CHAPTER – II

REVIEW OF LITERATURE

State Apex Co-operative Bank

Under this head, various researches and studies on State Co-operative Banks done by different authors are presented as the review of literature.

Aggarwal et al. (1972)\textsuperscript{8} made an attempt to examine “Problems and Prospects of Cooperative Credit: A Case Study” of Meerut Cooperative Bank for a period of 10 years (1960-61 to 1969-70) in Uttar Pradesh and for this various performance indicators, i.e., membership, share capital, working capital, deposits, advances, borrowings, repayments, overdues and profits were taken into consideration. Linear trend equations are used for the analysis. It was observed that all the trend coefficients except profits are positive. The recovery position of the bank was satisfactory but the profits of the bank were low. It was suggested that the bank should coordinate its activities with nationalized banks with regard to financing agriculture and the bank should provide loans in kind.

Jangid (1976)\textsuperscript{9} in his doctoral thesis titled “Cooperative Banking in Punjab” attempted to assess the progress of cooperative banking in Punjab and evaluated its position and performance. The study showed that cooperative

\textsuperscript{8}Aggarwal, R.C.; Prasad, B.; and Arora, V.P.S. “Problems and Prospects of Cooperative Credit: A Case Study”, Indian Cooperative Review, Vol. IX, No. 3, April, pp. 417-422.

\textsuperscript{9}Jangid, SatyaNarayanCooperative Banking in Punjab, Doctoral Thesis, University Business School, Panjab University, Chandigarh.
banks were playing a vital role as an instrument of development. There was a considerable progress in the resources of cooperative banks. The operational efficiency of these banks showed signs of improvement and the operational efficiency in Punjab was better. It was suggested that with wide resources mobilization, rational allocation, and better supervision, cooperative banking can be geared to socio economic betterment of Punjab.

**Kanagasabai (1984)**\(^{10}\) made an attempt to study the “Determinants of Profitability – A Case Study of a State Cooperative Bank”, determinants of profitability and for this State Cooperative Bank (SCB) facing declining profitability was selected. For this the parameters, viz. short term loans to total loans, time deposits to total deposits, borrowing to owned funds were taken for a time period of 1970-71 to 1979-80. It was analysed whether agriculture advances, proportion of time deposits to total deposits and level of borrowings affect the profitability of the bank or not. It was found that these factors affect positively the profits of the bank. So, it was suggested that the bank should design suitable strategies to improve these ratios in order to increase the profitability.

**Asaithambi (1988)**\(^{11}\) in his “Performance Appraisal of Andaman & Nicobar State Cooperative Bank”, assesses the performance of Andaman & Nicobar State Cooperative Bank on different parameters, i.e., deposits,

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advances and overdues. It was found that the bank has been maintaining high
degree of efficiency in every aspect and the success of the bank is due to
farsightedness of the management and dedicated services of its employees.

“Central Co-operative Banking in a Developing Economy” was
undertaken by Govind Parrekin (1990)\textsuperscript{12} The study intended to scrutinize the
financial viability of District Central Co-operative Banks in Rajasthan. The
study revealed the poor financial position of all Central Co-operative banks in
the state. It also disclosed the critical financial condition and some sort of
undeclared insolvency position faced by eight DCCBs in the state.

Chakraborty’s (1996)\textsuperscript{13} study of Maharashtra State Co-operative
Bank was to assess its performance. The objectives of the study were to
examine the sources of working capital and its management, to examine the
different types of deposits and their sources and to examine the profitability of
the bank. The Bank’s performance was determined by the magnitude of profit
earned for the survival and the growth. The economic stability expansion and
diversification of business through profitability is an important task of the Bank
Management.

The Bank performed excellently in recovering the loans that were
outstanding. The percentage of overdue to outstanding was reduced over the
years. As the recovery process was costlier, it was suggested that attempts

\textsuperscript{12}GovindParrekin, “Central Co-operative Banking in a Developing Economy”, (Jaipur: National

\textsuperscript{13}Chakraborty, “study on Maharashtra state co-operative bank”, International Journal of
should be made to recover at low costs. In this regard, it was suggested that, certain cost records have to be created besides educating branches on cost saving devices in recovery functions. The profit earned per branch and per employee both had upward trends due to their branch expansion and employment.

Debabrata Das\textsuperscript{14} made a study of “Co-operative Banking in Arunachal Pradesh” in 2000. This study aimed to analyze the working of the Arunachal Pradesh State Co-operative Apex Bank Ltd. It analyzed the pattern of advances by the bank, the trends of branch expansion and deposit mobilization. The study covered a period of nineteen years from 1978-79 to 1996-97. It is observed that the bank’s deposit mobilization performance was good. As proper utilization of loan could improve the recovery position of the bank, it recommended that proper and frequent supervision of utilization of loan funds need to be undertaken by the employees at different stages.

Ganesan (2005)\textsuperscript{15} studied the relative performance of State Cooperative Banks (SCBs) in India for the years 2002-03 and 2003-04. For analysing the performance of the banks different input parameters (i.e. membership, labour, borrowed funds and number of branches) and output parameters (i.e. advances and investments) were used. In relative efficiency it was found that SCBs, i.e., Gujarat, Himachal Pradesh, Maharashtra, Tamil Nadu and West Bengal were


\textsuperscript{15}Ganesan, N. “A Study on the Performance Analysis of the State Cooperative Banks in India”, \textit{Prajin}, Vol. XXXIV, No. 4, pp. 311-321.
found to be efficient in 2002-03 and 6 SCBs, i.e., Andhra Pradesh, Delhi, Gujarat, Himachal Pradesh, Maharashtra and West Bengal were found to be efficient in 2003-04. The average efficiency for the SCBs in India was 0.46 in 2002-03 and 0.47 in 2003-04. In traditional self-efficiency approach, it was found that SCBs of Andhra Pradesh, Gujarat, Maharashtra and West Bengal have high self-efficiency and in cross efficiency approach, it was found that SCBs of Andhra Pradesh, Assam, Tripura, Nagaland and Mizoram are the worst performers.

**Ganesan. N** made a study of “Data Envelopment Analysis of State and District Co-operative Banks in India: Exploratory results”, in (2009)\(^{16}\) A sample size of 30 State Co-operative Banks (SCBs) and 20 District Central Co-operative Banks (DCCBs) in India were selected for the study purpose. It covered a period from 2002-2006. The researcher analysed the performance of SCBs and DCCBs with the help of direct empirical method. It calculated the self-efficiency of each SCB and DCCB in each state by applying Data Envelopment Analysis (DEA). The efficiency score was derived after completing the regional wise grouping of SCBs and DCCBs. The study highlighted the performance of SCBs and DCCBs in terms of technical efficient score.

Das, S.K and Chaudhury, Dr. S.K (2011)\(^7\) examined the performance of SCBs in North Eastern Region and made a comparative study of the growth and financial performance of SCBs. They observed that SCBs in NER are not performing well at par with all India level. The SCBs in the NER suffers from low profitability and high NPAs (non-performing assets), which hinders the growth of SCBs in North Eastern Region.

Hooda, Vijay (2011)\(^8\), examined the performance of SCBs and Schedule Commercial Banks and formulated comparative assessment between them through some selected financial ratios. He observed that SCBs and Scheduled Commercial Banks differ significantly as per these selected ratios during the years of study.

Hooda and Turan (2006)\(^9\) attempted to examine the “Determinants of Profitability in District Central Cooperative Banks in Haryana: It was found that business per employee and Non Performing Assets (NPAs) have emerged as dominant determinant of net profits. It was found that business per employee and spread (difference between interest earned and interest paid) have shown positive effect on profits and increasing size of NPAs have negative effect on the profits. It was found that operating expenses and net profits are positively related.


Lakshmanan and Dharmendran (2007)\textsuperscript{20} studied the performance of all the District Central Cooperative Banks in Tamil Nadu taking into account some financial indicators. It was found that deposits and loans of the bank have positive growth rate but the overdues of the banks are increasing. It may be due to poor recovery rate. It was suggested that the banks should try to mobilize more deposits from the untapped sources and should try to extend loans to uncovered sectors. The banks should take proper recovery proceedings and level of Non-Performing Assets should be brought down to maintain liquidity and profitability.

