CHAPTER -I
NATURE, SCOPE, OBJECTIVES, METHODOLOGY OF RESEARCH AND SIGNIFICANT EXPLORATIONS

• Introduction
• Rational Behind Study
• Objectives
• Hypothesis
• Research Methodology
• Reference Period & Scope of thesis
• Major Observations
CHAPTER -I
NATURE, SCOPE, OBJECTIVES, METHODOLOGY OF RESEARCH AND SIGNIFICANT EXPLORATIONS

Introduction

The Indian Co-operative Movement dates back to the year 1904. Initially it had a limited service objective viz. to assist the poor agriculturists of the country who were trapped in the clutches of the moneylenders and traders. Co-operative Credit Societies on the lines of the Raiffeisen type Societies in Germany were formed with a view to lend money to the ever needy agriculturists of the country. Efforts were also made to organize societies for non-agricultural activities. Allied co-operative institutions like co-operative purchase and sale unions, dairy societies, processing societies were also formed. In the year 1912, fresh co-operative legislation provided added impetus to the organization of various co-operative agricultural and non-agricultural credit societies. The Mac-lagan Committee of 1915 recognized co-operatives in all these spheres. As the Committee reported long ago many of its recommendations, need special consideration, so far as the movement of today is concerned. In other wards it cannot, at the same time, be ignored that the movement of today is based on the major recommendations of the Committee. On the background of the contributions by eminent leaders and experts towards the co-operative movement and their suggestions, there is a need to study the development of financial services rendered by the District Central Cooperative Banks and their affiliated co-operatives to their customers and borrowers.
The term “district bank” was generally used to designate the financing agency servicing societies in the whole or a part of a district. It is a transitional agency between the Apex Bank at the top and the Primary Agricultural Societies and, therefore, it is also called “Central bank” or “Central Financing Agency”. At present in Maharashtra there are 30 District central Co-operative banks with more than 20 thousands affiliated primaries.

The DCCBs are established to finance the primary societies and to act as their balancing centers. They stand at the intermediate stage in the structure of the co-operative movement. They keep useful link between the primary societies at the base and the Maharashtra State Cooperative Bank (MSCB) at the top. In an absence of such organization, it would be difficult for the MSCB to extend the financial facilities to the primary units. It may result in the several administrative difficulties and may also cause the unnecessary delay and expenditure. The mobilization of funds at the intermediate level carried on by these banks would also be difficult. In fact, therefore, the formation of DCCB is of a great importance for the healthy development of the entire movement. The DCCBs importance can be summarized as follows:

a) It finances short and medium term loan to the affiliated in their areas of operation and for that purpose it collects the savings of the people in their areas so that credit is dispensed equally to both agricultural and non-agricultural sector.

b) It acts as a “balancing centre” for the resources of the PACS (Primary Agricultural Credit Cooperative Societies); in the pyramidal structure of co-operative credit. Its own resources are
cushioned to absorb the ill impact of the overdue arising at the primary level.

c) DCCBs with the help of primaries attract local deposits by creating confidence in the minds of the local people.

d) These banks supervise the working and management of the affiliated PACSs and imbibe the principles of co-operation in the minds of the members.

e) DCCBs provide a safe place for investing the reserve of the primary societies.

f) They help the agricultural development through the co-operatives on the sound lines by all possible ways in the area of their operation.

The DCCBs & their affiliated primaries extend multitude of services to their members, customers & borrowers looking the importance, it is decided to undertake the Ph.D. research on the service aspects of DCCBs and their affiliated primaries.

Rational Behind Study:

Service distribution is the function that brings the DCCB, affiliated primaries and its customers nearer physically. It is concerned with transferring the services from the producer to the consumers. Traditionally, service distribution is designed to deliver the goods/services through intermediaries for consumption or use to the customer. However, with the introduction of social/co-operative Banking, the definition of service distribution has also undergone a sea change. Now, service is a very potent tool in the hand of the Banker. The Service
efficiency adds value to the Bank. Not only bank delivers the service but also in addition, it injects the values of access, personal service and information to the customers. Besides, service helps the Bank with support facilities like mopping up of savings, feedback loan follow up etc. Some of the important service decisions of the Bank rest on the distribution system adopted. The promotional campaign and pricing are two major decision affected by service efficiency. The type and the decor of the Bank have a positive impact on the utility of the service.

