of the problem, need for the study, objectives, hypothesis, research methodology, limitations of the study and ended with chapter scheme.

The second chapter, “REVIEW OF LITERATURE”, discusses earlier research work, articles published in journals relevant to this study.

The third chapter, “FUNCTIONING OF URBAN COOPERATIVE BANKS – AN OVERVIEW”, incorporates the organisation structure of UCB, mobilization of deposits and financial strength of UCB.

The fourth chapter, titled as “FINANCIAL STATUS OF COOPERATIVE URBAN BANKS IN RAMANATHAPURAM DISTRICT: AN OVERVIEW” provides the detailed investigation of financial performances of UCB in the study regions.

The fifth chapter, titled as “PERFORMANCE RATING OF URBAN COOPERATIVE BANKS OF RAMANATHAPURAM DISTRICT: CAMEL FRAME WORK APPROACH” attempts to gain an insight into the features of various financial activities by empirically evaluating the CAMELS method,

The sixth chapter, “A COMPARATIVE STUDY OF CUSTOMER SATISFACTION IN THE REGION ACROSS STUDY BANKS”, analyses the status of customer services provided by UCB of study regions.

The seventh chapter is “SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION”. The findings from the interpretation of the results are provided and conclusions based on the findings are given along with necessary suggestions.

CHAPTER II

REVIEW OF LITERATURE
Review of literature envisaged a survey of published materials that are relevant to a particular issue, theory or area of research it provides a description, summary, and critical evaluation of each work. Materials surveyed may include: scholarly journals, books, dissertations, conference proceedings, etc. It may be completed en route to an essay, thesis or dissertation and included in the final project. Or, it may be conducted as its own entity.

A number of studies related to performance of co-operative banking sector in India have been conducted. Here, an attempt is being made to provide an overview of various aspects and issues of this study through the review of existing literature. Some of the main studies selected for review have been discussed below.

It is also useful to have a review of past literature to gain good amount of perspectives of the problem under study.

Bhatia, in his study titled, “Banking Structure and Performance– A Case Study of the Indian Banking System” attempted to analyse the economic performance of Indian banking system as reflected by its output, price and profitability during the period 1950-68. He found that profit of the Indian banking system during the said period had an upward trend. The study suggested deregulation of interest rates to enhance the profitability of financial institutions and to ensure a competitive banking environment which would ultimately result in better services.

Kulkarni\textsuperscript{3}, in his study titled, “Development Responsibility and Profitability of Banks” stressed upon social responsibilities of banking sector. He was of the view that looking for profit maximization only was not true profitability of banks as social benefits arising out of bank operations cannot be ignored. He observed that while fulfilling the social responsibility, banks should try to make the basic banking business as successful as possible, reduce cost, improve banking system and increase the overall profitability.

Markand\textsuperscript{4}, in his book titled, “Social Priority Index of Public Sector Banks” evaluated the performance of public sector banks. With the help of performance index consisting six quantitative indicators such as branch expansion, priority sector credit, and wage cost, he concluded that the priority sector financing was essential, and necessary. For better performance in this sector he suggested that lending power should be delegated to the branch managers.

Pettway and Sinkey\textsuperscript{5} have generally discussed that on-site bank examination has been the backbone of the supervisory process conducted by both U.S. Federal and state banking agency. It includes the regular visit on banks followed by the interviews with management, evaluating the accuracy of the financial statements, accounting records, internal controls and the compliance with law and regulations. At the end of the exam, the bank supervisors assign the composite rating for those supervised banks based on the


\textsuperscript{4} Markand (1979), Social Priority Index of Public Sector Banks, Allahabad Bank Publications, Calcutta.

summary of findings collected through the on-site inspection. Such composite rating is basically determined in line with the CAMEL rating system.

Kalyankar\(^6\) in his study titled, “Wilful Default in Loans of Co-operatives” examined the trends in deposits, share capital, working capital, loans outstanding, advances, overdue and recoveries at the district level financing institutes. Socioeconomic factors responsible in projecting and promoting future development in the operations and approaches of the co-operative credit organizations were also considered to examine the specific progress made by Central Co-operative Bank of Parbhani District.

The study revealed that the cropping intensity, irrigation facility and working capital of the societies were the major factors for explaining overdue at primary agricultural credit societies’ level. The socio-economic factors were not responsible for increasing overdue at the borrowers’ level, but overdue were mainly mounted due to the non-economic factors in case of wilful defaulters.

Kurulkar\(^7\), in his published work on agricultural finance in backward region, reported glaring defects in the set-up of co-operative credit system. He pointed that out of the ten sample owners who obtained long-term credit from the co-operative banks, 30% could not secure short-term credit. Lack of short-term or production credit to the farmers who availed long-term credit resulted in lower output per acre, thereby resulting in overdue.


\(^7\) Kurulkar (1983), Agriculture Finance in Backward Region, Himalaya Publishing House, Bombay.
Eichel and Bende\textsuperscript{8} stated that performance appraisal can also be called as the Achilles heel of management. Although leaders of many public organizations strive to be employee focused or employee centered, a lack of emphasis is given to a process intended to assist the employee in achieving both personal and organizational goals.

