CHAPTER - 1
CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1 INTRODUCTION

The growth of output in any economy depends on increase in the proportion of savings and investments. Economic development involves not only economic change but also social and institutional changes. It is a continuous process. The financial systems and financial institutions help in diverting rising current income into savings and investment. This is because in the modern money-oriented economy, finance in the master key which provides access to all sources for being employed\(^1\).

“Business finance is that business activity which is concerned with the acquisition and conservation of capital funds in meeting financial needs and overall objectives of a business enterprise”\(^2\).

Finance function is that managerial activity which is concerned with the planning and controlling of the firm financial resources. The basic objectives of financial management are maintenance of liquid assets and maximization of profitability of the firm. The liquidity means that the organization has adequate cash resources to meet current requirement. Maximization of profitability means that the funds of an organization have been efficiently utilized, so as to yield the highest return. Therefore sound financial management is essential in both manufacturing and financial organizations. The sound financial management helps in monitoring the effective development of funds in various resources of the organization. The success of every


organization including banking companies depends on the proper utilization of its fund resources. In order to study the effective utilization of funds and its impact of the progress of the organization, it is highly necessary to study the financial results of every organization. The banking companies are doing their business entirely based on the funds available with them. Therefore financial management of a bank is completely different from that of other organization. The fund utilization and efficiency of performance are always different in commercial banks and in co-operative banks. The main objective of co-operative bank is to serve the people who are directly associated with the bank, especially rural people whose activities are primarily agricultural.

Co-operation is a method by which individuals with limited resources are enabled to take part in organized economic activities for mutual benefit through mutual sharing of responsibility in management, on the basis of equal partnership, on the principle of one person or vote. Irrespective of the share holding, it permits every member to retain his identity and have an equal control over the business along with others. But this is not the case in joint-stock companies.

Co-operation is not an accidental birth. Although the circumstances differ, every country has an economic history behind the development of this event. Co-operation means “Living, thinking and working together”. The idea of co-operation is older than man himself. But co-operation as a form of economic organization is of recent origin. The breaking out of industrial revolution in England during second half of the 18th century and first half of the 19th century had brought about two classes of people³.

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³ Rangasamy, “Co-operation in India” Selvi Publications, Tuticorin-1, 1974
Thus the industrial revolution created new classes: a ruling class known as capitalists and a working class called the proletariat. A few capitalists could own and thus could own a mass enormous wealth: whereas the workers who form the majority of the mass live in a miserable condition.

The industrial revolution brought with it poverty and distress in thousands of homes because of the rapidity of the changes that occurred: wealth became badly distributed. The landowners, merchants and mill owners made huge profits.

Due to passing of Corn Laws, the failure of crops and the prohibitive tariffs on the import of corn, the price of bread soared high. The market conditions were also not satisfactory. False measures and weights were used and adulterer goods were supplied. Due to ample availability of labour, the workers were very meagerly paid; women and children of very tender age were employed. Workers were forced to work as much as 17 hours a day and above all fines were imposed upon them for slightest negligence of work. The condition of unemployment, under employment, declining of wagers heavy workload, band working and living conditions created wide spread discontent amongst the workers.⁴

The misery of the working class drew the attention of social leaders who made attempts to assist the poor by the purchase of food and other necessaries in bulk and supply them at moderate cost. These efforts were also supplemented by the friendly societies, which began to help their members and the poor, generally in matter of keeping down the price. The friendly society can by regarded as the forerunner of the modern co-operative consumer society.

⁴ IBPS, P.2.
The co-operative element in the community life in India was represented by the joint family system in the primitive societies. The germs of co-operation could be observed in religious institutions and traditional customs. The working of these customs and institutions throws light in the instinct and tradition of mutual assistance joint action, joint possession and joint management which are found in the life of people in all ages and all countries\(^5\).

Co-operation is an instrument for bringing about changes in the socio-economic structure. It has taken different forms in different fields. Co-operation is a golden means between capitalism and socialism. It helps all the sectors of the economy like agriculture, industry, trade and banking. The relevance of this area of study is a standing testimony to its practical application. The introduction of the co-operative credit society act in 1904 marked the beginning of the co-operative movement in India. The laudable measure was hailed as “turning point in economic and social history” by Henry W. Wolf, the great co-operator and “The way from poverty to plenty” by Sir Daniel Hamilton. The object of this act as stated in the preamble was to encourage thrift, self-help and co-operation amongst agriculturalists, artisans and persons of limited means.\(^6\) The principal of Co-operation is the strongest and most potent principle, which can most effectively safeguard human rights. The co-operative principles are most democratic humane, clear, emphatic on social and political issues and have high economic orientations towards the members of co-operative society and the community at large. These are also called the international co-operative alliance principles. These principles have been their key element in strengthening the social fabric of appreciation for the society; the international co-operative

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alliance has the keenest appreciation for the United Nations, its charter and its action aimed at empowering people and protecting them from fear, poverty, lawlessness and economic exploitation. The international co-operative alliance has also been working in this sector now for 100 years. It has been a steady and genuine witness to our modern history.