Singh (2006)\textsuperscript{21} evaluated the productivity and fund management of District Central Cooperative Banks (DCCBs) in Punjab. He investigated how far cooperative banks are able to carry out the social role assigned to them. The main findings of the study are that total deposits of cooperative banks grew significantly and loans increased at a significant pace. The Central Cooperative Banks (CCBs) show a positive growth in net profit. The cooperative banks have strengthened their financial margin and profits. The recovery performance of cooperative banks in Punjab is better than India level. On the whole, the performance of CCBs in Punjab has been higher than the all India average. But the CCBs in Punjab are yet to achieve the purpose of their establishment, i.e., relieving the farmers fully from the clutches of moneylenders.


Singh et al. (2007) tried to analyze the economic performance of District Central Cooperative Bank (DCCB), Raipur and its MandirHasaud Branch in Chhattisgarh state for the time period 1991-92 to 1998-99. The various parameters selected for analyzing the performance were number of borrowers, amount advanced, recovery and overdues. During the period of study, the number of borrowers and the number of advances had increased but at the same time rate of overdues had also increased. It was suggested that the overdue should be checked by improving the recovery performance of the bank. It was also suggested that there should be provision to convert the kind loan in cash if the farmers are reluctant to kind portion of loan; this will increase the level of recovery.

Y.VenuGopalaRao in his article, “Funds Management in Co-operative Banks – A need for new approach” emphasised the significance of funds management in co-operative banks in the context of globalization, liberalization and privatization of the financial system, consequent upon the implementation of Narasimham Committee recommendations. He pointed out that co-operative banks required a new approach for achieving higher productivity and profitability in the context of the opening of economy, application of prudential norms and deregulation of interest rates. The new approach should lay emphasis on mobilisation of resources at reasonable cost and deployment of funds at required yield so as to enlarge the interest spread and profitability. 

K.J.S.Satyasai and A.S. Patil, in their article, “Revitalising Rural Credit System” suggested three strategies to strengthen rural credit system namely\textsuperscript{24}

1. Recognizing the nature and significance of demand for rural credit.

2. Strengthening of organization and competence of the institutions and

3. Sensitising the regulatory and support systems.

Cappoor Committee 2000 suggested a package of measures for strengthening co-operative credit institutions such as increasing share capital base, reducing Government controls, professionalizing management, diversifying business, funds management, and so on.\textsuperscript{25}

Kulwant Singh, in his work entitled, “Co-operative Agricultural Credit Utilisation in Himachal Pradesh” found out that in recent years the requirement of agricultural credit had assumed significant dimensions due to the increasing thrust for development of new technology in the agricultural sector; the greater demand for the short-term, medium term loans and the large farmers utilizing the credit more than small and marginal farmers.\textsuperscript{26}

K.Jacob Samuel, in his study, “Agricultural Credit and Enhanced Productivity” revealed that the public sector banks, as purveyors of credit were required to lend full support to achieve the national objectives especially for the development of rural economy. Therefore the author stated that the banks


\textsuperscript{25} Jagdish Cappoor Committee Report, Urban Credit, Vol.XXXII, No.4, Dec 2000, pp.31-32

should play an important and meaningful role in achieving the production
targets by adopting well-designed credit management.²⁷

**The Annual Report of NABARD** pointed out the weakness of the
institutional agencies in providing rural finance in the following words. "The
National Bank recognizes that for the effective operation of its policies, a
financially sound and operationally efficient credit delivery system is
necessary. It has, therefore, been the banks’ endeavour to re-orient the
functioning of its client institutions viz. Commercial banks, regional rural banks
and co-operative banks towards the achievement of above goals."²⁸

**V.Rengasamy**, in his study entitled “Performance Evaluation of Tamil
Nadu State Co-operative Bank Limited” analysed the performance of the bank
with particular reference to deposit mobilization and lending and observed that
coop-erative credit was the hope of the farmers to provide the basis of
prosperity.²⁹

**The Khusro Committee** rightly felt that co-operative banks must work
as a total system and develop self-reliance. The higher tiers of the system must
look upon the lower tiers as mother institutions, from which they derive
strength and to which they, in turn, provide authority, leadership, guidance,
supervision and control. There should be mutual accountability, support and
responsibility within the system so that it may become cohesive and have an

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²⁷K.Jacob Samuel, “Agricultural Credit and Enhanced Productivity”, The Banker, Vol.35, No.12,
Sep 1989
²⁸Annual report, NABARD, Mumbai, 1992-93, p.29.
²⁹V.Rangaswamy, Performance Evaluation of Tamil Nadu State Co-operative Bank, Unpublished
organic relationship between its different tiers. There should be a commonly-shared interest in deposit mobilization, profits and reserves. “While self-reliance is a key to successful co-operatives, deposit mobilization is vital to self-reliance and mobilization of small savings, from as large a number of people as possible which is the desired strategy for deposit mobilization.”

Sakthivel and T. Aranganathan in their study stated that the services are a form of product that consist of activities, benefits, or satisfaction offered for sale that are essentially intangible and do not result in the ownership of anything. Examples are banking, hotel, airline, retail, tax preparation and home-repair services. Co-operative banks are promoted mainly to help agriculture and other activities. The weaker sections are provided more assistance by lending at a lower rate of interest than other commercial banks. The share capital of these co-operative banks is contributed by both the State Government and the public.

The Co-operative banks, like many other financial service agencies is facing challenges from a rapidly changing market, new technologies, economic uncertainties, fierce competition and more demanding customers and the changing. Intangible assets, particularly brands and customers, are criteria to any organization and in today’s competitive environment relationship marketing is critical to banking corporate success. Banking is a customer oriented service industry, therefore the customer is the focus and customer service is the differentiating factor.

Darling Selvi\footnote{Dr. V. Darling Selvi, "Lending to Agriculture: Scenario of Co-operative Banks in Kanyakumari District", Tamil Nadu Journal of Co-operation, April 2009.} in her study stated that the co-operatives in Kanyakumari district play a vital role in the credit scene, particularly, in rural areas. The co-operative department has to oversee the functioning of these micro-level bodies and ensure that they are following the lending norms uniformly. With the co-operatives also being drawn into the service area concept, the department has to ensure that their plans are properly presented. The co-operatives in Kanyakumari district has 114 Primary Agriculture Credit Societies, 16 branches and 5 Primary Land Development Banks or Societies. Agriculture is the backbone of India and the role of co-operatives in activating the activities of farmers is quite and encouraging. Despite the vast expansion of the formal credit system in the country, the dependence of the rural poor on moneylenders continues in many areas. Such dependence is pronounced in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small. For various reasons, credit to these sections of the population has not been institutionalized in practice.

2.3- COMMITTEE REPORTS AND CO-OPERATIVE MOVEMENT –

The Researcher has made an attempt to review the literature in respect of different committees like review committee, reports of the working groups, study teams on co-operatives etc. for detail study of the research work. Various expert committees were appointed to study the development of co-operatives
and to make the recommendations for the sustainable development of co-operative movement, from time to time, as and when the Government felt that something was wrong with the movement. At the time of independence two major committee’s were established namely- Agricultural Finance Sub-Committee under the Chairmanship of Prof. D.R.Gadgil, and Co-operative Planning Committee under the Chairmanship of R.G.Saraiya in 1945.

**Agricultural Finance Sub-Committee (1945)**

Under the Chairmanship of Prof. D.R.Gadgil, “the spread of co-operation would provide the best and the more lasting solution for problems of rural economy in general and that of agricultural credit in particular.” However, it was considered that it might not be possible for the co-operative movement to supply the entire credit needs of agriculturists. Therefore, it was recommended that state aid should be given in much larger measure than provided in the past so that the co-operatives might be enabled to supply better credit facilities.

Report of the Agricultural Finance Sub-Committee, 1945, P. 47.