Reddy\textsuperscript{9}, in his study titled, “Overdoes Appraisal and Management in Banking” analysed the relationship between the lending and recovery of an apex bank. His findings suggested that the lending and recovery of the apex bank had not been proportionate, i.e., either the apex bank could not meet the entire credit needs of the primary banks or the latter could not borrow the funds from the apex bank. The primary banks were constituted by people not for co-operative services but for their vested interests. With the help of Coefficient of Variation technique, he proved that there was a wide dispersion in lending followed by recovery. He finally concluded with the help of t-test that the association between lending and recovery was not satisfactory.

Chopra\textsuperscript{10}, in her book, studied operational efficiency of some selected public sectors banks. She found the lack of professionalism in banking industry and stressed for the introduction of scientific management practices to enhance profits and profitability of public sector banks. She recommended comprehensive management of costs as well as earning of the banks.

\textsuperscript{8} Eichel, Evelyn; Bender, Henry E. Jr.. Performance Appraisal: A Study of Current Techniques (9780814435090) by. American Management Association, 1984


\textsuperscript{10} Chopra, Kiran (1987), Managing Profits, Profitability and Productivity in Public Sector Banking, ABS Publications, Jalandhar.
Devadas\textsuperscript{11}, in his book titled, “Co-operative Banking and Economic Development” studied the role of Assam Co-operative Apex Bank Ltd. in economy of the State. He found that apart from working as a commercial bank it had to discharge three other functions, i.e., to finance primary credit societies, to act as banking centre for primary societies, and to undertake supervision of primary societies. He found that bank had not been able to achieve much in these three fields due to lack of adequate support from government of the state.

Ramachandran\textsuperscript{12}, in his paper titled, “Profit Planning as a Management Tool for Profit Maximisation” tried to analyse profitability position of the banks. Increasing emphasis on goals, increase in establishment cost, NPAs, amount locked in sick units, unfavourable deposit mix, compliance to statutory requirements were some reasons, identified by him, for declining profitability. He suggested the following measures to redress the said problem:

- Diversification of business,
- Interest to be paid by RBI on CRR/SLR balances,
- Opting utilisation of scarce resources by asset management,
- Better funds management,
- Management of non-performing advances,
- Professionalization of bank management,
- Identification of loss centres,
- Better role of government, and up gradation of skills and mechanism.


\textsuperscript{12} Ramachandaran, N. (1992), "Profit Planning as a Management Tool for Profit Maximisation", Indian Banking: Today and Tomorrow, Volume 38, No. 11 (Jan.), New Delhi.
Bhatt and Ghosh\textsuperscript{13} stated that the profitability of commercial banks depends on several factors some of them are endogenous and some exogenous. The endogenous factors represent control of expenditure, expansion of banking business, timely recovery of loan and productivity. The exogenous factors consist of direct investments, such as SLR (Statutory Liquidity Ratio), CRR (Cash Reserve Ratio) and direct credit program such as region wise, population wise guidelines on lending to priority sector. The regulated and restricted regime in the operation of banking system of investment, credit allocation, branch expansion, interest rate determination and internal management corded the productivity and profitability.

Barker and Holdsworth\textsuperscript{14} find that the CAMEL system is useful, even after controlling for a wide range of publicly available information about the condition and performance of banks. This composite index further acts as a bank’s failure predicting model.

Balister et al\textsuperscript{15} conducted a study of overdue of loans in agriculture to examine the repayment performance of defaulters in three blocks of Agra district in Uttar Pradesh. They found that well-to-do agriculture families accounted for a large share of overdue. They accounted 37 per cent of total defaulters and 57 per cent of total overdue. Total amount of overdue and its relative share also increased during the period of study. Lack of


proper supervision over end use of loan was identified a major reason for mis-utilisation of credit which leads to increase in overdue.

**The American Bankers Association** 16 reported that during the past decade banks have seen their customer base decline. Efforts to reduce this decline have not proved successful to date. One thing that appears to be promising is the implementation of good customer service. To implement good customer service, it has been shown that researching customer expectations and determining customer desires is vital.

**Hundekar** 17 suggested following points to improve the productivity of RRBs:

- Profit planning and cost control measures should be improved;
- Labour productivity improvement measures to be taken;
- To promote customer service by product development and diversification strategies;
- Market development strategies for mobilising more savings to be initiated;
- Management audit for controlling other administrative costs to be conducted;
- Streamline the recovery process; and
- The funds of banks should be effectively managed.

**Patel** 18, in his paper on “Viability of Rural Banking”, inferred that low volume of business per branch and per employee and high level of credit deposit ratio were two

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16 The American Bankers Association is the voice of America's $13 trillion banking industry


major factors causing losses in rural banking system. He observed that relative share of non-farm sector loans in rural banks was going up.

Leonard Berry\textsuperscript{19}, "Companies that surprise customers with unusual caring, commitment, or resourcefulness during the service process receive the extra credit." The providing of service that is above and beyond expectations cannot be accomplished until expected service is determined. Customer desires and needs must be determined when implementing a competitive customer relations program.

