergers took place during 1990-99. Countries like Malaysia, Singapore, Taiwan and South Korea have also supported consolidation of the banking industry. An attempt has been made to trace the origin of M&A in the banking industry and to cover the challenges that crop up in the process. The existing strengths and weaknesses of the Indian banking system have also been highlighted to explore the opportunities waiting to be seized by the banks because of consolidation.

The banking industry in India has been in the process of transformation and consolidation ever since 1961. The Banking Regulation Act, 1949 empowers the regulator with the approval of the government to amalgamate weak banks with stronger ones. Majority of the mergers in India have been crafted to bail out weak banks, to safeguard depositors’ interest and to protect the financial system. The report of the Committee on Banking Sector Reforms (the Second Narasimham Committee - 1998), however, discouraged this practice. It recommended a multi-tier banking system with existing banks to merge into 3-4 international banks at the topmost level, 8-10 national banks engaged in universal banking at the next level and local and rural banks confined to specific regions.

Prior to 1999, the amalgamation of banks was primarily triggered by the weak financials of the bank being merged, whereas in the post-1999 period, there have also been mergers between healthy banks driven by business and commercial considerations. Thus, the new generation mergers on the lines proposed by the Narasimham Committee are a recent phenomenon in the country. Following are the existing strengths and weaknesses of the Indian banking system and potential opportunities and threats if it undertakes consolidation by M&A as an avenue of inorganic growth. New generation private sector banks and foreign banks are technologically more advanced in terms of management information systems, delivery mechanisms, etc. These systems and processes require substantial investments, which may be possible after consolidation. Cutting-edge technology may lead to acceleration of service delivery and broadening of customer relationships.
Basel II requires banks to meet tougher and higher capital adequacy norms such as capital allocation towards operational risk, in addition to credit and market risks. Many Indian banks, especially public sector banks, cooperative banks and regional rural banks are unprepared for this implementation due to capital inadequacy. According to the report, every category of bank has to arrange additional capital from its own internal sources. To maintain the 51 per cent minimum government share, PSBs cannot collect additional capital directly from the public and with this view, it promotes bank mergers. Consolidation may be a route for smaller banks to infuse funds to strengthen their capital base. Many branches and ATMs of various banks are congregated in the same areas leading to pointless outlay on premises, manpower and maintenance facilities. Consolidation may lead to redeployment and rationalization of such infrastructure, human resources and other administrative facilities thereby undercutting the cost factor. Consolidation will lead to cost efficiency which will enhance profitability.

Enhancement in risk absorption ability: The risk management capabilities of the banks may improve. Larger size improves the risk bearing capacity of a bank and strengthens its balance sheet. Bigger organisations have inherent advantages and they are too big to fail. The combined customer base may increase the volume of business. The enhanced rural branch network may lead to increase in microfinance activities and lending to the agriculture sector. M&A may be a far-sighted conclusion to increase the market share. The time required to expand inorganically may be less than that of an organic route.

Banks can diversify the risk of concentrated lending through mergers. They can also have a greater market access thereby widening the deposit base. The RBI has imposed strict licensing norms for opening of new branches and hence via consolidation, the acquirer will have access to ready physical infrastructure. Pan-India presence of the combined entity may enhance convenience for the customers.

The operational efficiency of banks may improve owing to bigger size. There may be increase in financial capability greater resource/deposit mobilisation, output and better pricing of products. Merger creates the opportunity to cross-sell products and leverage alternative delivery channels. Old generation banks can merge with the new generation
private sector banks and foreign banks to diversify their credit profile. They can sell technology-based innovative products.

**Tax shields:** In case of bailout mergers, the accumulated losses and unabsorbed depreciation of the amalgamating bank can be carried forward and set off against the future profits of the amalgamated bank.