**Co-operative Planning Committee (1945)**

Under the Chairmanship of R.G.Saraiya in 1945, recommendation was made that primary societies be converted into multi-purpose societies and that steps be taken to bring 30 per cent of the rural population and 50 per cent of villages within the ambit of the reorganized societies within a period of 10 years and 25 percent of the total marketable surplus or agricultural produce come under co-operatives. The committee also recommended that Reserve Bank of India should provide greater assistance to co-operatives.
All India Rural Credit Survey or Gorwala Committee (1954)

This committee was appointed by the Reserve Bank of India in 1951 to conduct a survey of facilities available in rural areas for providing loans to the agriculturists and to make necessary recommendations. The Committee submitted its report in 1954. After analyzing the various causes for unsatisfactory working of the movement, the committee concluded that “Co-operation has failed but it must succeed”. The committee recommended- A) an “Integrated Scheme of Rural Credit” involving three fundamental principles, namely- i) State participation at different levels, ii) Co-ordination of credit with other economic activities especially processing and marketing in the co-operative sector, and iii) Administration through trained and efficient personnel responsible to the needs of the rural population.


B) Suitable amendments were suggested to RBI Act and the establishment of a National Co-operative Development and Warehousing Board at the all India level.

C) The establishment of three special funds under the RBI was suggested- i.e. i) The National Agricultural Credit (long-term operations) Fund, ii) The National Agricultural (stabilization) Fund, iii) National Agricultural Credit (Relief and Guarantee) Fund. D) A crop loan system was to be evolved. E) The economic viability of the co-operatives at the village level was essential. Each village society should be revitalized and reorganized and be made really effective. These recommendations were generally approved and were made the basis for the future plans for development.
Law Committee (1956) –

Law Committee was set up by Government of India, under the Chairmanship of S.T.Raja. The committee submitted its report in 1957 and prepared a draft bill, which was forwarded to all State Governments for simplifying and liberalizing the provisions of co-operative laws and procedures, with suitable modifications to suit their local conditions. The law related to co-operatives, their responsibility of enactment and administration rested with the State Governments. After the committee report, many State Governments passed their new Acts.


Policy Resolution of (1958)

National Development Council (NDC) recommended radical reforms in the pattern of organization of societies at village level in its policy resolution of 1958 about co-operative movement. The policy of organizing large-sized societies was given up and the scheme of service co-operatives, organized on the basis of village community as a primary unit with the object of helping the members increase their agriculture production was introduced. The Policy emphasized linking credit with marketing for strengthening the co-operative movement and coverage of all villages and all rural families within a short period before the end of the third plan. Every agriculturist and rural worker should get advantage of co-operatives through the credit facilities.
Mehta Committee (1959)

The committee on Co-operative Credit gave its report in October 1960, with many important recommendations, to determine the question of viability, providing adequate finance and state participation at the primary level.


The Committee made suggestions to extend credit facilities to agricultural production. The committee also stressed that the co-operative societies should enlarge their internal resources, and enroll the creditworthy people and the marginal and sub-marginal cultivators, landless tenants as members, and provide them adequate credit on the basis of their production requirement and paying capacity. The RBI liberalized its credit limits for the Central Co-operative Banks. The pattern of organization of primary societies, was settled on the basis of the recommendations of the Mehta Committee on credit.

Committee on Consumers Co-operatives (1961) Was set up by National Co-operative Development and Warehousing Board to examine the promotional and organizational aspects of the consumer’s co-operative movement for ensuring sustainable development. Its main recommendations were organizing primary consumer’s stores, Government assistance for construction of godowns and contribution to share capital, cash credit from co-operative banks and establishment of National Federation of Consumer’s Stores etc.


Working Group on Industrial Co-operatives (1962) - In 1962, the Ministry of Commerce and Industry appointed the second working group on Industrial Co-operatives, called Working Group on Industrial Co-operatives, to review the present condition and to suggest targets during the Third Plan. The report was submitted in May 1963 with the recommendation of the setting up of new and revitalizing the existing industrial co-operatives strengthening weavers and handicrafts co-operatives and extension of credit facilities of Industrial co-operatives by co-operative banks and the formation of federations of industrial co-operatives. Special orientation of 2 to 3 weeks should be given to the officers in charge of providing technical, financial and other facilities to the industrial societies. The group estimated that 15,000 new societies could be set up with a membership of 15 lakhs during the third plan. It recommended utilization of 25% of small scale industries provision in the plan for the development of industrial co-operatives.

Committee on Taccavi Loans (1962) - The Ministry of Community Development and Co-operation, GOI, appointed the Committee on Taccavi Loans in July 1961, under the Chairmanship of Shri. B.P. Patel, to examine the
existing arrangements for the supply of taccavi loans to farmers and suggested such measures as would ensure effective implementation of the policy of routing taccavi loans through co-operatives. The committee submitted its report in August 1962.


As per National Development Council’s recommendation in November 1958, takavi loans and other facilities were made available to agriculturists through co-operatives. The Government of India therefore requested the State Governments to route takavi loans through co-operatives. The progress of implementation of this policy was not satisfactory as there were many organizational and administrative difficulties that stood in the way of its implementation. Patel Committee studied the problems and made recommendations. The Committee submitted its reports in September 1962. It recommended that co-operatives should keep their rate of interest within limits, i.e. about seven and half to eight per cent, depending upon the stage of development of the co-operative movement in the area concerned. It is also reported that there was very limited scope for the expansion of taccavi credit. Moreover, co-operative method of advancing loans was advantageous as it could command the local services and savings and provide opportunities for direct participation of beneficiaries. On the recommendation of the committee, The Government of India decided to channel taccavi loans through the co-
operatives. In the year 1960-61 the co-operative advanced about ₹202 crore of short and medium term credit whereas the government advanced only about ₹41 crore as taccavi.

On the basis of the recommendations of the Committee, the Government of India, in September 1963, presented a future policy to the state governments to accept co-operatives as the ultimate sole institutional agency for provision of agricultural credit, to implement the policy of routing taccavi loans through Co-operatives in a phased manner, and to strengthen the co-operatives in areas where they are weak so that they may ultimately take over the entire responsibility for provision of agricultural credit.

**Study Group on Transport Co-operatives (1962)** – In September 1962, under the Chairmanship of S.N.Bilgrami, the Minister of Transport, GOI, a study group was constituted to examine the scope for transport co-operatives, draw up a pattern of organization for such co-operatives, assess their financial requirements and suggest pattern of financial assistance. The study group submitted its report in May 1964 with some fundamental recommendations that the government participation in the share capital be up to 35% of the total share capital, government guarantee through co-operative banks, state and national level federation. It is also recommended that the organization of service co-operatives which may consist of at least ten different bus owners or fifteen truck owners with 25 vehicles in all, in order to undertake the work of booking agency, servicing, procurement and supply of spares, settlement of tax liability, co-operative insurance, training of drivers, attending of litigation of the members etc.


**Study Group on Panchayats and Co-operatives (1962)**

It was appointed by the Government of India, under the chairmanship of Misra S.D.W. to study and suggest measures to achieve maximum co-ordination between the co-operatives and Panchayats. Regarding the State Governments participation in the share of co-operative societies, the Working Group suggested that it should not be rated through the Panchayati Raj institution. However, Panchayats should have an important role in the promotion and development of co-operatives in their areas especially in respect of service co-operatives i.e. co-operative processing industries, fisheries, housing, labor, dairy co-operatives etc. It was also suggested that the panchayats should deposit their surplus funds with the service co-operatives having regard to local conditions. Panchayat should provide accommodation and adequate publicity for education programme of Co-operative Union. Generally, working group emphasized the necessity of these two institutions and their mutual relationship.

**Committee on Co-operative Administration (1963)** It was appointed in April 1963, under the Chairmanship of V.L.Mehta to review the departmental set up and to suggest recommendations strengthen to make stronger the departmental administrative staffs at various levels. The committee
recommended that the Registrar, Co-operative Societies, should be an IAS officer with two years training. There should be a Joint Registrar for audit, credit and banking, marketing and processing, industrial societies, forming societies and consumer societies.