Murthi and Saraswati\textsuperscript{20}, in their paper titled, “Reducing overdue in Credit Cooperatives: Some Alternatives” undertook a study to evaluate the Quantitative Progress made in respect of supply of Institutional Credit. Using the secondary data made available by RBI in Statistical Statements relating to Co-operative Movement in India for a period of 6 years from 1978 to 1983 and assessing the Loaning Policies of Girijan Co-operative Corporation, Visakhapatnam, the study concluded that the progress in respect of supply of credit was phenomenal over the period of study but this progress pales into significance, if the magnitude of overdue was considered. It pointed out that the most unnerving aspect of institutional credit was the alarmingly high percentage of overdue, i.e., about 43% of loan recoverable in the second-half of the 80s in the case of co-operatives. The study was conducted to find out whether it was possible to reduce overdue by (1) making co-operatives the exclusive institutions of economically weaker sections-BY RESTRUCTURING THEM; and (2) by effective changes in the Loaning Policies-BY REVAMPING THEM. The study suggested that making co-operatives as exclusive


institutions of weaker sections, i.e., making them homogeneous would not result in decline in overdue, as mere homogeneity was not a sufficient condition. Further, regarding the Revamping of Loaning Policies, the results were quite impressive as it resulted in significant improvement in the Recovery Performance. It was finally concluded that the change of Loaning Policies like Induction of Liaison Workers, efforts of Elders Committee, Motivated Management would not have helped recovery of loans in the absence of homogeneity.

Satyanarayane\textsuperscript{21} studied productivity beyond per employee business, and suggested a model to measure overall efficiency of the banks. He emphasised that the size of the bank should be squared off while measuring efficiency of bank. According to him, Productivity of bank = \((\text{Average index market share of all the output factors}/\text{Average index market share of all the input factors}) \times 100\) where, output factors were deposits, non-deposit working funds, loans & advances, investments, interest spread, non-interest income and the net profit. The input factors were network of branches, number of staff, wage bill, non-wage operating expenses, etc. In order to facilitate comparison of one bank with the other, irrespective of size, the market share of each factor in percentage terms has to be taken into account instead of absolute levels.

Reddy and Reddy\textsuperscript{22}, in their study titled, “Nature and Dimensions of Wilful and Non-Wilful Default and Impact of Co-operative Credit Policy with reference to Nellore District of Andhra Pradesh” used multi-stage sampling technique and various statistical


tools to examine the reasons for overdue. They concluded that landholding, cropping pattern, income from agriculture, number of dependent family members and political interference had direct influence on recovery position of co-operative banks. They suggested that management of these banks should adopt a co-operative friendly approach instead of market approach ‘as self-help is the foundation stone of cooperative philosophy and peoples’ participation at all levels of management will improve working culture of the co-operatives.

Das\textsuperscript{23}, in his paper, studied the productivity in nationalised banks. He observed that labour productivity in nationalised banks, over the time, had not only remained low but also substantially declined. He advocated the restructuring of banks to improve productivity in Indian banks.

Ramamoorthy\textsuperscript{24}, in his paper titled, “Profitability and Productivity in Indian Banking – International Comparisons and Implications for Indian Banking” observed that the old order of regulated market banks were not conscious of their profitability and productivity levels. But new economic order has compelled these banks to shift towards market-oriented, commercially driven banking system. He also observed in his study that performance of banks operating in different economic systems with different levels of economic development and varying degrees of regulations were not comparable. The results further revealed that profitability of a bank was a function of allocation efficiency, volume of credit, provisioning for loan losses, interest rate movements and operating cost

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structure. He suggested that performance incentive plans, motivation, training and leadership of human resources and level of technology absorption can improve the productivity and profitability of the banks.

Yaron et al.\textsuperscript{25}, in their study titled, “Rural Finance: Issues, Design and Best Practices” emphasized upon the performance evaluation of the rural financial institutions, to find out whether they have met their goal of expanding income and reducing poverty, and then to evaluate their opportunity cost. He studied two primary criteria, i.e., the level of outreach achieved among target clientele and self-sustainability of rural financial institutes.

Deolalkar\textsuperscript{26}, in his study titled, “The Indian Banking Sector on Road to Progress” observed that NPAs in Public Sector Banks were recorded at about `457 billion in 1998. About 70% of gross NPAs were locked up in “Hard Core” doubtful and loss assets, accumulated over years, pending either in courts or with Board for Industrial and Financial Reconstruction (BIFR). He, further, added that the main cause of NPAs in the banking sector was the DIRECTED LOANS SYSTEM, under which the commercial banks were required to supply a prescribed percentage of their credit (40%) to the Priority Sector. Such loans supplied to the micro sector were problematic of recoveries, especially when some of the units become sick or weak. These loans had led the borrowers to expect that like a non-refundable state subsidy, bank loans need not be repaid.

\textsuperscript{25} Yaron, J. Donald and Others (1997), Rural Finance: Issues, Design and Best Practices, World Bank Publication.