### 1.6 STATEMENT OF THE PROBLEM

The financial sector reforms in India started with banking industry. The reform process facilitated the arrival of new players and entry of foreign banks with innovative technology based business models. The resultant impact of the reforms is much deeper and wider in Indian banking sector. As a result, the face of Indian banking has virtually changed compelling the banks to work more towards diversified business with new products and services to capture the market. In this new scenario, the traditional Indian banks are struggling their way to cope with the changes; particularly the cooperative banks are the worst hit as they are ill-equipped to handle the fast changes in the industry. In this context an introspection of cooperative banks assume importance to understand where they stand and what contributed to the current situation. The introspection of cooperative banking in India means a reference to a century old movement that was dedicated for the poor and suppressed section of the society.

The century old cooperative banking in India has been consistently encouraged and supported by the State and Central Governments through financial decisions and policy favours. The regulated protection of RBI and Governments ensured that the cooperative banks remained infants in banking even after 100 years of existence. At present with the liberalization and deregulation policies of the Government, cooperative banks are finding it difficult to survive in the volatile market conditions.

In India cooperative banks are under pressure to do banking based on factors other than basic economics. In banking, decision-making is important. The influence of external forces in decision making is more common in cooperative banks. Very often political, factional and other considerations interfere in the process of decision-making. Many committees like, All India Rural Credit Survey Committee, Venkatappiah Committee,
Khusro Committee, etc., have emphasized the need for depoliticisation of cooperative institutions. Nevertheless, the cooperatives in India, by their very nature and objects, are basically led by political forces and continue to remain with the same culture and characteristics. In spite of many issues related to the administration and financial management of cooperative banks, it is important for the banks to overcome the crisis and continue to serve the poor and deprived class of the society in India. In the midst of many players in the Indian financial system, cooperative banks play a vital role in the rural banking. The presence of cooperative banks is paramount to support rural credit expansion to the agriculture sector. Cooperative Banks have to adopt innovation and creative approaches to solve their old problems and bring new business opportunities.

The key issues or problems in the consolidation of cooperative financial institutions are:

1. Human Resource issues like, their service conditions, performance level and their competence to update their skill.
2. The loss of identity of the bank in a community, place, political affiliates, etc.,
3. Operative issues regarding systems and procedures followed by the banks.
4. Integration of skill and knowledge of the employees to create a positive team in order to work with changing technologies.

This study is initiated to gather the opinions of the employees and the members / customers of the cooperative banks, especially, Urban Cooperative Banks (UCBs) towards the consolidation process. The process of consolidation has already been started among some of the cooperative financial institutions in India with merger of Urban Cooperative Banks in certain states, like Maharashtra and Gujarath.

As per the recommendations of “Vision Document for UCBs 2005”, RBI has been trying to consolidate and strengthen the UCBs among the cooperative banking sector by facilitating merger of weak banks with strong banks as well as by allowing unviable banks to exit the sector voluntarily. Therefore, in this study the UCBs of Thanjavur District have been selected among the Cooperative financial institutions for the conduct of the survey.
1.7 RESEARCH QUESTIONS
Following research questions arise in the present research study:

1. Though the Cooperative Banks in India have identical basic principles, their administrations and functions vary from state to state. In this condition, how to proceed the process of consolidation among Cooperative Banks?
2. As a first step towards consolidation of Cooperative Institutions, process of state-wise consolidation may be initiated. To initiate such process, how to identify or select the Cooperative Institutions?
3. What could be made to obtain the views and opinions of the members/customers of the traditional Cooperative Institution / Banks about consolidation?
4. What could be the mindset of the employees of the Cooperative Institutions / Banks on the issue of consolidation process of Cooperative Banks?
5. Very few instances of merger among Cooperative Urban Banks have taken place in Maharashtra and Gujarat. Will such attempts bring success in other parts of India?
6. How does consolidation impact on efficiency?