It was also recommended that suitable training should be given to the departmental as well as institutional staff and orientation training should be given after every five to seven years. The pattern of organization of primary societies, which formed the base of the co-operative credit structure, was settled on the recommendations of the Mehta Committee on Credit.

**M.L. Dantwala Committee (1964)** — Government of India appointed a committee on co-operative marketing to review the pattern of organization of co-operative marketing and to give recommendations for ensuring sound and speedy development of agricultural marketing on co-operative basis. The committee gave its interim report in 1966 with the following major recommendations such as two-tire structure of marketing societies, apex societies at State level and primary societies at mandi level. State Trading Corporation and Food Corporation of India should purchase their requirements of agricultural production through it. The committee endorsed the recommendations for Fertilizer Committee (Sivaraman Committee) that the chemical fertilizers should be distributed through co-operative marketing society. The State Bank of India should give priority to meet the requirements of marketing societies.
1. GoI, Committee on Co-operative Administration, 1963.


**Mirdha R.N. Committee (1964)** - was appointed by the Government of India to suggest measures for proper development of the co-operative movement by eliminating non-genuine societies and vested interests. Assessing the size of the problem of non-genuineness in the co-operative movement, the report came to the conclusion that the movement was by and large moving in the right direction and that it would be wrong to magnify a few malpractices and come to a conclusion that the movement was replete with non-genuine societies. The committee however, gave certain suggestions to overcome a wrong type of tendencies i.e. co-operative training and education, regular audit of societies by an agency independent of Registrar, Government assistance etc. The committee also examined the factors hitting self-reliance and self regulation in the co-operative movement. After examining all the issues the committee made many useful recommendations including setting up of National Co-operative Bank to make the movement self-reliant.

**All India Rural Credit Review Committee (1966)** - Under the chairmanship of B. Vendatappiah, submitted its report in 1969. It recommended the entry of commercial banks into the rural credit system to “supplement” and not “supplant” the co-operative credit structure. According to the committee” a large number of Primary Agricultural Credit Societies are neither viable nor even potentially viable and must be regulated as inadequate and unsatisfactory
agencies for dispensing production oriented credit”. The committee laid emphasis on integrity, efficiency and the sense of dedication, functioning based on democratic and egalitarian principles and effective supervision.


The All India Rural Credit Review Committee had said, “The expanding area and scale of co-operative activity and its growing diversification made it necessary that co-operative banks should build up large resources by way of deposits”. The committee also prepared the ground for a multi-agency approach to agricultural finance.

**All India Rural Credit Review Committee (1969)** – The Government of India appointed the committee under the chairmanship of B. Venkatapillai. The main objective of the committee was to suggest measures for the reorganization of rural credit. The Committee found that there was a marked increase in the co-operative credit between 1951-52 and 1967-68 i.e. from ₹24 crore to 500 crore. However, there was a lag in dispersal of co-operative credit in the backward states of Assam, Bihar, Orissa, West Bengal, Rajasthan and Jammu & Kashmir. In other parts of the country too, there were weaknesses in co-operative banking system by way of low deposits, high overdue and general lack of business management. The Committee made the following recommendations- a) The establishment of Agricultural Credit Board, b) Setting up of a Small Farmers Development Agency, c) Creation of Electrification Corporation for the benefit of underdeveloped areas, d)
Formulation of a more active and much bigger role for ARDC, e) Adoption of various measures for ensuring the timely and adequate flow of credit for agriculture through co-operatives and through commercial banks.

1. GoI, All India Rural Credit Review Committee, 1966.

2. As per therecommendations, small farmer’s development agencies were set up in selected districts and Rural Electrification Corporation was also established in 1969. Most of the recommendations of the committee were accepted by the government and included in the Fourth Five Year Plan. SFDA, MFAL, were launched with active involvement of institutional credit agencies.

**P.R.Dubhashi Committee (1972)** - The issues addressed by the Committee were: a) Adoption of professional management, b) Extension of deposits and insurance, c) Quality of working- litigation pending, adjournment, hundred percent audit, security of loan proposals, documentation, loan recovery plan, grant of membership, maintenance of records, revision of bye-laws, Registrar’s power, court procedures, nature of appeals in the court, a common law for all types of Co-operative Societies, etc.

**M.K.Madhavdas Committee (1978)** - The Reserve Bank of India appointed this committee under the Chairmanship of M.K.Madhavdas, Executive Director of Agricultural Loan Dept. to examine and make recommendations on the working of Urban Co-operative Banks. The Committee submitted its report in July 1978 with the recommendations that-
Composition of Model Bye-Laws, providing finance to small scale industries, managerial aspects and self-employment etc. The committee also remarked that to fulfill the requirement of credit in urban and semi-urban areas urban banks are a good channel. With Urban banks are cheaper than the other banks working methods their are also easier.

1. All India Rural Credit Review Committee, 1969.


**Marathe Committee (1978)**2 – The Committee examined the issues of Development of Urban Co-operative Banks (UCB) as per their need, regional imbalance in development and the principle of one district one bank, branch expansion by the new UCB’s instead of by the old established UCB’s, encouragement of establishment of Women’s Co-operative Banks, utility of UCB’s for non-agricultural loans in rural areas as the basis for future branch expansion, survey at the national level to be taken by the Federation and Co-operative Dept. of the state to suggest measures to develop UCB movement in backward areas, measures for developing local leadership and expertise in the non-bank backward areas, liberalization to open new bank branches in the underdeveloped areas and licensing, viability and licensing criteria to be determined on the basis of population served in urban, semi-urban and metropolitan areas, minimum share capital and membership and the jurisdiction of UCBs rehabilitation of weak UCBs and RBIs power to issue licenses, inspection, measures to limit external interference, computerization, consolidation, mergers and liquidation etc.


**Khusro Committee (1989)**

The Agricultural Credit Review Committee under the chairmanship of A.M.Khusro was appointed by the Reserve Bank of India in August, 1986 to undertake a review of the rural financial system and to assess the credit requirements of the agricultural sector during the next decade. Khusro Committee submitted its report in August 1989. The committee recommended ceiling on lending rate of commercial banks on agricultural lending at 15.5 per cent, whereas in case of Primary Land Development Banks, it was suggested at 5 per cent and for the RRBs 8.65 per cent. According to the committee demand for credit was limited and more realistic as it was based on agriculturists' desire of borrowing from institutional and non-institutional sources. The Committee opined that the institutional credit has been extended to a very large number of borrowers, who are first generation members of the banking system with shifted loyalties from non-institutional moneylenders. But the moneylenders and other informal lenders have not yet gone away. The institutional credit system has still a long way to go. The Agricultural Credit Review Committee visualized that the direct demand for agricultural credit would rise from ₹27,557 crore in 1989-90 to ₹57,316 crore in 1994-95 and further ₹1,10,873 crore in 1999-2000 (@ 1984-85 price level). The committee also estimated that the deficits which
the credit system will have to find in order to meet the estimated demand will be of the order of ₹5487 crore in 1994-95 and ₹21,426 crore in 1999-2000.


2. It is also suggested in areas where RRBs are not economically viable they may be merged into sponsoring commercial banks. The Committee made projections related to the credit demand from agriculture and rural sector by the turn of the century. It has visualized that the rural credit system has two borrowing categories to be served:- the larger category of well to-do and the low income and socially weaker sections. The surplus generated in the economy as well as in the credit system from the efficient operation of the larger category should go to meet some of the cost provided some specific subsidies for the low income category. It also recommended the creation of National Co-operative Bank to function as national apex bank for all co-operative institutions in the country.

**Pant Committee (1990)** - The Ministry of Agriculture set up another Committee in October 1990 under the chairmanship of Pant J.C. (Additional Secretary, Department of Agriculture and Co-operation) to consider the implementation of the recommendations of the Agricultural Credit Review Committee (1989) for strengthening the co-operative Credit delivery system on
sound financial lines. To make each primary agricultural credit society viable the Committee suggested some action programme. The first step would be to train personnel working in co-operative banks in all aspects. The Committee also suggested that the personnel training would develop the total scope of activities necessary for increasing loan business, and deposit mobilization, and increasing the range of profitable activities, etc.