\textsuperscript{26} Deolalkar (1998), “The Indian Banking Sector on Road to Progress”, www.abd.org www.scribd.com accessed on 07.03.09.
Pathania and Singh\textsuperscript{27}, in their study titled, “A Study of Performance of HP State Co-operative Bank” observed that the performance of the Himachal Pradesh State Co-operative Bank Ltd. in terms of membership drive, share capital, deposit mobilization, working capital and advances has improved over the period of five years, i.e., 1991-92 to 1995-96. However, recovery performance was unsatisfactory and overdue had increased sharply. This was due to the after effects of loan waiver scheme. The per member and per branch performance of the bank revealed that there is a significant growth in share capital, deposits, borrowings, advances and profits. They suggested that in the context of globalization and liberalization of economy, cooperative banks should ensure their business on healthy lines by having professional manpower, training and a sense of competition.

Cascio\textsuperscript{28} defined performance appraisal as a process to improve employee’ work performance by helping them realize and use their full potential in carrying out the organization’ s missions and to provide information to employees and managers for use in making work related decisions. He goes on to define effective performance appraisal system as an exercise in observation and judgment, a feedback process and an organizational intervention. It is a measurement process as well as an intensely emotional process. Above all, Cascio stated, it is an inexact, human process that is utilized differently in almost every organization regardless of industry.


Kapoor\textsuperscript{29}, in recognition of the relevance and catalytic role of co-operative banks in the development of agriculture and non-agriculture sector of Indian rural economy, Government of India on 9\textsuperscript{th} April 1999, appointed a task force under the chairmanship of Jagdish Kapoor for revival of co-operative banks. The main objective of the committee was to review the functioning of co-operative credit structure and suggest measures to make them member driven professional business enterprises. The committee suggested as under:

- The licensing of DCCBs is brought under the provision of Banking Regulation Act, 1949.
- Bifurcation of DCCBs should be on the sole criterion of viability (not on political considerations).
- DCCBs should be included in 2\textsuperscript{nd} schedule of RBI Act.
- Asset liability management should be implemented in the SCBs and DCCBs.
- NABARD should establish a co-operative development fund.
- RBI/NABARD should issue guidelines for a common accounting system in SCBs and DCCBs.

Niranjanraj and Chidambaram\textsuperscript{30}, in their study titled, “Measuring the Performance of DCCBs” observed that suitable models should be developed to evaluate the performance of co-operative banks. They considered 23 parameters falling into four major groups for measuring the performance of District Central Cooperative Banks and


assigned appropriate weights to each parameter. They ranked 14 District Central Cooperative Banks of Kerala based on composite marks. They suggested that performance of co-operative banks should not be measured in terms of financial/ economic achievements only but their performance as co-operative organizations (social achievements) should also be evaluated.

Satyasai and Badatya\textsuperscript{31} conducted a study regarding restructuring Rural Credit Co-operative Institutions. They analysed performance of rural co-operative credit institutions on the basis of borrowings and lending operations, cost structure, financial viability, etc. and found that co-operative system, in general, had failed to perform its functions properly. They advised the co-operative banks to diversify their business and also to overcome internal (rising transaction cost, declining business level, mismanagement of overdue) and external (excessive bureaucratization, politicization) weaknesses.

Verma and Reddy\textsuperscript{32}, conducted a study analysing the causes overdue in Cooperatives under SWOOD, to assess recovery and NPAs position in these banks. Policy distortions in liberalized economy and inefficient management were identified as main reasons for poor recovery. Mutualisation of credit, political interference at every level, successive crop failures, non-remunerative prices of agriculture produce, inadequate income and natural calamities, were some other factors, which affect the working culture of co-operative banks considerably. To improve the working of these banks, the study


suggested that available credit size should be need based and production-oriented. Effective supervision of loans to minimize mutualisation and close social relations with loaned members were two other suggestions to improve the profitability and productivity of these banks.

**Bhaskaran and Josh** concluded that the recovery performance of co-operative credit institutions continues to unsatisfactory which contributes to the growth of NPA even after the introduction of prudential regulations. They suggested legislative and policy prescriptions to make co-operative credit institutions more efficient, productive and profitable organization in tune with competitive commercial banking.

**Das** in his study titled, “A Study on the Repayment Behaviour of Sample Borrowers of Arunachal Pradesh State Co-operative Apex Bank Limited”, examined the repayment behaviour of loaners, covering a period of 1994-95 to 1998-99. On the basis of primary data collected, researchers concluded that incidence of default was highest among borrowers for agriculture allied activities loans. Agriculture loanees, horticulture loaners, small business loaners and service sector loaners were ranked 2nd, 3rd, 4th and 5th in a descending order on the basis of percentage defaulters. Study further revealed that the number of defaulter loaners was highest in government sponsored schemes.

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Viswanath\(^{35}\) in his study titled, “An Analysis of Performance of Agricultural Credit Co-operatives and their overdue Problems in India” concluded that during the period 1950-51 to 1995-96, the total loans advanced by PACs increased from `RS 24crore to `14,201 crore i.e. 587 times, but unfortunately this increase was followed by a corresponding increase in overdue. The results of Development Index in PACs of 16 states indicated that the performance of only 5 states, i.e., Karnataka, Gujarat, Tripura, Orissa, and Maharashtra was above the National average, while that of the remaining 11 states including Punjab were below the average. Using correlation technique, the extent of relationship between overdue and four variables, i.e., number of societies, total membership, working capital and total amount of loans advanced was studied. He concluded that there was a direct and positive link between overdue and membership on one hand, and overdue and working capital, amount of loans advanced on the other.