Service Distribution unlike Commercial Bank has always been considered as the dark continent of DCCB as it is treated external to the organisation and a DCCB manager does not want to venture into the mercy depths of the practices of moneylender that keep changing with market, product and time. Nevertheless, in such situation where the competition is intense, service marketing/distribution holds the key. It stops being an external resource and becomes as important and internal as any other Banking decision.

The role of incumbent in services is more strategic as they are the performers to the customers. They have to be made an integral part of the DCCB and have to reflect the policies and philosophies of the co-operation. They can no more be a loosely connected chain. In fact, the service distribution by DCCB is not just adding values but acquiring customers and maintaining them. It is a combination of people, technology and outlets involved in the industry’s myriad efforts to acquire customers and maintain a customer franchise. This definition stands firm when the customers determine the value they wants as well as the providers who would deliver. It suggests a highly customer-oriented approach to service distribution that would look after the customers on
their individual merit. Traditional channel would surely fail in such a situation.

This does not necessarily mean a change in service distribution system. It is a change in the orientation that a DCCB has towards the system and the extent to which it is considered important to banking success. There is no inbuilt system in a service distribution for success. However, the chances are brighten when some of the misconceptions are removed. As an illustration Table 1 outlines few misconceptions and their remedies.
### Table No.1: Misconceptions in Service Distribution by DCCB and the Remedies

<table>
<thead>
<tr>
<th>Misconception</th>
<th>Remedies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. A channel of distribution is the movement of a service from the Bank to</td>
<td>1. It acquires and maintains customers by giving them utilities of form,</td>
</tr>
<tr>
<td>the consumer</td>
<td>place and time.</td>
</tr>
<tr>
<td>2. A channel is determined by the characteristics of Bank service</td>
<td>2. It should consider: Who is availing the service?</td>
</tr>
<tr>
<td></td>
<td>Where do the customer /farmer wish to buy?</td>
</tr>
<tr>
<td></td>
<td>Why do the customer/ farmer buy?</td>
</tr>
<tr>
<td></td>
<td>Where and how is the buying decision made?</td>
</tr>
<tr>
<td>3. A distribution channel is managed by the Bank</td>
<td>3. The channel captain/ branch manager manages it.</td>
</tr>
<tr>
<td>4. A Bank should try to maximize cooperation within the channel</td>
<td>4. It should optimize the cooperation with some space for conflict also.</td>
</tr>
<tr>
<td>5. A profitable channel is an efficient channel</td>
<td>5. The efficiency depends on:</td>
</tr>
<tr>
<td></td>
<td>How well the target market is being served?</td>
</tr>
<tr>
<td></td>
<td>What service level is being delivered?</td>
</tr>
<tr>
<td></td>
<td>Comparing with individual than industry standards.</td>
</tr>
<tr>
<td>6. Old is bad</td>
<td>6. Customers value many attributes of established system such as</td>
</tr>
<tr>
<td></td>
<td>personalized service.</td>
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<tr>
<td>7. New customers are more profitable</td>
<td>7. It is wise to have a strong loyal customer base, before embarking</td>
</tr>
<tr>
<td></td>
<td>on acquiring new customers.</td>
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<tr>
<td>8. A highly assorted outlet is better</td>
<td>8. That customers select on service benefits as well as the method of</td>
</tr>
<tr>
<td></td>
<td>distribution.</td>
</tr>
<tr>
<td>9. Planning distribution system is the responsibility of Bank manager</td>
<td>9. It is a strategic decision involving the higher echelons, peers and</td>
</tr>
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<td></td>
<td>subordinates.</td>
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The present Ph.D. thesis has devised the remedies (like above) for more effective services to the customers/borrowers/members.
Objectives

- To know the Resources of DCCB & their Utilization for Services to the Customers
- To highlight the various aspects of the DCCB Working & Customer Services extended with the available finances
- To study the Financial Products, their Distribution and Loan Recoveries and their utilities to customers
- To bring out the Banker, Customer and Public Relations
- Comparing the quality of Customer Services extended by the DCCBs
- To make an Evaluation of Customer Satisfaction based on empirical investigation Survey
- To suggest effective solutions to problems and give model for developing cooperative Banking services on par with the commercial Banks.