The committee advised that instead of a five year period for restoring the viability of primary co-operative credit society to a minimum business of ₹10 lakh per annum it should be phased over a period of ten years due to heavy financial commitment required to overcome the problem.

Committee on Organization of Co-operatives for Rural Poor (1990)2 – At the same time in October 1990 another committee was set up under the chairmanship of Sankam S.R. (Secretary, Department of Rural Development). The Committee submitted its report in June 1991. It explained that the co-operatives which engaged as organizations to protect the poor from economic exploitation were no longer helping them. As the result of that a bulk of the rural poor population was still dependent on private moneylenders. The committee suggested that the co-operatives should evolve a simple system of providing credit to the poor people, based on the in repaying capacity. The Committee suggested several measures for extending credit to the rural masses in general and to help specially women, rural labor and tribal in particular.
**BrahmPrakash Committee (1991)** - It was appointed to revise the existing co-operative laws for co-operative development through voluntary participation of the people. The Committee recommended a Model Co-operative Law in 1991 in order to make co-operatives self-reliant, autonomous and democratic. It was circulated to all the states with the advice to incorporate the same, as it ensured more power to the members, more participation and less government intervention in the affairs of the co-operatives.


2. GoI, Committee on Organization of Co-operatives for Rural Poor, 1990.

   However, there were some bottlenecks in implementing the recommendations because of the states unwillingness to share in costs and their reluctance to dilute state powers. Only nine states enacted the Mutually Aided Co-operative Societies Act, 1995:- Jammu & Kashmir, Uttarakhand, Orissa, Bihar, Jharkhand, Madhya Pradesh, Chhattishgarh, Karnataka, and Andhra Pradesh. The Central Government enacted the Multi-State Co-operative Societies Act, 2002 which was in line with the Model Act and came into force with effect from August 19, 2002. The main objectives of the Multi-State Co-operative Societies Act were to serve the interest of members in more than one state, to ensure the social and economical betterment of its members through self-help and mutual aid in accordance with the co-operative principles.

1. GoI, Brahmparaksh Committee, 1991
The Narsimhan Committee Report (1998) - The report of the Narsimhan committee was submitted on 24/4/1998. The Committee recommended closure of the branches which are running at a loss. Capoor Committee (2000) – The Government of India appointed the Jagadish Capoor Committee. The Committee recommended several points concerned with professionalization, business diversification, recovery management, human resource development, fund mechanism and setting up of a co-operative rehabilitation and development fund. Capoor committee also mentioned that the co-operatives have lost their democratic character and have become the government controlled bureaucratic organizations. The Committee suggested minimizing the good control and regulation for the sound development of the co-operatives throughout its own principles.


The Government of India announced the wide-ranging National Policy on Co-operatives in April 2002. Under the policy, cooperatives would be provided necessary support, encouragement and assistance so as to ensure that they work as autonomous, self-reliant and democratically managed institutions accountable to their members. Several internal and structural weaknesses of cooperatives, wide regional imbalances, and lack of proper policy support had neutralized their positive impact. This had necessitated the need for a clear cut
National Policy on cooperatives. The policy aims at ensuring the functions of cooperatives based on the Manchester statement of International Co-operative Alliance 1995. While upholding the values and principles of Cooperation, the National Policy recognizes the Co-operatives as autonomous associations of persons, united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The Co-operatives shall be enabled to set up holding companies, subsidiaries, enter into strategic partnership, venture into futuristic areas like insurance, food processing and information technology etc., and shall be independent to take the financial decisions in the interest of the members and the furtherance of their stand Under the National Policy on Co-operatives, The Government has to set up and carry out suitable programmes and schemes to build and develop co-operative institutions in the under developed states/regions with particular reference to the North Eastern States including Sikkim.

**A.Vaidyanathan Committee (2004)**-The Government of India constituted a committee under the Chairmanship of A.Vaidyanathan, known as Task Force on Revival of Co-operative Credit Institutions, to revive and revitalize the rural co-operative credit structure (CCS) Report of Task Force on Revival of Rural Cooperative Credit Institutions (in the Short Term Co-operative Credit Structure) was submitted in February 2005 and Report of the Task Force on Revival of Rural Cooperative Credit Institutions (in the Long Term Co-operative Credit Structure) was submitted in August 2006. The Committee suggested: i) an implemental action plan for reviving the Rural Co-
operative Banking Institutions, taking into consideration the main recommendations made by various committees in this regards. ii) to suggest an appropriate regulatory framework and the amendments to the relevant laws. iii) to make an assessment of the financial assistance that the Co-operative Banking Institutions will require for revival, the mode of such assistance, its sharing pattern and phasing.


iv) to suggest any other measures required for improving the efficiency and viability of Rural Co-operative Credit Institutions. The Committee discussed the reports of the previous to suggest measures for the strengthening of the cooperatives. The committee recommended that the co-operative credit societies and banks should be free of state control and an Andhra-style act should be passed in every state. The committee recommended that the shareholding by the state in individual co-operative institution should be reduced. The committee advocated freedom to the primary credit societies, to associate with any other credit institution such as a commercial bank. The sub group of the Task Force headed by U.G.Sarangi felt that the revival strategy needed to be premised on a strong legal and regulatory framework. Accordingly, a sub-group was constituted under Rama Reddy to suggest amendments to the Banking Regulation Act, State Co-operative Societies Act, and Mutually Aided Co-operatives Societies Act. Suitable amendments to the BR Act and certain provisions in the NABARD Act are also contemplated.
NABARD has been designated as the Implementing Agency for implementing the Revival Package in all the states. The „Department for Cooperative Revival and Reforms” (DCRR) has been constituted in NABARD for the purpose. NABARD is providing dedicated manpower at the national, state and district levels for implementing the Package. Government of India announced in the Union Budget 2008-09 that the Central and State Governments have agreed upon a Package to implement the Vaidyanathan Committee report on reviving the Long Term Cooperative Credit Structure (LTCCS). The implementation has begun in 25 states.

**Radhakrishana R. (2006)—** The Expert Group on Agricultural Indebtedness was set up in August 2006 under the chairmanship of Radhakrishana. The Group came out with a large number of recommendations covering immediate credit measures, financial architecture, institutional architecture, risk mitigation and other measures. The Expert Group observed that the indebtedness of farmers is largely due to the fact that agriculture depends mainly on the monsoon. Second, though agricultural credit has increased manifold, most of the farmers depend fully/partly on non-institutional sources where the rates of interest are quite high. Third, the dominance of middleman often prevents the farmers from getting remunerative price for their produce. Fourth, the farmers do take loans for special functions or medical expenses from money-lenders which do not yield income and the interest rates are high leading to indebtedness. The Expert Group recommended
rearrangement of loans in the case of natural calamities like floods, cyclone, drought. It suggested waiver of interest liability for the extended period of the loans. The Expert Group suggested constituting a high level committee to evaluate crop insurance scheme.


2. As regards crop insurance, the Agriculture Insurance Company (AIC) needs to increasingly rely on space imagery for village-wise crop data and consider using surveyors where necessary for assessing crop loss (village-wise) to make crop insurance a better product. It was also observed that production co-operatives, federation of farmer’s SHG’s and other forms of collectives would enable the farmers, to participate in value addition activities like marketing and processing, there are no specific recommendations on how to implement this. However, national level organizations like NABARD, National Co-operative Development Corporation, Indian Farmer’s Fertilizer Co-operative support such formation.

Expert Group noticed the decline in the share of co-operatives in total agricultural credit from 74.90% of short-term credit in 1975-76 to 33.2% in 2005-06 and from 61.2% of long-term credit to 6%.

REVIEW OF BOOK LITERATURE

Saxena K.K. (1974)\textsuperscript{33} “Evolution of the Co-operative Thought” is a comprehensive study. In the study the author focuses on the dynamic character of the principle of co-operation and assigns co-operation the status of an emerging economic system. This book is divided into three parts. Part one is concerned with the beginning and the foundation of the co-operation and Rochdale co-operative philosophy. Part two is concerned with the emergence of co-operation as an economic system and needs reformulation and for that purpose the author emphasized that co-operators should build up their own political philosophy. in part threeSaxena explained that co-operatives have to recognize that they cannot eliminate all competition. from private enterprise and large capitalistic concerns For this challenge international co-operation among co-operatives is most important.