Gurumoorthy.T.R\(^{36}\) revealed that the loan recovery would contribute to fresh loans that create new business and employment and interest income would meet establishment expenditure and profit requirement of the financial institutions.

Barr et al\(^{37}\) states that “CAMEL rating has become a concise and indispensable tool for examiners and regulators”. This rating ensures a bank’s healthy conditions by reviewing different aspects of a bank based on variety of information sources such as financial statement, funding sources, macroeconomic data, budget and cash flow.


Lodha, in his study titled “Social Lending – Its Relevance in Deregulated Economy” studied how far the two extremities, viz. profit maximization and social lending will co-exist in the deregulated market, particularly in a developing economy like India. He concluded that

- Social lending should continue despite reforms;
- Economic reforms should continue;
- Target lending should be abolished;
- Social lending should be confined to weaker sections only;
- Time bound lending with least formalities should be ensured;
- Lending decision should be based on cost benefit analysis;
- Subsidy in social lending should be scrapped;
- Loss making rural branches should be converted into satellite offices;
- Self-help groups should be encouraged; and
- Business hours and days should be changed to face competition.

Debasish, in his research paper titled, “Prime Discriminants of Profitability in the Indian Commercial Banks” tried to develop a discriminant function for bank profitability using the most significant ratios and parameters. The validity of the model was assessed by calculating the analysis sample (78 banks). The hit ratio for analysis sample was 49/78 = 62.82 per cent. The efficiency was judged on four major parameters: Liquidity of the bank, Return performance, Expense parameters, and Operational efficiency. As per step-wise discriminant analysis, out of various measures, i.e., smallest

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F- Ratio, Mahalanobis Distance, and Wilk Lambda, the study employs Wilk Lambda with minimum value required for entry as 3.84 and maximum value for removal of the independent variable as 2.71. At each step the variable that minimizes the overall Wilk Lambda is entered. The computation ends when any further entry of variables fails to minimize the Wilk Lambda.

Krishana et al.\textsuperscript{40}, in their research paper, “Performance of Regional Rural Banks in Karnataka— An Application of Principal Components and Discriminant Function Analysis” tried to identify the important discriminating characteristics of the two identified groups of Regional Rural Banks in the state of Karnataka. They used the discriminate function approach and sought to obtain linear discriminate coefficient, such that the squared difference between the mean Z-score for the one group and the mean Z-score for the other group was as large as possible in relation to the variation of Z-scores within the groups. They concluded that the number of employees per branch had maximum discriminating power to the extent of 55%, followed by amount of borrowings (18%), credit deposit ratio (14%) and income to expenditure ratio (13%).

Nair\textsuperscript{41} in his paper titled, “Village Co-operatives – A Century of Service to the Nation” observed that by 2004, the formal institutionalized co-operative sector completed a century of its service to the nation. Analysing the progress of Primary Agricultural Co-operative Societies, he observed that during the half century spread over 1951-2001, the PACs made rapid strides in membership, owned funds, deposits, and channelizing


\textsuperscript{41} Nair, B.R (2004), “Village Co-operatives - A Century of Service to the Nation”, Yojana, (March), New Delhi.
production credit for farmers. They were versatile in the sense; they can take up any type of rural financing and rural service activity at short notice and at lowest transaction cost. But besides excelling on all fronts, the co-operatives are feeling handicapped due to mounting NPAs. The overdue loans of PACs increased to ₹95,899.60 million in 2000-01 as compared to ₹63.79 million indicated in 1950-51, thereby subjecting them to a sustained and systematic process of reviews, reorganisation and restructuring.

The Report of the Task Force on Revival of Cooperative Credit Institutions pointed out that the low recovery of loans obviously affected the profitability of the institutions and poor loan recovery had resulted in a peculiar phenomenon, often referred to as imbalances. It also viewed that PACCS were mainly conducting their business through borrowed funds.

Carlos et al. studied productivity changes in European co-operative banks and concluded that an effective use of technology between 1996 and 2003 had increased productivity for majority of the European co-operative banks under study. An appropriate policy recommendation by the researchers was for larger or centralized co-operative banks to develop and franchise technology to smaller cooperatives.

NABARD conducted a study “Development in Co-operative Banking”, to evaluate the financial performance of 1872 urban co-operative banks and 1, 06,919 rural

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42 Ministry of Finance Government of India Department of Economic Affairs (Financial Sector Division) revive the task force

43 Carlos, Pestana Barros; Nicolas, Peynoch; and Jonathan, Williams (2005), "Productivity Changes in European Co-operative Banks", Journal of Economic Literature, 2005 Classification G-21 and D-24, IDEAS.

44 National Bank for Agriculture and Rural Development (NABARD) is an apex development bank in India having headquarters based in Mumbai (Maharashtra).
co-operative credit institutions. The findings of the study revealed that in all financial institutions in the rural sector (SCBs, DCCBs, SCARDBS, and PCARDBS), percentage of NPAs in the substandard category declined, while it had increased in doubtful category. NABARD was worried about deterioration in asset quality of these banks. However, all the institutions were able to meet the necessary provisioning requirements. It further highlighted that NPAs ratio in DCCBs varied significantly across the states from 5% to 68% at the end March 2004. Only in four states (Haryana, Himachal Pradesh, Punjab and Uttaranchal), the NPA ratio was less than 10%. NABARD suggested that co-operative banks should implement One Time Settlement system (OTS) and refer small value advances to Lok Adalats and high value advances to Debt Recovery Tribunals (DRTS). Further, State Governments were requested to help co-operative banks in reducing NPAs by taking special recovery derives.