India has more or less 5, 58,000 villages in which 74 percent of the total Indian population lives. The majority of the rural people’s economy depends on agriculture. Mahatma Gandhi rightly described this by saying, “India lives in villages”. The development of rural population lies in establishing “Gram Raja and evolving and implementing plans relevant and suitable for the welfare of the rural population”.

The co-operative movement has many forms, such as co-operative production societies, co-operative credit societies, co-operative marketing societies and primary agricultural banks. In all co-operative efforts, “man” is being given the foremost priority and “money” is not made the matter. Co-operation has all the essential features and potentiality to serve mankind all the time.

India’s economy is primarily agricultural in character. Agriculture requires many inputs, for its success. Among the several significant inputs, credit has an imperative importance. Such credit requirements are largely met by the several cooperative societies or banks which are spread over the country. Tamilnadu has the privilege of being the pioneer in co-operative movement in India. Immediately after the passing of the Registration of Co-operative Societies Act 1904 (Central Act), the First Rural Co-operative Credit Society was formed in Thirupur in


Chengalpattu M.G.R. District. For the first time a conference of co-operators was held in Kancheepuram on March 10, 1909. The first consumer cooperative society to be formed in the country was the Triplicane urban co-operative society started in 1904. Similarly in co-operative dairying, the seeds for a primary milk co-operative society were sown in Ayanavaram in the city of Madras in the year 1924.⁹

The Indian co-operative structure consists of two broad areas namely Agricultural Credit Societies and Non-Agricultural Credit societies. The short-term and medium-term Agricultural Credit society includes State Co-operative Bank, Dharmapuri District Co-operative and Primary Agricultural credit societies. The other one is Long term Agricultural Credit Societies. The Long term Agricultural Credit Society includes Central Land Mortgage Development Bank. Among the various agricultural credit societies functioning for the benefits of rural masses, especially agriculturists, the Central Co-operative Bank plays a key role on the betterment of the rural people. In the context, the present study highlights the analysis of financial performance of Dharmapuri District Cooperative Bank Limited (DDCBL).

1.2 STATEMENT OF THE PROBLEM

The central co-operative banks occupy a position of cardinal importance in the co-operative credit structure. They form an important link between the apex co-operative bank and the primary agricultural societies. The success of the co-operative credit movement largely depends on their financial strength. Most of the co-operative societies in India particularly in Tamilnadu are smaller in size and administered by the people like politicians.

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With the result, the performance of the co-operative societies in general and co-operative banks in particular is seriously affected and consequently the co-operative banks are facing many problems including finance. The area of functioning of co-operative banks is restricted by the regulation of the Government policies and the Central Bank of the country. Therefore the operational areas, the volume of business and the total number of beneficiaries are comparatively very low compared with those of commercial banks which affect the overall performance of the bank. With regard to human resources management, the co-operative banks are highly in effective and insufficient. Normally the workers of the bank are recruited through the local employment exchanges on the basis of registration seniority. During the process of selection of the workers, the political dominants play a vital role which is contrary to the selection process followed in other scheduled and commercial banks, where the workers are recruited through open selection policy by conducting written test and oral interviews. As a result, the productivity per worker of the co-operative bank is comparatively lower than of the commercial and scheduled banks.

The present study is an in-depth analysis of the financial performance of Dharmapuri District Central Co-operative Banks Limited (DDCBL) which is one of the oldest Central Cooperative Banks in Tamilnadu. The Tamilnadu Government has established a Central Co-operative Bank in almost all the district of the state. The entire operations of the Central Co-operative Banks in Tamilnadu are being controlled by the Registrar of Co-operative Societies of Tamilnadu. The District Central Cooperative Bank Ltd has 40 branches in its area of operation rendering service to the public belonging to Dharmapuri district, since the Dharmapuri district is entirely agriculture-related. It functions to develop the agricultural production of the nation in general and to improve the economic condition of the farmers in particular though the bank was
established 45 years ago, the financial performance of the bank is not encouraging due to the poor management system and under-utilization of resources. Yet, the bank has played a vital role in the economic development of the district. The performance of the bank largely depends on deposit mobilization, lending operations, repayment performance and utilization of funds. The present study is an attempt to probe into the deposit mobilization, lending operations, repayment performance and utilization of funds during the study period from 2002-03 to 2011-12. The empirical findings of the study would pave way for taking certain policy decisions for better performance of the Dharmapuri District Central Co-operative Banks Limited (DDCBL).

