

Financial Performance of Dindigul Urban Cooperative Bank: A Case Study

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Abstract: Cooperation is one of the economic miracles of the 19th century. It is a form of economic organisation based on certain human values. It is a "voluntary and democratic association of human beings based on equity (of distribution), equality (of control and opportunity) and mutuality for the promotion of their common interests as producers or consumers". Generally speaking, cooperation means living, thinking and working together. In this sense co-operation existed even before the existence of man. Urban cooperative banks (UCBs) are one of the vital segments of the banking industry of India. They essentially cater to the credit needs of persons of small means. Cooperative Banks are organized and managed on the principals of cooperation, self-help, and mutual help. These have been playing imperative role in Indian financial system with broad network in both urban and rural areas. Present study aimed to study the financial performance of Dindigul urban cooperative bank through membership position and working capital performance. It found that the negative trend in membership position and working capital the first half of the study period after stable in membership position and positive growth in working capital holding.

Keywords: financial performance, working capital, membership position, urban cooperative bank.

Introduction

Economic development involves not nearly economic change but also social and Institutional changes. For more than few decades, the development process has been associated with the challenges of persistent poverty, unemployment, degradation of natural resources and so on. In recent decade accelerated economic growth brings with it social progress that is, increase in mass well-being, expansion of employment and reduction in income disparities are possible through public participation. Both State and Central Governments framed and implement number of action programmes and policies. Cooperative banks are acted as a main mode to transfer the funds to grassroots level in terms of credit.

"A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise". Cooperatives as business enterprise possess some basic interests such as ownership and control but these interests are directly vested in the hands of the user. Therefore, they follow certain broad values other than those associated purely with profit making. Need for profitability is balanced by the needs of the members and the wider interest of the community. The values universally recognized as cornerstones of cooperative behaviour are self-help, democracy, equality, equity and solidarity. Voluntary and open membership, democratic control, economic participation, autonomy, training and information and concern for community are the overarching features by which the cooperatives put their values into practice.

Working Capital Management is concerned with the problems that arise while the finance manager attempts to manage the current assets, the current liabilities, as well as the inter relationship that exists between them. As per 2011 census, about 68.8 percent of the population resides in rural areas, depending directly or indirectly upon agriculture for their livelihood. There are so many problems in agriculture but credit facility is a major problem in rural area. In many developing countries, it has been found that the rural credit market is imperfect in nature. There are substantial variations in the availability of formal credit in rural urban locations (Laha and Kuri, 2011). Cooperative banks are the major part of both rural and urban area; they are providing the source of money to the masses, which will easily available for their needy time. The present article aimed to understand the financial performance of urban cooperative bank of Dindigul district.

The role of financial development is an issue of great interest in the analysis of the determinants of cooperative firms' growth, as it interrelates with a research topic of more widespread interest - the financing of cooperatives which has received considerable attention in the economic literature. Although there exists an almost unanimous consensus in considering internal financing neither sustainable nor efficient, scholars do not reach a likewise agreement when it comes to evaluating the effectiveness of external channels in satisfying the financial needs of cooperatives. The mixed results existing on this issue represent the main motivation that inspired this work.

On the one hand, mainstream contributions conclude that accessing external financing entails a series of problems for cooperative firms, which result in credit rationing and higher cost of capital. These constraints not only hinder cooperatives' growth prospect, but also, more severely, interpose obstacles to their creation, functioning and survival (Vanek 1977; Putterman 1982, 1993; Levin 1984; Ben-Ner 1988; Drèze 1993; Dow 2003). On the other hand, studies belonging to the more recent institutionalist debate argue that in the presence of supportive institutions, finance might not be a concern for cooperatives (Estrin and Jones 1988; Bonin et al. 1993; Smith 2001; Mathews 2002; Stiglitz 2004). Moreover, these contributions tend to stress that since in several countries cooperative firms still represent a long lasting and significant phenomenon, this signals that - at least in certain cases - the financial matter has been governed and concretely tackled (Zevi 2005), probably thanks to the existence of supportive financial institutions (Smith 2001).

History of Cooperatives in India

Cooperative movement in India has celebrated its centenary year of service recently. Indian cooperatives are unique as they were initiated and supported by the government. Elsewhere it had always been organized only by volunteer members with least or no government intervention. In India it was introduced in 1904, as the planners of the country firmly believed that it could serve for national development and also could serve as a shield in protecting the vulnerable section of populace, especially the farmers from certain social evils like agricultural backwardness, poverty and rural indebtedness.

Though they were initially organized only as the credit institutions, Indian cooperatives today, tirelessly serve in endless areas of services. They serve in credit and non credit areas. They deliver credits for agriculture as well as non agriculture purposes. They operate their businesses in numerous non credit phases too. They work for milk producers, agricultural producers, weavers, consumers, fishermen, coir makers, employees, students of universities and colleges, and for many others.