Prasad\textsuperscript{45}, in his research paper titled, “Co-operative Banking in a Competitive Business Environment” stated that the technology had made tremendous impact on entire banking sector, which had thrown new challenges, due to which co-operative banks were constantly exposed to competition and risk management. Therefore, they needed a combination of new technologies and better processes of credit and risk appraisal, treasury management, product diversification, internal control and external regulation along with infusion of professionalism. In the present business environment, the co-operative banks should be backed by democratisation, DE politicisation & decentralisation so as to make them competitive. He felt an urgent need for transformation in the mind-set, identity, business operations, governance and systems & procedures, which will definitely boost the morale of co-operative banks to face environmental challenges.

Suryan and Veluraj\textsuperscript{46}, in their study titled, “Profitability Analysis of the Pondicherry State Co-operative Bank”, analysed the performance of the bank from 1998-99 to 2002-03. Various ratios, such as cost of management (total expenses) to working capital ratio, profit to working capital ratio, non-interest income to total income ratio, etc. were used to assess the general performance of the bank. Spread and burden positions of the bank were also analysed. They concluded that the profitability performance of the bank was impressive and bank was able to meet its obligations and norms. The cost of management and establishment expenses got reduced during the period of study which further strengthened the profitability position of the bank.

Raul and Ahmed\textsuperscript{47} conducted an empirical analysis of different aspects of bank’s performance in the Barak Velly, southern part of Assam in the context of national level performance of PSBs in particular during two distinct time periods, pre- (1981-91) and post- (1992-2001) reform regimes, in their study titled, “Public Sectors Banks in India–Impact of Financial Sector Reforms”. They concluded that profitability of banks had come under reverse pressure and PSBs had witnessed a low percentage of profits to total assets during the post-reform years due to lower interest spread and greater priority sector landing. They suggested that corporate governance should be implemented in these banks to encourage and pursue market discipline through transparency, consistency and accountability. They stressed greater autonomy for banks to lay down internal guidance and procedures for transparency, disclosures and risk management.


Bagchi\textsuperscript{48}, in his study titled “Agriculture and Rural Development are Synonymous in Reality: Suggested Role of CAs in Accelerating Process” analysed the performance of Primary Agriculture Credit Societies, and observed that PACS could not match up to the increasing requirements of growth dimensions in the Agriculture and Rural development in the Post-independence period, although till the late 50s, they were the only available source of institutional rural finance.

Singh and Singh\textsuperscript{49} in their study titled, “Funds Management in Central Cooperative Banks—Analysis of Financial Margin” attempted to estimate the impact of identified variables on the financial margin of the central co-operative banks in Punjab with the help of correlation and multiple step-wise regression approach. The ratio of own funds to working funds and the ratio of recovery to demand were observed to be having positive significant influence on financial margin, whereas overdue to total loans were found to be negatively associated with the concerned parameter. A high percentage of own funds and timely recovery of previous loans outstanding, as a source of funding new loans by the bank, increased the financial margin in these banks.

Mavaluri, Boppana and Nagarjuna\textsuperscript{50} suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become


\textsuperscript{50} Mavaluri, Pradeep Kumar and Boppana, Nagarjuna (2006): Measurement of Efficiency of Banks in India.
important to stable the economy. They found that public sector banks have been more efficient than other banks operating in India.

**Heiko and Martin**\(^\text{51}\) of IMF conducted a study on co-operative banks and their financial stability. The study was based on individual bank data drawn from the Bank Scope Database for 29 major advanced economies and emerging markets that were members of the Organization for Economic Co-operation and Development (OCED). They found that co-operative banks in advanced economies and emerging markets had higher scores than commercial banks, suggesting that co-operative banks were more stable. These findings, perhaps somewhat surprising at first, were due to much lower volatility of co-operative banks’ returns, which offsets their relatively lower profitability and capitalisation.

**Shah**\(^\text{52}\) conducted a case study of Sangli and Buldana District Central Cooperative Banks regarding the financial health of credit co-operatives in Maharashtra and found NPAs or overdue as the main factors for deterioration in health of these banks. The study revealed that both these banks showed a decline in their financial health and economic viability during the late nineties as against the early nineties period.

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Grier’s opinion, a consistent profit not only builds the public confidence in the bank but absorbs loan losses and provides sufficient provisions. It is also necessary for a balanced financial structure and helps provide shareholder reward.

Kumar, in his thesis, worked on “Management of Non-Performing Advances– A Study of District Central Co-operative Banks of Punjab”. A sample of ten DCCBs, i.e., five with high level of NPAs and five with low level of NPAs, was taken for the study. It was found that despite the best efforts, Central Co-operative banks had not succeeded in diversifying their business. The NPAs in crop loan were found to be the lowest, while these were the highest in non-farm sector loan. On the basis of step-wise multiple regressions, it was found that caste, education, amount and adequacy of loan were the main factors affecting repayment performance of the borrowers. She suggested that these banks should form a special cell to monitor NPAs and should take services of recovery agents.