1.8 OBJECTIVES OF THE STUDY
Following are the objectives of the research:

1. To make a thorough study on the functions of various cooperative financial institutions and the scope of consolidation of all or segmented consolidation of viable banks.
2. To undertake an analysis on service quality of UCBs, the vibrant banks among the cooperative financial institutions.
3. To examine the demographic, social and economic factors of the members / customers towards consolidation of UCBs.
4. To analyze the opinions of the employees of selected UCBs about the scope or possibilities of consolidation of UCBs.
5. To enlist the concrete findings of the whole analysis and interpretation of the data and to spell out selected recommendations to the authorities of cooperative financial institutions including UCBs.
1.9 RESEARCH METHODOLOGY
Methodology of any type of research study takes a vital role in bringing a logical and scientific approach. It provides a strong base to the research and it leads to a reliable as well as valid interpretations. Rationale behind the research methodology lies on its meaningful considerations of variables and the approaches to study them. In this sense, the research methodology acts as a basement of any type of research. This is an empirical survey, based on primary data. For this study, Tamil Nadu is selected as the geographical area. The purpose of this chapter is to explain the methods used in this study. The research design employed in this study include: sources of data, dimensions of the study, preparation of questionnaire, pilot study and finalizing questionnaire, population and sample, hypothesis of the study, tabulation and interpretation of data gathered and application of appropriate statistical tools. The research design helps to carry on the analysis of the data and to arrive at important findings. These findings instigate the researcher to bring out viable suggestions and recommendations towards the accomplishment of the objectives of the study.

1.9.1 Sources of data
Both primary and secondary data have been used in this present study. The study is mainly done with the help of primary data collected through two questionnaires. The primary data, representing the responses duly received from the members/customers and employees, have been tabulated and interpreted to derive inferences. Appropriate statistical tools have been applied to test the hypotheses and to arrive at important findings. The secondary data about the policies, systems and procedures, performance, details of personnel, etc., have been gathered from the published annual reports of the selected UCBs.

1.9.2 Dimensions of the study
The present study takes the following dimensions for its analysis,

1. **Considering the members/customers of selected cooperative banks**
   - Location and Timings of Bank Services
   - Service quality
✓ Physical aspects / Tangibles
✓ Reliability
✓ Responsiveness
✓ Courtesy
✓ Empathy

- Cost of services and others
- Customer Satisfaction
- Customer Loyalty
- Grievance Handling
- Opinion towards Consolidation

2. **Considering the Employees of selected cooperative banks**

- Opinion towards
  ✓ Functional (working conditions) aspects
  ✓ Customer Relationship Management / operational service
  ✓ Work Culture
  ✓ The level of Satisfaction
  ✓ Existing Technology
  ✓ Consolidation

These dimensions have been split into various sub dimensions for simplification.

**1.9.3 Questionnaire**

The present study is highly based on primary data. The data have been collected through two different questionnaires duly prepared for the employees and members/customers. The questionnaire for employees consists of three important parts apart from their personal information. The first part includes the Opinion towards functional aspects, the second part covers the Opinion towards Customer Relationship Management / operational service, and the third part of the questionnaire includes the Opinion towards the application of technology in UCBs. The questionnaire for members/customer also consists of five parts apart from the demographic variables. The first part covers the Satisfaction towards amenities provided by the bank whereas the second part includes the expected core services through consolidation of UCBs. The third part of the
The questionnaire includes the Service quality and the fourth part covers Customers Relationship management. The fifth part includes the Customer perceptions about consolidation of UCBs.

Apart from the personal details and information about the relationship with bank which are analyzed with nominal scaling, amenities provided by the bank, expected core services through consolidation of UCBs and customers perception are measured with ordinal five point scaling such as Highly dissatisfied, Dissatisfied, Neutral, Satisfied and Highly satisfied. Perception towards service quality, members/customer relationship management and consolidation of UCBs were measured with the help of 7 point scale such as strongly disagree, disagree, slightly disagree, neither agree nor disagree, slightly agree, agree and strongly agree and Employees attitude is measured by means of 7 point scale such as completely dissatisfied, mostly dissatisfied, somewhat dissatisfied, neither satisfied not dissatisfied, somewhat satisfied, mostly satisfied and completely satisfied.