Hypothesis

- District Central Cooperative Banks are unable to maintain CRM on par with the Commercial Bank
- Quality of Services so rendered by the District Central Cooperative Bank is Poor
- There are so many factors that determine the characteristics, nature, scope and extent of DCCBs services.
- Bank policies regarding loans, investments and other matters provide an important yardstick by which outsiders can judge the competence and capacity of the management.
- A quarter of co-operative bank account holders have maintained accounts with the co-operative bank just to encash their cheques
Research Methodology:

The same is concerned to exploratory and descriptive type as given ahead:

(a) **Survey of Literature:**
   This is undertaken through the following sources:
   a) Document and record of DCCBs & affiliated primaries extending Banking services.
   b) Legal provisions relating to Cooperative Banking.
   c) Newspapers and magazines having concern with Cooperative Banking.
   d) Books, pamphlets, brochures, etc. relating to Cooperative Development.
   e) Reports on Cooperative Banking prepared by Government and private bodies or individuals.
   f) Office record of Cooperative Department.

   In order to get the above study material, the offices of Government, various university Libraries including library of Dr. Babasaheb Ambedkar Marathwada University and Offices of the Govt. were visited for the necessary information.

(b) **Experience Survey:**

   There is a need to collect experiences of the people who are directly or indirectly have concern to the subject selected for thesis. Because of this need, DCCBs Offices, Managers, / Directors of Banks, customers, Government officers, etc. were contacted for collecting the information about working of DCCB & their primaries. All these persons or authorities were either working or controlling / supervising / coordinating / participating the business of DCCBs & their primaries.
While selecting the respondents for interview, the care was taken to select only those who possessed a competence, relevant experience and ability to communicate. Some respondents were contacted at their homes. Prior to contact, they will be provided with the information about the objectives of the research study. The respondents to be selected for interviewing will be from the different classes or from the different social status. Efforts were made to ensure an appropriate representations of the different types of experiences, including the respondents from all categories i.e. Managers, Bank Inspectors, customers, leaders etc.

During the course of interviewing, each respondent was asked only the relevant questions; having due regard to his relation with the Bank Business.

The number of persons to be contacted for enquiry was kept different for different purposes. For example, the queries about motivation were made with about dozen numbers of Bank workers or borrowers. The queries about the role of Government in Banking development were made with about two or three officers, working in the DCCB.

The experience survey provided in-depth vision about the various problems and dimensions of DCCB business environment that existed and also provided vision over the matters of employees & customers having direct concern to Banks. Another advantage of experience survey was that it facilitated the suitable formulation of questionnaire for descriptive study method.
(c) Descriptive method:

The Survey of literature and the experience survey provided vision over the problem selected for the study. It focuses attention on past and highlights recent development in the selected research problem. Descriptive research, in contrast, is present oriented; it describes and interprets what exists at present. It is primarily concerned with the relationship or conditions that exist, practices that prevail, beliefs, point of views or attitudes that are held, processes that are going on, effects that are being felt or trends that are developing. It is realized that the data required resolving the Ph.D. research problems did not exist. However, the setting or environment in which those data could be generated did exist. Hence, the descriptive approach was used to go to these setting i.e. employees, customers and related environment, to administer appropriate data collection and to analyze and interpret the same. Under this method of research sampled number of customers, officers & employees were selected by using appropriate sampling technique. The same is explained in the concerned places of the thesis.