Murthy, in his paper titled, “Rural Finance: A Remedial Measure for Rural Poor” focused on the role of financial services as key to enhancing economic development and reducing poverty in rural areas. Rural finance has often led the way in addressing social, gender and ethnic equity issues which hold families in poverty. He, however, observed that the access was limited for poor households and for micro, small and medium enterprises. Despite rapid economic development in India the number of people living

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below the poverty line has decreased only slightly. While there was a numerically strong infrastructure of formal financial institutions in rural India, they often lacked the capacity to provide adequate demand-oriented services. He recommended that the major constraint of such important rural finance agencies, i.e., lack of resources should be removed, by facilitating them to mobilize resources from capital market and other newer sources.

Rutamu and Ganesan\(^{56}\), in their research article titled, “Profit and Profitability of Co-operative Banks: The Case of Banques Populaires (Peoples' Bank) of Rwanda” stated that financial institutions in general and banking sector in particular play a strategic role in the financing stage of capital formation. In the banking sector, cooperative banks undertake the responsibility of mobilising the scarce savings of the community and channelizing these savings for productive investment in the economy. They discussed the performance of Banques Populaires and the determinants of its Profit and Profitability. It had been noted that the net profit was not distinguished from Gross Profit in the years 1994-2004. The empirical results from the six models of Profit and Profitability showed that total assets per branch, other earnings and total deposits per branch were the determinants of profit in Banques Populaires, while total assets per branch, and the number of branches were the determining variables of profitability of Banques Populaires. The low return from investment of Banques Populaires indicated a lack of cost control and unsatisfactory sources of income other than interest from advances. It was, therefore, crucial that Banques Populaires should make further effort for the improvement of its efficiency in operations so that the low profitability might be uplifted.

Khan stated that bank is evaluated based on profit and loss as the same way for other business. If the shareholders of the bank get more profit then the bank is identified as successful. Banks can attain success if relevant risks are effectively controlled.

Dr. Shambhu Nath Chowdhury banking services is one sector where a great degree of attention is being paid to Performance Appraisal Systems. Several of the public sector banks (PSBs) have changed their P AS or are in the process of changing them.

Dutta and Basak suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment.

Connelt, et al. observed how government ownership involvement in a country’s banking system affects bank performance from 1989 through 2004. Their study uncovers an interesting pattern of changing performance difference between state owned and privately owned banks around the Asian Financial Crisis. They found that State owned banks operated with less profitability, held less core capital and had greater credit risk than privately owned banks prior to 2001 and the greater performance differing more

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57 Khan, Masood Ahmed : Banking in India, Anmat Publications, New Delhi.
significant in those countries with greater government involvement and political corruption in the banking system.

Dhanappa in his study titled, “Performance Evaluation of UCBs: A Case Study of Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd. Ichalkaranji” made an attempt to examine the working and financial performance of UCBs. The objective of the study was to examine and analyse the trend, progress and problems of this bank, and to offer some important suggestions for improving the competency and efficiency of the bank. The related data had been collected for the period from 1995-96 to 2007-08. He used various statistical tools such as ratios, percentages, averages, and chi-square test to analyse the data, to know the performance of the UCBs in respect of share capital, deposits, reserve funds, loans and advances, investment, profit, and NPAs. He observed that the bank had maintained NPAs under control at the best stipulated level of RBI norms. There was immense instability in net profit. The bank should focus on non-interest income sources (commission based services) to increase the profit level and reduce the NPAs. CD ratio of the bank was declining continuously which was not a good signal. The economic health of the bank was sound and the Bank was able to compete with other banks. He further suggested that loans should be provided (at least to regular borrowers) on competitive rates of interest.

The European Association of Co-operative Banks, in its article titled, “European Co-operative Banks in Financial and Economic Turmoil” was of the view that


Despite extensive interest rate cuts, liquidity injections and support measures the financial markets were not stable. Figures showed that global economy will experience a deep recession in 2009 and perhaps also 2010. But as has been demonstrated, most co-operative bank groups had fortunately been able to weather the financial crisis relatively well so far without any state support. This was due to the fact that they generally had limited exposure to toxic assets, a predominant focus on domestic retail banking with stable results, strong capital buffers and principally conservative risk management. The co-operative banks that did report losses due to the subprime crisis were affected primarily at the level of subsidiaries and at the level of APEX institutions. The local banks were not hatted directly by the financial crisis. Moreover, they continue to lend money to SMEs and retail customers. Co-operative banks were consequently solid and robust at the local level and accordingly demonstrated stability of the retail banking industry in Europe.