1.3 SCOPE OF THE STUDY

The present study aims to evaluate the financial performance of the Dharmapuri District Central Co-operative Banks Limited. This study attempts to analyze its financial performance from the standpoint of the Central Co-operative Bank selected for the study. It does not include workers or members and other agencies that are either directly or indirectly connected with the study unit. This study becomes relevant to the co-operative sector in India.

1.4 OBJECTIVES OF THE STUDY

The following are the objectives of study:

1. To trace the history, growth and present financial positions of the Dharmapuri District Central Co-operative Bank Limited.

2. To study the deposits, borrowing and lending policy of Dharmapuri District Central Co-operative Bank Limited.
3. To analyze the financial performance of the Dharmapuri District Central Co-operative Bank Limited.

4. To offer suitable suggestions based on the analysis of the study for improving the performance of Dharmapuri District Central Co-operative Banks Limited.

1.5 SIGNIFICANCE OF THE STUDY

In the field of cooperative sector, a number of studies are available focusing on the general problems. The present study concentrates on the specific area focusing on financial performance in the cooperative banking field. Though the study covers Dharmapuri District Central Cooperative Bank Limited, the result of the study will help the decision makers in the cooperative banking business, the Government officials, similar cooperative organizations and researches for their future development in their respective field of interest.

1.6 LOCATION OF THE STUDY

The study covers the head office of Dharmapuri District Central Cooperative Bank Limited (DDCBL) located at Dharmapuri, Tamilnadu State.

1.7 METHODOLOGY AND DATA COLLECTION

The present study is mainly based on the secondary data. The required secondary data were collected from various published and unpublished documents maintained by the DDCC Bank Limited and its branches located in the different parts of Dharmapuri districts. The data relating to deposits, lending performance and the overall financial performance of the bank were collected from the published Annual Reports of the bank and also from the appropriate records available with the bank. Some of the primary data like general information regarding the co-
operative system and its changes were collected from various offices and institutions like the Co-operative Training Centre; Salem, Dharmapuri Co-operative Training Centre, Tamilnadu Co-operative Union; Chennai and various libraries of reputed universities. The researcher also had personal discussion with the officials of the Dharmapuri District Central Cooperative Bank Limited (DDCCBL).

1.8 DATA COLLECTION

For this study secondary data were collected from the records of DDCC Bank Limited. A separate schedule was prepared and administered. The important information collected for the study was carefully recorded. Some Data were collected from the data sheet. A check-up was made to ensure competences and accuracy.

1.9 ANALYTICAL TOOLS EMPLOYED

In order to study the financial performance of the Dharmapuri District Co-operative Bank Ltd, the researcher has been used the selected ratio analysis for finding the efficiency of the bank and apply the following statistical tools for findings the significance of the growth of the bank.

Annual Growth rate

Compounded Annual Growth Rate

Coefficient of Variation

Independent samples t-test

One way ANOVA

Ratio Analysis
Bi-variate correlation

Simple Regression

Multiple Regressions

Factors Analysis

1.10 HYPOTHESES

The following are the hypotheses of the study

(i) There is no significant difference between types of deposits made to the Dharmapuri District Central Co-operative Banks Limited

(ii) There is no significant difference between sources of deposits made to the Dharmapuri District Central Co-operative Banks Limited

(iii) Contribution Made by the Individuals and Societies In Fixed Deposits Made To the Dharmapuri District Central Co-operative Banks Limited Are Equal.

(iv) Contribution Made By the Individuals and Societies in Savings deposits made to the Dharmapuri District Central Co-operative Banks Limited Are Equal.

(v) Contribution Made By the Individuals and Societies in current Deposits made to the Dharmapuri District Central Co-operative Banks Limited Are Equal.

(vi) There is no significant difference between types of Loans and Advances with respect to issuing of loan by the Dharmapuri District Central Co-operative Banks Limited.
(vii) There is no significant difference between types of Loans and Advances with respect to recovery of loan by the Dharmapuri District Central Co-operative Banks Limited.

(viii) There is no significant difference between types of Loans and Advances with respect to Loan Outstanding to the Dharmapuri District Central Co-operative Banks Limited.

(ix) There is no significant relationship between Net Profit and Share Capital of Dharmapuri District Central Co-operative Banks Limited.

(x) There is no significant relationship between Loans and Advances and Subsidy and Investment of Dharmapuri District Central Co-operative Banks Limited.

(xi) There is no significant relationship between Loans and Advances and Deposit and Barrowings of Dharmapuri District Central Co-operative Banks Limited.

(xii) There is no significant relationship between Net Profit and Total Assets of Dharmapuri District Central Co-operative Banks Limited.