MazwellGezald, Schmitt David R. (1975)\textsuperscript{34} 2 - The book presents the results of six years of systematic research designed to uncover the factors that slow down, maintain or promote co-operation. The Author used the results of some thirty interrelated experiments, most of which employed courageous reproduction procedures. In the study authors used two methods emphasized the


factor that inequality would reduce levels of co-operation. The second method explained the strong effect of interpersonal risk on co-operation. Finally, the authors investigated several factors which reduce the inhibitory effects of risk i.e. open channels of communication, useable working systems, partner’s visibility and external invocation of moral norms without successful invocation of group commitments.

Bedi R.D. (1971)\textsuperscript{35} 1 - In a comprehensive study of co-operative movement under the title Theory, History and Practice of Co-operation.” The author studied not only Indian co-operative movement but also gave some examples of success in other countries of the world. The study is divided into four parts i.e. Theory of Co-operation, Co-operation in Foreign Countries, History of Co-operative Growth and Co-operation in India. Part one deals with economic organizations, co-operation; their definition, principles, types, co-operation and State aid etc. Part two is dedicated to the success of co-operative movement in foreign countries, This is useful for Indian Planners to formulate plans, polices and practices for a sound development of co-operative movement. Part three consists of History of Co-operative Growth in India (pre-independence development and co-operation in the planned economy). Various study groups and committees, were studied in this part of the book. History of co-operative growth in India is presented along with available statistical information of co-operative credit societies, service co-operatives, marketing,

processing, warehousing, housing, farming, consumer’s stores etc. Finally the author examined the progress of co-operative movement, managerial and operational aspects of the co-operative organizations at all levels. The study shows the correct path to follow on the previous historical background which is necessary for the sustainable development of the co-operatives in India.

Catanch I. J. (1970)\textsuperscript{36} 1 - The book studied the rural credit and the co-operative movement in Bombay Presidency during the period of 1875 to 1930. The author deals with the Deccan Riots and Deccan Indebtedness (1875 and 1904), the first outbreak of rioting against moneylend. The Deccan Riots Commission felt that there were two possible ways of dealing with the problems of agricultural indebtedness. One was to put checks on the activities of the moneylenders; the other was to compete with them in the provision of credit. As a result the Government of India passed “Deccan Agriculturists” Relief Act”, 1879. For the provision of credit, Land Improvements Loans Act, 1883 and the Agriculturists Loans Act, 1884 were passed by Government of India. At the end of 1890 and the beginning of 1891 Nicholson wrote a series of articles for the Madras Weekly Mail proposing the setting up of Raiffeisen. Finally the Co-operative Societies Bill was passed on 25th March 1904. The study is concerned with the evolution of administrative history, policy and politics of time with the personal tricks of officials, but it reaches down to the grassroots. He made a special study of non-official co-operative leadership in

western India at a time when leadership was increasingly affected by nationalist politics of caste challenge.

**Goel B.B. (2006)** - Stated that the Indian co-operative movement is probably one of the largest, strongest and the oldest in the world with widespread spatial coverage, diversified business activities and plentiful success stories. The co-operatives are structured around the Rochdale principles and Raiffeisen model. Since the officially sponsored Act of 1904, the movement has passed through a number of phases such as speedy and hurried multiplication of societies, rehabilitation and amalgamation, functional and structural differentiation at all levels. These have a tremendous role in harnessing natural resources (irrigation co-operatives in Maharashtra), physical and social infrastructure (education, health), technology upgradation (artisans, tools, bio-fertilizers, and pests), etc.

Understanding the key role of the co-operatives in the economy author explained that co-operatives have been organized in areas like- credit, marketing, distribution, dairy development, industry, sugar, handlooms, labor, housing, poultry, farming fishery etc. Co-operatives also contributed a lot in the success of Green, White and Yellow Revolution and implementation of sugar, fertilizer and spinning and in debt complexes. The author explained that the co-operatives are working at various levels with the help of National Co-operative Development Corporation (NCDC) as the leading development financing

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institution with huge training infrastructure to promote sustainable development in India. The book is a comprehensive volume, which systematically described co-operative scenario and administrative framework followed by an analysis of the genesis, growth, various provisions, drawbacks and limitations of Co-operative Legislation both at State and Union Levels.

**Singh Balwinder (2000)** In this book the author evaluates source-wise and farm stratum-wise nature and extent of credit. The relationships between credit and area under cultivation, area under HYV, use of fertilizers, productivity and concentration of resources have been examined in the study. Author examined that the Green Revolution has disappeared gradually in India. The peasantry is in crisis because of less remunerative nature of farming. As a result, the issue of indebtedness of the peasantry has risen. Author provided the statistical information of the case study of Punjab. The growth of rural institutional credit across the peasant strata and the change in the pattern of distribution of this credit is also studied. Further the author states even after three decades of nationalization of bank, the main sources of credit for farmers is still the private moneylenders.


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contains twenty three chapters to touch every aspect of the economy. Indian economy is an agrarian economy where more than sixty percent of population depends for its sustenance on agriculture. The authors think that there is still vast scope for the application of co-operative activities. The authors suggest that the cooperatives can do their best to free the cultivators from the clutches of moneylenders and to get them the best price for their product and to improve their living standard. The authors suggest that if the face of rural India is to be changed, co-operation in its various phases must permeate deeply into the life of Indian villages for co-operation is very important for the very existence of Indian agriculture and their emancipation from the present situation.

Suresh K.A., and Joseph Molly (1990)\(^4\) In this book the authors made an attempt to analyze the different rural development programme implemented by the Government of India. The role of the co-operatives under the five year plans and the major types of functional co-operatives as agents of rural development are examined by the authors with a historical background. The authors studied credit co-operatives of Kerala, one of the most leading States in co-operative movement in India. The authors have studied the various factors which affect the functions and performances of co-operatives.

Co-operatives are rarely functioning on co-operative principles they do not act as an effective instrument of social transformation. Analysis of impact of co-operative credit on production has revealed that the supply of credit was

inadequate to meet the production needs, a portion of the limited supply of credit is diverted and finally whatever is used for production has no statistically significant impact on income Only 1.19% of beneficiaries hailed from low income group who received about 0.64% of total loans disbursed. The Authors focused on several organizations involved in rural development such as government, co-operatives, voluntary organizations, commercial banks, industrial houses The Author explained that most of the programmes are welfare programmes without any impact on income and employment directly. Success stories of co-operatives like Amul, IFFCO, Warna, etc. showed that they are simultaneously working on the basis of sound canons of business and organizational objectives

_Bhujimal Anil (2003)_ - The book discussed rural co-operatives and their impact on the rural economy. The Indian farmers needed credit for agricultural purpose which was available from the private moneylenders, at an exorbitant rate of interest. Naturally it was beyond the reach of agriculturists. But Government loan was available only to a very limited extent. In order to meet the credit demand of the farmers at a soft rate of interest, Indian Government passed the Co-operative Societies Act to overcome the problem. In various countries co-operation has been used as an institution and instrument of economic development. The co-operative societies in rural sector played a big part in America, Western Europe and even in Israel to raise the level of productivity in agriculture and in turn assist in the process of reaching the high growth in the respective national economies. The author presented three case
studies to explain the activities of such societies in the rural India and their consequent impact on the economy. First case study explained the impact of a limited liability society, second case described the impact of an unlimited liability society and the third presented the impact of agricultural marketing society on rural areas of West Bengal. Author stated that co-operatives have played a significant role as an instrument of economic growth, and social and economic changes.