1.9.4 Pilot study and finalizing questionnaire
A pilot study was conducted among the employees and members/customers of various urban banks in random within Thanjavur district in order to get the feedback on the questionnaire. Based on the feedback of the questionnaires, certain modification, addition and deletions were carried out. The final drafts of the questionnaire were prepared to collect the data from the employees and members/customers of the selected cooperative banks. This preliminary investigation conducted by researcher help to find out the scope and possibility for conducting the survey and to finalize the schedule of questions.

1.9.5 Sampling Design
There are five Urban Cooperative Banks (UCBs) in Thanjavur District, viz., Nicholson Cooperative Town Bank Ltd. (NCTB), Kumbakonam Urban Cooperative Bank Ltd., (KUCB), Karanthattangudi Dravidian Cooperative Urban Bank Ltd., (KDCUB), Papanasam Urban Cooperative Bank Ltd., (PUCB) and Pattukkottai Cooperative Urban Bank Ltd., (PCUB). All the five UCBs have been selected for conducting the survey and to collect primary data. The population size of members / customers and employees
are around 51100 and 339 respectively, as on March 2015. In research, determining appropriate sample size is an important task. Cochran (1977) greatly simplified researchers’ decision on sample size by providing a good decision model. The sample size formula provided by Cochran (1977) is

\[
Sample Size = \frac{(t)^2 \cdot (p)(1 - p)}{(d)^2}
\]

Where

- \( t = 1.96 \)
- \( p = 0.5 \) (estimate of variance)
- \( d = 0.05 \) (margin of error)

\[
Sample Size = \frac{(1.96)^2 \cdot (.5)(.5)}{(0.05)^2} = 384
\]

Finally, the sample size result is rounded up to the closest number i.e. 400 that well matches for the survey. The proportionate stratified random sampling method is followed to select the members/customers for the survey. Each UCB is considered as strata and proportionate sample of member/customer is selected for the research. Disproportionate stratified random sampling method is followed in selection of employees of the UCB. Similarly 20 employees per bank and thus 100 employees have been selected as sample. The two schedules have been tested, corrected and finalized through pilot study conducted among 30 members / customers and 10 employees of UCBs, of Thanjavur District. The table exhibits the proportionate sample chosen for the survey.

### Table 1.1

**UCB wise proportionate sample taken for the survey**

<table>
<thead>
<tr>
<th>UCBs IN THANJAVUR DISTRICT</th>
<th>Total Customer</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nicholson Cooperative Town Bank Ltd. (NCTB), Thanjavur</td>
<td>11500</td>
<td>91</td>
</tr>
<tr>
<td>Kumbakonam Urban Cooperative Bank Ltd., (KUCB)</td>
<td>10900</td>
<td>85</td>
</tr>
<tr>
<td>Pattukkottai Cooperative Urban Bank Ltd., (PCUB).</td>
<td>10250</td>
<td>80</td>
</tr>
<tr>
<td>Karanthattangudi Dravidian Cooperative Urban Bank Ltd., (KDCUB)</td>
<td>9350</td>
<td>73</td>
</tr>
<tr>
<td>Papanasam Urban Cooperative Bank Ltd., (PUCB)</td>
<td>9100</td>
<td>71</td>
</tr>
<tr>
<td>Total</td>
<td>51100</td>
<td>400</td>
</tr>
</tbody>
</table>

*Source: UCB Records*
1.9.6 Framework of Analysis

In the analysis section, the questions of the questionnaire have been taken for analysis in the chronological order. Responses of every question are tabulated and then analyzed. The analysis chapter has two major sections such as percentage analysis and statistical analysis. In the percentage analysis, responses for every question related to socio-economic values of the customers and socio-economic values of the employees are analyzed with the help of percentages. The percentages are the common tools used for analyzing the data and the percentage is the appropriate tool to determine the majority and minority classification in respect of the responses. By means of the percentage analysis, inferences can be made at a logical base (Davis, 1985). So, the percentage analysis was undertaken at first. The statistical analysis section consists of 97 testing of hypothesis. Friedman test, Multiple Regression, Neural Network Model, and Analysis of Variance (ANOVA) and Wilcoxon signed-rank test were used as analytical tools.