Reference Period & Scope of Research

The year 2005 and five years preceding to that was the reference period for study; while geographical scope of thesis was restricted to the state of Maharashtra.

Major Observations

After the survey of literature and pilot investigation conducted through the experience survey, the researchers had information of varied types, the same is given ahead in nut shell prior to in-depth discussion in the subsequent chapters
Factors Determining Extent, scope and nature of Services from DCCC Banks

So many factors determine the characteristics, nature, scope and extent of DCCBs services through PACCS. Each factor influences in its own way in determining the extent of services of the DCCBs/PACCs. It differs from Bank to bank or society to society and according to the nature of the loan business and services. However, in this thesis some of the significant factors having concern to services are discussed. The same are as below

- Disbursement and Recovery Cycle (DRC)
- Business Fluctuation
- Loaning Policy
- PACCs Credit Policy
- Availability of Credit
- Growth and Expansion Activities
- Profit Margin and Profit Appropriation
- Price Level Changes
- Operating Efficiency
- General Type of Business:
- RBI /NABARD/ Gocvt/MSCB Policies
- Size of the Business Unit:
- Terms of borrowings and loan disbursement:
- Scale of loan recoveries:
- Process of loan disbursement and services provided:
- Importance of cooperative workers:
- Proportion of kind components to total loans:
- Cash Requirements:
- Seasonal Variations:
- Banking Connections:
- Growth and Expansion
Practical Problems in Managing services:

(i) Term loans are purely for disbursing short or medium term loans satisfying the farm needs. Some time, due to delay in getting working capital, PACCs are forced to divert some fund allotted for purchasing farm input etc. to acquire current assets. This will result in either reduction in service or quality due to non-availability of farm inputs etc.

(ii) Terms loans are sanctioned by DCCB to PACCs for disbursement of the same to member farmers based on duly approved NCL by the field workers’ conference annually held at the DCCB office. The PACCs have to approach DCCB periodically to DCCB for the said purpose. In this, there is a gap between the need and the actual sanctioning of loan. This arrangement creates a lot of time gap and this delay causes more failures in loaning business ventures.

(iii) Some PACCs may spend more in furnishing the office, honorarium and on personal conveyance, which creates paucity of funds for managing daily operations.

(iv) Improper inventory management of kind component of loans may cause more accumulation of stocks on hand. Major share of working capital may be locked up in stocks.

(v) Lack of proper stockiest and disbursement network may also cause problems in working capital.

(vi) Policy of purchasing kind components of loan- materials on cash and selling the services on credit by multi purpose PACCS will certainly affect the liquidity position.
(vii) Wrong estimation of requirement of working capital and delay in making arrangement for getting the working capital will also cause problem.

(viii) Delay in issuing working capital from the DCCB due to non-availability of required documents, security etc., would certainly affect the loan business. This is the major problem faced by multi purpose PACCS managed by untrained secretaries.

(ix) One or two persons carry out all management functions in small PACCS. They do not devote much time on this matter. They have to depend on the information’s given by DCCB office staff. This may lead to wrong financial planning.

(x) Government policy towards the development of agricultural sector and cooperative movement will also affect the financial position of the PACCS. Change of policy may either affect the PACC loan business or cause delay in getting loan from the banks.

(xi) It was quite puzzling to find that the growth in the deposits in cash certificates quite low as compared to reinvestment deposits despite their comparable terms and conditions in terms of interest. This inextricably related to the marketability of the various deposit schemes. The marketability of the cash certificates may, perhaps, be enhanced by suitably modifying the terms and conditions of cash certificates.

(xii) It was observed that the awareness level of bank staff at the branches about the bank’s various existing deposits and the schemes offered by its counterparts was not satisfactory. A greater awareness level among the bank staff particularly in the branches is
essential to evolve suitable marketing strategies. Therefore, it is recommended that bank staff at the branch level, particularly those who are directly responsible for deposit mobilization should be sent for intensive training in the area of exploration and mobilization of deposits. It is also essential for the staff to acquaint themselves with various deposits schemes of other banks in order to persuade the potential depositor effectively.