**Swami H.R. and Gupta B.P. (2006)**—The authors explained that India is a country of villages (near about 7.5 lakh villages). A vast majority of the population (72%) of the country live in villages. Sixty per cent working population of the country is dependent on agriculture and its allied activities for livelihood. The rural economy is the main base of Indian economy which contributes 18 per cent share to the national income. The author presented his study in three sections. The first two section a searching analysis of many aspects of rural development, especially concept, significance, current issues and strategy of development as well as various rural development schemes, role of NGO’s etc. The third section consists of various aspects of co-operation such as concept, principles, origin of the co-operative movement in India and abroad, and co-operation during planning period etc. The socio-economic problems such as poverty, unemployment, indebtedness, population explosion, low productivity, disparities, illiteracy, etc. can be solved. In the book author arrived at a conclusion that the country (India) can achieve the target of
sustainable development only through rapid rural development with the help of co-operatives, particularly under the conditions of globalization.

**Review of CRM in banking industry**

CRM is an interdisplinary subject; this cannot be studied in isolation. Before making any single move towards improvement propositions, it is worthwhile to first understand and analyze the current and future trends. The literature on Customer Relationship Management in the Banking Industry of developed countries points towards the wide use of all financial services under one roof and the customer is more benefited in the long run. Though the initial acquisition cost exceeds gross margin the subsequent retention costs are much lower which help in increasing the profits. The research findings of Technical Assistance Research Project state that 95% of customers do not complain. Adissatisfied customer tells around 14 people about service failure, whereas the same customer tells only around six others when he receives excellent service. This portion highlights major review developments related to CRM relevant for the study.


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1. **Percentage of highly profitable customers retained.** What some banks have done is to identify the tier of customers that represent the most profitable and keep them happy. They are identified as a top-tier customer to every employee that inquires on one of their accounts. They have a relationship manager. And the bank has a report that shows not only how many of them have left, but how many of them have increased the size of the relationship.

2. **Percentage of customers that have moved from one product to two or more.** Some banks have said they will track how successful they have been in taking one-product customers to a second or third product. It shows how well sales and service efforts have been in getting something else from the customer who might have been with the bank for years.

3. **The percentage of business customers who have moved their personal relationships.** Some banks have two categories — “Business-only right now” and “Have both” — and actively track and publish the success in increasing that number. As with the other campaigns/targets, this progress is tracked and published.

4. **Core account open/closed ratio.** Results show on average, four accounts close for every five that open. This shows that sales/service culture is inefficient. Many have isolated core relationships (checking, savings) and targeted a reduced closure rate.
5. **Percentage of customers who use multiple channels.** A growing body of evidence shows that customers who use multiple channels (physical, phone, internet, mobile) stay with the bank. For years, banks tried to get people to use self-service channels because it was less expensive. Now, some banks are measuring this for another reason – customers who are as happy with the experience provided by a second channel as they are with that of their primary channel stick around. One key to this strategy is that they have front-line employees who can talk about and sell the idea of non-branch channels authoritatively.

**OVERVIEW OF CUSTOMER RELATIONSHIP MANAGEMENT**

As mentioned in chapter 1, the researcher has made an attempt to study the CRM in TNSC Bank along with the financial performance and operational efficiency of the Bank. Hence, the review of literature of CRM is also examined in this chapter.

CRM is an important business approach because it can enhance a company's ability to achieve the ultimate goal of retaining profitable customers and gain advantage over its competitors. In principle, CRM focuses on building long-term and sustainable customer relationships that add value to customer and the company. It is regarded as a process of computerizing a staff member's knowledge of his or her customers because customer relation staff would normally need to remember their clients' requirements, behaviours, tastes and preferences in a usual business process.
There is no universally accepted definition of CRM and this chapter intends to present a comprehensive review of research on CRM definitions and methodologies, so that gaps in the literature are identified and further work can be done to address these gaps.

This literature review on CRM is structured into six main sections, which together provide an evaluation of the knowledge base upon which this study is founded. The first part presents the idea of some major terminology in relation to maintaining customer relationship so as to avoid confusion to readers. Moreover, the evolution and definition of RM are examined because CRM is believed to be philosophically based on RM and is indeed a technologically based manifestation of CRM. Thirdly, a review of the roots and definitions of CRM is conducted. The academic and commercial perspectives are also examined and these will be synthesized to provide a definition suitable for this research. Customer relationship management is a strategy that can help an organizations build long-lasting relationships with their customers and increase their profits through the right management system. In addition, the difference between CRM and database marketing is presented. The chapter moves on to develop a CRM definition which is to be used in this research so as to have a consistent understanding of CRM in the IV chapter of the thesis.
2.2. Terminology related to managing customer relationship

Relationship Marketing, Relationship Management, Customer Relationship Marketing and Customer Relationship Management have been used when people talk about maintaining relationships with customers or business partners; the definitions of some of them are actually very close to each other. This section will clarify the use of the terms in the literature before moving into detailed discussions.

Relationship Marketing emerged at the end of the 1970s in different research areas and in several different countries independently. The concept emerged in services and business-to-business research. Berry (1983) defined relationship marketing as “attracting, maintaining and – in multiservice organizations – enhancing customer relationships” (p.25). He advocated a number of relationships strategies, including a core service strategy, customization, relationship pricing, and internal marketing.42

Recently, Customer Relationship Management appears in the areas of marketing as an expansion in the domain of relationship marketing. It focuses on customer retention and relationship enhancement. The detailed evolution and definitions of both terms will be covered in sections three and four.

Relationship Management has developed as researchers suggested that there should be a well-coordinated relationship management effort and a

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facilitating company-wide philosophy in place if firms are to succeed in their relationship development efforts. For example, Ford et al. (1998) demonstrate that relationship management is the most critical marketing challenge, particularly in a business-to-business situation where firms are often reliant on a small number of customers and suppliers.

The concept of Customer Relationship Marketing has become one of those “born again” marketing terms to be found on the lips of every marketing manager. It is often associated with phrases that seem to boost the concepts of “one to one marketing” or “marketing to a segment of one”. Customer relationship marketing is defined, for example, as an enterprise-wide commitment to identify named, individual customers and create a relationship between a company and these customers so long as that relationship is mutually beneficial (Gamble et al. 1999).43

There is often a tendency to use the terms ‘relationship management’ and ‘relationship marketing’ interchangeably. Some commentators see them as essentially the same activity. Others suggest that there is difference. Relationship marketing is a form of marketing developed from direct response marketing campaigns conducted in the 1960s and 1980s which emphasizes customer retention and continual satisfaction rather than individual transactions and per-case customer resolution. In summary, the contemporary definition of marketing defined by the UK Chartered Institute of Marketing is “the

43 Gamble, P.R., Stone, M., Woodcock, N. and Foss, B. (1999), Customer Relationship Marketing @ work, London and Sterling, VA.
management process of identifying, anticipating and satisfying customer requirements profitably”. Relationship marketing draws on traditional marketing principles and represents all marketing activities directed towards establishing, developing and maintaining successful relational exchanges. As new customers are difficult and costly to get, it is sensible to retain existing customers. Customer Relationship Management appears to be one of the most sought after topics. Knowledge in the areas of relationship marketing, and services marketing are particularly relevant to manage customer relationship in effective ways.

Sheth, JN and Parvatiyar, A (1995) Have argued that Relationship marketing has been around for a long time and that marketing is all about relationships. While there may be some truth in this argument, It was only during the 1980’s that RM started to be used in a formal sense in industrial and services marketing, and the application of the concept in consumer markets came much later. Throughout the 1980s, RM was largely ignored by consumer markets as the domain was considered to be both conceptually and contextually different. In 1995, Sheth and Parvatiyar justified academic interest in B2C relationships, arguing that the paradigm shift from transaction to relationships was related to a move to a more direct interaction, both in B2B relationships and B2C relationship contexts. They also proposed that it was possible to apply relationship marketing to consumer markets; that consumers and organizations both wanted relationships; and that customer participation in loyalty programmes was an evidence of this. It was argued that customer retention
costs much less and is comparatively much more profitable than focusing on customer acquisition. Hence, marketing practitioners were already engaged in a form of RM – often in the form of loyalty or retention programmes. RM became increasingly popular throughout the latter part of the 1990s and, is still hugely popular today.44

For instance, RM is concerned with the long term relationships in contrast to the short term instant gains on sales achieved with the direct marketing efforts RM has a greater range of techniques to be used than direct marketing. CRM is considered to be a “bottom up” approach while direct marketing could well be a “top down” approach CRM also looks at the possibility of finding the right products for customers while direct marketing looks for customers for the products in the transaction CRM is also different from loyalty marketing and loyalty programmes because the concept of “learning” would be a very important objective of the CRM process Building on the discussion on the development of relationship marketing, the next section now moves on to summarize the definitions of relationship marketing.