1.9.7 Hypothesis of the study

Based on the objectives and variables of the study, following hypotheses are framed:

- There is no significant relationship between the mean score of demographic factors of the respondents and the service quality of Urban Cooperative Banks.
- There is no significant difference between mean ranks towards the service quality of Urban Cooperative Banks.
- There is no significant relationship between the mean score of demographic factors of the respondents and cost of services.
- There is no significant difference between mean ranks towards the cost of services.
- There is no significant relationship between the mean score of demographic factors of the respondents and satisfaction of the UCBs customers.
- There is no significant relationship between the mean score of demographic factors of the respondents and the UCBs customer loyalty.
- There is no significant difference between mean ranks towards the customer loyalty.
• There is no significant relationship between the mean score of demographic factors of the respondents and the opinion towards customer grievance handling.
• There is no significant difference between mean ranks towards the opinion towards customer grievance handling.
• There is no significant relationship between the mean score of demographic factors of the respondents and the customers’ opinion towards consolidation.
• There is no significant relationship between the mean score of demographic factors of the employees and the opinion towards CRM/operational service of urban cooperative bank employees.
• There is no significant difference between mean ranks towards the opinion towards CRM/operational service of urban cooperative bank employees.
• There is no significant relationship between the mean score of demographic factors of the employees and the opinion towards work culture of urban cooperative bank employees.
• There is no significant difference between mean ranks towards the opinion towards work culture of urban cooperative bank employees.
• There is no significant relationship between the mean score of demographic factors of the employees and the opinion towards satisfaction of urban cooperative bank employees.
• There is no significant difference between mean ranks towards the satisfaction of urban cooperative bank employees.
• There is no significant relationship between the mean score of demographic factors of the employees and the opinion towards existing technology of urban cooperative bank employees.
• There is no significant difference between mean ranks towards the opinion of existing technology of urban cooperative bank employees.
• There is no significant relationship between the mean score of demographic factors of the employees and the opinion towards consolidation of urban cooperative bank employees.
There is no significant difference between mean ranks towards the opinion of consolidation of urban cooperative bank employees. The above hypotheses are divided into lot of sub hypothesis.

1.9.8 Reliability and Validity of Data

As the Cronbach’s alpha of four parameters (for customer side, location and timings of bank services, service quality – physical aspects / tangibles, service quality – reliability, service quality – responsiveness, service quality – courtesy, service quality – empathy, cost of services and others, customer satisfaction, customer loyalty, grievance handling and opinion towards consolidation and for employees side opinion towards functional aspects, Opinion towards CRM/operational service, Opinion towards work culture, Opinion towards the level of satisfaction, Opinion towards existing technology, Opinion towards consolidation) reveal .650 and more than .650 as alpha. So, it is confirmed that the data are highly reliable and valid for analysis. The following table shows that, the Cronbach’s alpha value for every dimension of consolidation of cooperative financial institutions in urban cooperative banks in Thanjavur District.