Jayaraman and Srinivasan in their study titled, “Relative Efficiency of Scheduled Commercial Banks in India (2001-08): A DEA Approach” attempted to measure the scale efficiency of scheduled commercial banks in India using Data Envelopment Analysis. The study listed out the number of efficient banks on the basis of relative performances using efficiency scores. It was found that the general performance of scheduled commercial banks under study was relatively high during the study period 2001-08 and the average efficiency score was ranging between 0.9195 and 1. More than 60 per cent of the scheduled commercial banks under study were above the average efficiency score for each study period except for the year 2006, where it was around 53 per cent. The results show that ICICI Bank, IndusInd Bank, ABN Amro Bank, Calyon Bank and Citibank were efficient for all years during study period. In addition to above banks,

efficiency scores of State Bank of Travancore, Vijaya Bank, Bank of Maharashtra, and Oriental Bank of Commerce, Axis Bank, Federal Bank and Yes Bank were above the average efficiency scores for all the years.

Rajamohan and Pasupathy\textsuperscript{64} in their study titled, “Performance Evaluation of TAICO (Tamil Nadu Industrial Co-operative Bank Ltd.) – An Application of Structural and Growth Analysis” stated that there were several factors that determined the operating efficiency and profitability of the bank. In this context, the general performance of a bank can be analysed more meaningfully and objectively for a given period of time through structural and growth analysis. Through structural analysis the figures reported in the profit and loss account and balance-sheet are converted into percentages for each period to ensure uniformity for the purpose of comparison with those of other periods. Macro mean had been used to exhibit the strength and weakness of each factor considered. The results were summarized in capsule form. Macro mean in respect of interest received constituted 96.8\% of the total income; it was 81.2 \% for interest paid, 18.8\% for operating expenses, 91\% in the case of spread and 83\% for burden. It was found that the net profit recorded a negative growth of 27.8\%. Growth rate of operating expenses was at 44\%, spread at 15\%, burden at 29\% and advances at 49\%. Therefore, it was recommended that the burden rate should be reduced by effecting cost control measures, and the spread rate be increased so that the profitability may be at a higher rate.

Ekta Bhatia\textsuperscript{65}. The performance appraisal or review is essentially an opportunity for the individual and those concerned with their performance in the bank, most usually their line manager - to get together to engage in a dialogue about the individual’s performance, development and the support required from the manager. It should not be a top down process or an opportunity for one person to ask questions and the other to reply. It should be a free flowing conversation in which a range of views are exchanged.

Alamelu and Devamohan\textsuperscript{66}, in their study titled, “Efficiency of Commercial Banks in India” calculated the business ratios, such as interest income to average working funds, non-interest income to average working funds, operating profit to average working funds, return on assets, business per employee and profit per employee for public sector banks, private sector banks and foreign banks for the period 2004-05 to 2008-09. It was observed that the foreign banks and new generation private banks have superior business ratios. They effectively leverage technology, outsourcing and workforce professionalism which helped them to protect their bottom line. On the other hand, the public sector banks are yet to exploit fully the advantages of vast branch network and large workforce. That’s why they have unimpressive business ratios. Old generation private banks do not have impressive business ratios, as they are constrained by small size and conservatism.

Shrivastava and P. Purang\textsuperscript{67} studied the differences between public and private sector banks with respect to perception of fairness of the performance appraisal system.

\textsuperscript{65} Ekta Bhatia: A research report on performance appraisal in banking sector(2009-10) Sikkim manipal university


and performance appraisal satisfaction. Perception of fairness of the performance appraisal system has been studied through nine factors. The study used independent samples t-test and qualitative analysis to study the mean differences between the two banks. Results indicated that private sector bank employees perceive greater fairness and satisfaction with their performance appraisal system as compared to public sector bank employees.

Kotler and Armstrong\(^{68}\) preach that satisfaction is the post-purchase evaluation of products or services taking into consideration the expectations.

P. Lakshmi, S. Visalakshmi\(^{69}\) concludes Efficiency is measured by the ratio of output to input, where a larger value of this ratio indicates better performance. The performance of a cooperative bank is conceptualized as the extent to which the bank is able to utilize its resources to generate business transactions and it is measured by an efficiency ratio. Technical Efficiency (TE) is considered for analysing the performance of the banks. TE refers to the relationship between scarce factor inputs and outputs of goods and services. Scale efficiency is that component of Technical Efficiency that can be attributed to the size of operation. It has been observed that the Pure Technical Efficiency of Co-operative Banks during the current years has shown a decreasing trend. A similar trend is observed in the case of Scale Efficiency.

\(^{68}\) Principles of Marketing, 14e, Kotler and Armstrong (2012)

**Selvaraj, A** 70 Urban Co-operative Banks are the best vehicles for taking banking to the doorsteps common men, un-banked people in urban and semi-urban areas in particular. UCB’s figure among the vital segments of the banking industry of the country. They essentially cater to the credit needs of persons of small means.

**Pawer, P.R** 71 In the era of globalization, Co-Operatives is ideal for inclusive growth, with changing times; co-operatives should also change as per the needs and expectations. Adoption of new technology and management techniques provisions as various products and services increasing the contact points and consistent involvement of members, dynamic and committed leadership is essential for viability and sustainability of the co-operatives.

From the review of literatures pertaining to urban cooperative banks, it becomes clear that Co-operative banks were consequently solid and robust at the local level provides the most important financial instrument to customers aimed at protection as well a measure the performance of the UCB in India. However, the service quality dimensions vary from one research to another research. It is also identified from the review that service quality dimensions are dynamic by geographical areas under study.