2.4.1. Evolution of CRM

Because of the complexity and broad definition of relationship marketing, Coviello et., al, (1997) conducted a conceptual study in order to develop a classification scheme to systematically examine the meaning of marketing by analyzing the extant literature. Two perspectives were identified,

encompassing four distinct types of marketing. These are: Transaction marketing involves four operational functions (product development, pricing, promotion and distribution).

Ling and Yen (2001) pointed out that CRM is a normal and expected extension of how marketing and sales have evolved over the years. In the past, the door-to-door salesperson was the other face of the company and the personal relationships established by the salesperson were the key to success. The age of mass marketing then replaced the intimacy of a direct sales force in many organizations. This put pressure on the relatively inefficient door-to-door models. Mass marketing was enabled through technological improvements on TV, radio and the press, all of which created a simple and powerful means to communicate a company’s message to millions of people at once. Target marketing then recognized the need to interact more with customers at a very superficial level without going far enough. It is a significant step in the evolution of today’s CRM in that it moved the relationship between producer and consumer one more step towards a personal interaction. CRM is therefore the subsequent stage in the evolution, and it moves us back into the direction of developing intimacy with today’s customers, using today’s tools and maintaining our mass production and distribution systems. Table 2.1 summarises the comparison of different phases in the evolution.\footnote{Ling, R. and Yen, D (2001),"Customer relationship mgt: an analysis framework and implementation strategies", Journal of computer Information systems, Spring.}
Besides reviewing the scope of previous research on CRM adoption, research methodology about CRM has also been reviewed. It is the essential information needed for proposing a suitable research methodology for this research. It was discovered that there is lack of research with hypothesis testing of theoretical framework on CRM. Up to 2002, Romano and Fjermestad (2002) reviewed over 400 CRM articles; they found that overall one less article was empirical than no empirical, highlighting a majority of the work is conceptual in the CRM area. It also shows that a large percentage of the papers dealt only with ideas, framework, and speculations rather than with direct observations. They have asked different individuals to classify the literature and the agreement of the interpreters’ results shown by Kappa is significantly greater than zero (K=0.9916, Z=41.37). Perfect interpreter reliability is equal to 1. Therefore, it should be reliable evidence according to my observations.\(^{46}\)

The third category of CRM adoption research is mainly about the information technology for supporting the CRM application. Most of those researches are found in the information system journal. For instance, O’Leary, Rao and Perry (2004) suggested that integration of the internet and database marketing enhances the effectiveness of customer relationship management practices. Light (2003) investigated the impact of CRM package software on organizations. Park and Kim (2003) proposed a framework for CRM for

linking the marketing with information strategy. Detail procedure for customer segmentation using customer information system was demonstrated. 47

The research could be grouped in three main categories. The first category is mainly about the implementation issues of CRM adoption. Successful and unsuccessful cases of CRM the impact of CRM adoption are discussed in that research. CRM also showed that the need for effective leadership, sourcing, targeting and evaluation within CRM strategies. suggested that successful implementation of CRM requires firms considered issues of customer trust/privacy carefully as customer trust could significantly undermine CRM activities. If customers lose trust in firms and believe that their data are used by firms for purposes of exploiting them, consumers will tend to keep their data private. Nguyen (2007) studied the strategies for successful CRM implementation. He suggested that failure to obtain and maintain executive support for CRM project and failure to align key internal functions or business units on goals and mission of the project are factors leading to successful implementation. Management must make sure that they have done research in both the industry’s best practices and the adoption capability of their organizations in the new application. In a survey of CRM implementation related experiences in US firms done top management’s attitude toward CRM is suggested to be a factor associated with perceived success of CRM initiatives. There are also a number of criteria that firm could use to evaluate the success of a CRM initiative including customer retention and satisfaction, revenue

growth, improved information and insights, quantifiable cost reduction and improved employee productivity. Furthermore, a quantitative study was done to investigate the relationship between the CRM applications and business performance. They discovered that CRM application has a positive relationship with both return on investment (ROI) and company profitability.

Xu et al, (2002) define CRM as “an embracing approach, which seamlessly integrates sales, customer service, marketing, fieldwork support and other functions that touch customer.” By using this approach, the relationship with all customers including distribution channel members, internal customers and suppliers is maximized. Hence, CRM is related to how an organization keeps their most profitable customers and reduces costs and increases the value of interaction to maximize the profits.48

Ling and Yen (2001) suggest that CRM does not have a crystal-clear definition academically, although it used. They conclude that the most important aspects in a definition of CRM are the value of customer, a holistic approach, and technology empowerment. The customer-centric focus is the essential theoretical foundation of the CRM strategy. As the ultimate CRM impact is realized when relationship knowledge is utilized, along with relationship actions to deliver individualized products and services, they therefore point out that the last definition seems the most appropriate.49

Payne and Frow (2005, p.168) defined CRM as “CRM is a strategic approach that is concerned with creating improved shareholder value through the development of appropriate relationships with key customers and customer segments. CRM unites the potential of relationship marketing strategies and IT to create profitable, long-term relationships with customers and other key stakeholders.” It requires a cross-functional integration of process, people, operations and marketing capabilities that is enabled through information, technology and applications.\textsuperscript{50}

Sin et al. (2005, p.1266) Have a similar definition to Parvatiyar and Sheth (2001) about CRM. They defined CRM as “a comprehensive strategy and process that enables an organization to identify, acquire, return and nurture profitable customers by building and maintaining long-term relationships with them.” It was suggested the core theme of CRM and RM involves around its focus on individual buy-seller relationship. They presented CRM as a multifaceted strategy consisting of four broad behavioral components:

1) key customer focus, 2) CRM organization, 3) knowledge management and 4) technology-based CRM.\textsuperscript{51}

Injazz and Karen, (2004, p.673), define CRM as “a coherent and complete set of processes and technologies for managing relationships with current and potential customers and associates of the company, using the


marketing, sales and service departments, regardless of the channel of communications.”

Parvatiyar and Sheth (2001, p.5) defined CRM as a “comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value.”

Ryals and Knox (2001) suggest that the philosophy bases of CRM are a relationship orientation, customer retention and superior customer value created through process management. IT is the “glue” that holds these together and enables the whole to be operationalized. In consequence, the successful implementation of CRM requires Marketing and IT to work closely together to maximize the return on customer information. Scott, in 2001, defined CRM as “a set of business processes and overall policies designed to capture, retain and provide service to customer.”

McDonald (2000) suggests that CRM provides management with the opportunities to implement relationship marketing on a company-wide basis.

However, for CRM to be successful, all of these activities need to be managed in combination.\textsuperscript{55}

Then, in 1997, Kutner and Cripps pointed out that CRM is founded on four relationship-based tenets: Customers should be managed as important assets; customer profitability varies; not all customers are equally desirable.

Customers vary in their needs, preferences, buying behavior and price sensitivity. By understanding customer drivers and customer profitability, companies can tailor their offerings to maximize the overall value of their customer portfolio.\textsuperscript{56}

**RESEARCH GAP**

This chapter has overviewed both literatures of CRM and performance evaluation and efficiency of finance in the bank and cooperative banks, which no researcher has attempted to study to understand and examine the overall performance of the bank. The researcher overviewed the CRM also, as it has become an important key to the customers now-a-days.

The roots and definitions about relationship marketing and customer relationship management were reviewed. Key literature review papers about customer relationship management have been referenced. In order to fill the gaps in the literature, this research intends to investigate the factors affecting CRM adoption.