Table – 1.2

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Cronbach's alpha</th>
<th>Number of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Questionnaire for Customers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location and timings of bank services</td>
<td>.738</td>
<td>4</td>
</tr>
<tr>
<td>Service quality – physical aspects / tangibles</td>
<td>.815</td>
<td>11</td>
</tr>
<tr>
<td>Service quality – reliability</td>
<td>.741</td>
<td>4</td>
</tr>
<tr>
<td>Service quality – responsiveness</td>
<td>.799</td>
<td>4</td>
</tr>
<tr>
<td>Service quality – courtesy</td>
<td>.650</td>
<td>4</td>
</tr>
<tr>
<td>Service quality – empathy</td>
<td>.694</td>
<td>5</td>
</tr>
<tr>
<td>Cost of services and others</td>
<td>.737</td>
<td>6</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>.642</td>
<td>5</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>.610</td>
<td>9</td>
</tr>
<tr>
<td>Grievance handling</td>
<td>.665</td>
<td>8</td>
</tr>
<tr>
<td>Opinion towards consolidation</td>
<td>.776</td>
<td>16</td>
</tr>
<tr>
<td><strong>Questionnaire for Employees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opinion towards CRM/operational service</td>
<td>.658</td>
<td>10</td>
</tr>
<tr>
<td>Opinion towards work culture</td>
<td>.710</td>
<td>27</td>
</tr>
<tr>
<td>Opinion towards the level of satisfaction</td>
<td>.835</td>
<td>30</td>
</tr>
<tr>
<td>Opinion towards existing technology</td>
<td>.644</td>
<td>7</td>
</tr>
<tr>
<td>Opinion towards consolidation</td>
<td>.762</td>
<td>13</td>
</tr>
</tbody>
</table>

*Source: Output generated from SPSS 20*
1.9.10 Analytical Tools Used

Analysis of data is a critical part in social science researches. Successful analysis of data mainly depends on the reliability of data as well as usage of appropriate statistical tools. These two aspects of statistical analysis result in logical interpretation and conclusion. The present research has paid its attention on these two aspects carefully. Choice of suitable analytical tools relies on the nature and objectives of the study. The present study takes the following statistical tools to process the data:

**Mean and standard deviation**

Mean is one of the measures of central tendency that summarizes the data and discloses the feature of the data. It is a widely used statistical tool that discloses the selected characteristics of the data. In this study, the mean is applied to study the feature of the data. At the same time, the extent of reliability of the mean is a factor that is determined with the help of standard deviation. The standard deviation is a tool to measure variability of the data. Higher the value of the standard deviation lesser is the reliability of the data. So, the extent to what level the mean discloses the exact characteristics of the data are determined with the help of the standard deviation.

**F test or Analysis of Variance (ANOVA)**

F test (popularly known as Analysis of Variance - ANOVA) is used when multiple sample case are involved. As the significance of the difference between the means of two samples can be judged through any test, the difficulty arises when one has to examine the significance of the difference amongst more than two sample means at the same time. Therefore, the F test has been selected as the appropriate tool for analysis.

**Factor analysis**

Factor analysis is a method used to transform a set of variables into a small number of linear composites, which have maximum correlation with original variables. Statistics associated with factors analysis Bartlett’s test of sphericity can be used to test the null hypothesis to conclude that the variables are not correlated with the population. The test of sphericity is based on the Chi-square transformation of the determinant of the correlation matrix. Kaiser-Mayer-Olkin-measure of sampling adequacy index compares
the magnitude of the observed correlation co-efficient to the magnitude of partial correlation co-efficient Eigen-values and communalities. A factor’s Eigen value or latent route is the sum of the squares of its factor loading. It helps us explain how well a given factor fits the data from all respondents on all the statements. Communalities are the sum of squares of a statement’s factor loading, i.e. it explains how much each variable is accounted for by the factors taken together. Bartlett’s test of sphericity and Kaiser Meyer Olkin measures of sample adequacy is used to test the appropriateness of the factor model.

Friedman test
The Friedman test is a non-parametric statistical test. Similar to the parametric repeated measures ANOVA, it detects the differences in treatments across multiple test attempts. It is used to test for differences between groups when the dependent variable being measured is ordinal.

Multiple regression analysis
Regression analysis is a mathematical measure of average relationship between two or more variables in terms of original units of data. Regression is used to create an equation (or) transfer function from the measurements of the system’s inputs and outputs acquired during a passive or active experiment.