(xiii) It was noticed that both communicative and personal interaction methods of publicity and popularization were not systematic. It was also observed that the publicity and popularization methods adopted by the bank exclude an over-whelming part of the rural population. Therefore, the bank should consider the systematization of these publicity and popularization methods, with a view to cover the rural population to a large extent. For achieving this bank may explore the possibility of advertisement through radio and other mass-medias.

(xiv) The reasons for higher rate of premature withdrawals in the case of recurring, recurring based and fixed deposits must be investigated. It is also suggested that the behavior pattern of this segment of depositors may be studied with a view to evolve strategies to reduce incidences.

(xv) The analysis of the saving behavior of selected account holders indicated that about a quarter of co-operative bank account holders have maintained accounts with the co-operative bank just to encash their cheques. Such depositors are usually unwilling depositors. The bank should inculcate banking habits among such depositors on priority basis, so as to increase its deposits.
The analysis of the selected account holders in both co-operative and commercial banks indicated that most of such depositors opted for commercial banks because of its provision for advancing individual loans. In order to attract depositors, DCCB should suitably modify its bye-laws to advance individual loans with a view to attract deposits from such category of target population.

Fundamental Policies and strength of a Bank:

Bank policies regarding loans, investments and other matters provide an important yardstick by which outsiders can judge the competence and capacity of the management. A well-disciplined and stable organization indicates to the public that all banking transactions will be handled correctly and in a sound manner. Confidence in bank lessons the possibility of ‘run’ on the bank. This trust is a reflection of the depositors’ faith in the bank management. Factors such as presence of outstanding persons of the society on the board of directors, capable officers and employees of the bank, a record of fair dealing, sound investment and loan portfolios with a strong capital structure are some of the indicators of good bank management. The loan policies of one bank may be more appealing to people than those of another. A bank may enjoy higher level of deposits because of the availability of instant loan, credit card, personal line of credit, relatively lower lending rates, less insistence on security etc. If all these fundamental policies are successful the bank attracts the large number of deposits.

The DCCB has prestige and goodwill because of the state Government support and its binding to deal with only agriculture sector of economy. Depositors, hence, with trust respect the democratically
managed office of the DCCB. Board of Directors, as they are elected from the people, is in position to keep rapport with the rural people for attracting the deposits. All these give a good strength to DCCB for tapping the saving of the rural masses.

**Government Activity in the Community:**

Deposit mobilization is affected by the amount of Government expenditure made in a particular community. If the Government spends sizeable amount on building infrastructure, social welfare activities and start public sector enterprises, the amount or money in circulation will be more and more income will be generated. A considerable percentage of both will find its way to the banks in the form of deposits.

The DCCB has an opportunity to tap the maximum amount of Government’s expenditure on agricultural sector; since this expenditure is mostly facilitated through its short and medium term finances. The expenditure so incurred is the source of income to many rural people and some portion of this income is mopped by the DCCBs in the form of public savings. Leaving aside the above example, there are many other Government expenditure outlets forming the income of some people and ultimately a portion of that income takes the shape of public deposits.

**Criteria for Sound Agricultural Credit:-**

The criteria of sound agriculture credit are as follows:

(i) It should be granted for a sufficiently long period commensurate with the length of the operation, which is desired to be facilitated.

(ii) It should be granted at low rates of interest.
(iii) It should be adequately secured in order to avoid any abuse of credit facilities, but security should not be necessarily material, it should be, if necessary, in the form of a personal credit secured mainly by borrowers moral standing and farming ability.

(iv) It should be adapted to the average yield and capacity of repayment of the farm, particularly during periods of economic depression.

(v) It should be placed in the hands of institutions, the directors of which have received special training and had actual banking experience.

(vi) In the new arrangement, therefore, a large part of the credit would have to be advanced to the producer on the strength of his anticipated crop rather than more usual and more tangible form of security. Moreover, the credit agency should be one which is in a position to co-ordinate its activities with those of all the important agencies.