(xiii) There is no significant relationship between Net Profit and Capital of Dharmapuri District Central Co-operative Banks Limited.

(xiv) There is no significant relationship between Net Profit and Working Capital of Dharmapuri District Central Co-operative Banks Limited.

1.11 PERIOD OF STUDY

The study covers a period of 10 years ranging from 2002-03 to 2011-12.
1.12 PERIOD OF COVERAGE

The present study mainly analyses the financial performance of the Dharmapuri District Central Cooperative Bank Limited for the purpose the researcher has obtained the relevant information and data from the study unit. The study covers a period of 10 years ranging from 2002-03 to 2011-12.

1.13 LIMITATION OF THE STUDY

The present study is confined to 10 years of secondary data from 2002-03 to 2011-12.

Further the study depends mainly on secondary data obtained from the records of the bank both published and unpublished.

The researcher has evaluated only the financial performance of the bank.

This study is pertinent to Dharmapuri District Central Cooperative Bank Only.

As such the data are taken from the records the analysis is based on the rendered information from the concerned institutions alone.

1.14 OPERATIONAL DEFINITIONS

1.14.1 YEAR

Year means Co-operative year.

1.14.2. CO-OPERATIVE YEAR

It refers to the period commencing on the first day of April of any year and ending with the 31st day of March of the succeeding year.
1.14.3. BANK

Bank means Dharmapuri District Central Co-operative Banks Limited Ltd.

1.14.4. TNSCB

TamilNadu State Co-operative Bank

1.14.5. SBI

SBI means State Bank of India

1.14.6. SOCIETY

Society means Co-operative society.

1.14.7. PACB

Primary Agricultural Co-operative Bank.

1.14.8. AGRICULTURE

Agriculture includes horticulture, floriculture, rising of cross food fanning and forestry. The word agriculture is to be constructed according to the context.

1.14.9. ASSOCIATE MEMBER

It means a member who possesses only such privileges and rights of a member and who is subject only to such liabilities of a member as may be specified in this act, the males and the laws.
1.14.10. BOARD

Board means the board of directors of governing body of a registered society by whatever name called to which the direction and the control of the management of affairs of the society is entrusted.

1.14.11. MEMBER

A person admitted to the membership after registration in accordance with the provisions of the act. The rules and by laws include an associate member also.


Those who have voting rights in the bank and who hold shares of Rs.50/- each. All such members are “A” class members of the society.


Those who do not have voting rights in the bank and who hold shares of Rs.5/- each. All individual and jewel holders are “B” class members of the society.

1.14.14. OFFICERS

Officers include President, Vice President, Managing Director, Secretary, Assistant Secretary, Member of the Board and any other person empowered under the rules or the bylaws to give directions on regard to the business of the registered society.

1.14.15. RULES

1.14.16. PRIMARY SOCIETY

It means a registered society but it does not include

i. An Apex Society

ii. A Central Society

1.14.17. ACT

ACT means TamilNadu Co-operative Act, 1983.

1.14.18. SHORT TERM CREDIT

Short term credit means a credit which is made available for a period of 12 to 15 months for meeting the cost of seasonal agricultural operations such as expenditure on seeds, manure implements and marketing.

1.14.19. MEDIUM TERM CREDIT

Medium Term Credit for a period exceeding 15 months but not exceeding 5 years. It is granted for consolidation of holding, reclamation of land, sinking of ordinary wells and making repairs to old ones, construction of Pucca drains in the fields and purchase of carts, bullocks, camels and the like.

1.14.20. PENSION SCHEME

It is another type of fixed deposit scheme to the individual especially to the retired Government servants. Under this scheme the Government servant is permitted to contribute
certain amount after retirement from service and he will be paid a sum on monthly basis till he has balance in his account.

1.14.21. OWNED FUND

Owned fund means the sum of paid up share capital and reserves.

1.15 CHAPTER SCHEME

The thesis consists of seven chapters.

The First chapter “Introduction and Design of the study” covers Introduction, Statement of problem, objective of the study, Scope of the study, location of the study, period of the study, research methodology, operational definitions and chapter scheme.

The Second Chapter provides relevant Review of the Literature.

The Third Chapter deals with the Origin and Growth of Central Co-Operative Banks in India, Tamilnadu and Dharmapuri District.

The Fourth Chapter discusses with the Deposit Mobilization of Dharmapuri District Central Co-operative Banks Limited.

The Fifth Chapter confers with the Credit Management of Dharmapuri District Central Co-operative Banks Limited.

The Sixth Chapter deals with the financial performance of Dharmapuri District Co-operative Bank Limited.

The Seventh Chapter presents the summary of findings, suggestions and conclusion.