Tree structured analysis
Graphical tree model displays are among the most useful, because they allow navigation through the entire tree as well as drill-down to individual nodes. Classification and regression trees are becoming increasingly popular for partitioning data and identifying local structure in small and large datasets.

Neural Network (NN) method
Neural Network method is a modeling technique used to model problems having parameters with complicated mapping relationships. NN is a computing system made up of a number of simple and highly interconnected processing elements, which processes information through its dynamic state response to external inputs.
*Wilcoxon signed rank test*

The Wilcoxon signed-rank test is a non-parametric statistical hypothesis test used when comparing two related samples, matched samples, or repeated measurements on a single sample to assess whether their population means ranks differ.

1.10 LIMITATIONS OF THE STUDY

The following are the limitations of the present study

1. The responses received from the members / customers and the employees of the selected banks are only taken into account.

2. The researcher has taken only an attempt to gather the possibilities of consolidation of cooperative financial institutions through a study with the Urban Cooperative Banks functioning in Thanjavur District.

3. Data collected from the respondents are subject to the mindset of the respondent at the time of interview.

4. The researcher has selected only Urban Cooperative Banks (UCBs) in Thanjavur District., viz., Nicholson Cooperative Town Bank Ltd. (NCTB), Kumbakonam Urban Cooperative Bank Ltd., (KUCB), Karanthattangudi Dravidian Cooperative Urban Bank Ltd., (KDCUB), Papanasam Urban Cooperative Bank Ltd., (PUCB) and Pattukkottai Cooperative Urban Bank Ltd., (PCUB).

1.11 ORGANISATION OF THESIS

The present study is organized into six chapters.

**CHAPTER I: INTRODUCTION :** It deals with general introduction of the subject of the study, Statement of the problem, Objectives, Sampling design, Research gap, Scope, Period, Hypotheses and Limitations of the study. It finally outlines the structure of the whole study.

**CHAPTER II: EVOLUTION OF URBAN COOPERATIVE BANKS:** It describes the evolution of banking in general and cooperative banks in particular. It also contains the profile of the selected Urban Cooperative Banks.
CHAPTER III: LITERATURE REVIEW: It reviews previous studies and literature to gain knowledge on the subject. It helps to identify the research gap and get proper guidance to carry on the study.

CHAPTER IV: ANALYSIS OF CUSTOMER PERCEPTION TOWARDS CONSOLIDATION OF UCBs: It analyses the opinion of customers towards the services offered by UCBs regarding, Location and Timings, Service quality, Cost of services, Customer Satisfaction, Customer Loyalty, Grievance Handling and the expected services to be offered when it is consolidated.

CHAPTER V: ANALYSIS OF EMPLOYEES’ OPINION TOWARDS CONSOLIDATION OF UCBs: It describes the employees’ opinion towards functional aspects, work culture, level of satisfaction, existing technology and the expected services to be offered when it is consolidated.

CHAPTER VI: FINDINGS, SUGGESTIONS AND CONCLUSION: It enlists the findings of the customers and employees opinion towards consolidation of UCBs and makes appropriate suggestions for effective implementations of consolidation in Urban Cooperative Banks. It also contains an overall conclusion of the study.

1.12 SUMMARY
The current banking scenario demands Cooperative Banks to strengthen themselves in order to face future challenges. Consolidation has been identified as the best strategy to add strength to the cooperative banking system. Consolidation will strengthen the Capital, Customer base, application of technology, etc., of the Cooperative Banks and at the same time it will provide a safe exit for weak, sick and defunct cooperative financial institutions. The Boards of Cooperative Banks must think of certain vital decisions taking the future trend in Indian Banking System and in the interest of internal and external stakeholders. This first chapter is used to introduce the title of the research and to explain the mode of conducting the study. Thus, problems identified for the study, objectives, methodology, limitations, scope and cauterization have been described in this first chapter. The progress of the study will get momentous in the following chapters.