Important Segments of Indian Cooperatives

The following are the major segments of cooperatives in Indian scenario.

- Cooperative education and training
- Agricultural credit cooperatives (production)
- Agricultural credit cooperatives (investments)
- Non agricultural credit cooperatives (urban banks)
- Cooperative marketing
- Tribal cooperatives
- Fertilizer cooperatives
- Consumer cooperatives
- Weaver cooperatives
- Sugar cooperatives
- Cooperative spinning mills
- Industrial cooperatives (non weavers)
- Dairy cooperatives
- Fisheries cooperatives
- Housing cooperatives
- Labour cooperatives
- Poultry cooperatives

Important Features of Urban Cooperative Banks

The following are the few important features of urban cooperative banks in India.

- Important part of the financial system in India.

- democratically controlled,
- provide need based quality banking services,
- Essentially cater to the middle and lower middle classes and marginalized sections of the society.
- Procedural simplicity
- Close contact, informal atmosphere and local involvement
- Dual control, with a part of the powers vested in the State Government and a part with Reserve Bank.
- Heterogeneity among the banks in this sector in terms of size, geographical distribution, performance and financial strength
- Diversity among the cooperative banks in the levels of professionalism, standards of corporate governance and access to advanced technology
- Consequent upon the easing of licensing norms in May 1993, more than 800 licenses were issued for setting up urban cooperative banks. However, close to one-third of these newly licensed UCBs became financially weak within a short period. Today, there are evidences which clearly point out the weaknesses of UCBs such as lack of sound corporate governance, unconscionable lending, high levels of loan delinquency, inability to operate in a liberalized and competitive environment.

**Table 1
Share of Cooperatives in Indian Economy**

S.No.	Share of Cooperatives in National Economy	%
1.	Rural Network(Villages Covered)	100.00
2.	Agricultural Credit Disbursed by Coops	46.31
3.	Fertilizer Disbursed (6.103 million Tonnes)	36.60
4.	Fertilizer Produced (for Nitrogen-N)	14.80
5.	Fertilizer Produced (for Phosphorous -P)	23.50
6.	Sugar Produced (7.062 million Tonnes)	54.95
7.	Capacity Utilization of Sugar Mills	85.70
8.	Wheat Procurement	27.80
9.	Jute Procurement (1997-1998)	21.50
10.	Retail Fair Price Shops(1,25,200)	28.00
11.	Milk Procurement to Total Production*	6.70
12.	Milk Procurement to Marketable Surplus	10.00
13.	Oil Marketed / Procurement	51.00
14.	Spindleage in Coop (3.313 Million)	10.00
15.	Cotton Marketed / Procurement	67.50
16.	Cotton Yarn / Fabrics Production	22.00
17.	Handlooms in Cooperatives	55.00
18.	Fishermen in Cooperative (active)	21.00
19.	Storage facility (village level PACS)	62.50
20.	Soya Been Production*	7.50
21.	Self- Employment Generated for Persons(min)*	12.50
22.	Salt Manufactured	7.40

*projected

Source: Indian Cooperative Movement – A Statistical Profile 2012

The above table shows the share of cooperatives in the Indian nation economy. It shows the significance of the cooperatives in Indian economic development.

Statement of the Problem

Developing economies are generally faced with the problem of inefficient utilization of resources available to them. Capital is the scarcest productive resource in such economies and proper utilization of these resources promotes the rate of growth, cuts down the cost of production and above all improves the efficiency of the productive system. Fixed capital and working capital are the dominant contributors to the total capital of the developing country. Fixed capital investment generates productive capacity whereas working capital makes the utilization of that capacity possible. Thus, the study of financial performance occupies an important place in

financial management. The earlier emphasis of financial management was more on long-term financial decisions. The income tax paid for last fiscal by 1,780 urban cooperative banks and credit societies, mainly spread across Maharashtra, Andhra Pradesh, Gujarat, Karnataka and Tamil Nadu, was around Rs 1,000 crore. This shows the might of UCBs and their contribution to the people on the one side and to the exchequer and the society at large on the other. There was a decline in the number of UCBs from 1,770 at the end of March 2008 to 1,721 at end the end of March 2009. This decline was an outcome of the consolidation process. Hence the present attempt was made to understand the financial performance of Dindigul urban cooperative bank and provide the suggestions to improve the performance.

Objectives of the Study

- To understand the current position of Dindigul urban cooperative bank
- To analyze the trend of working capital performance Dindigul urban cooperative bank
- To suggest suitable measures to enrich the performance of Dindigul urban cooperative bank

Methodology

Present study is descriptive cum analytical in nature. It employs the totally 10 years balance sheet of cooperative society from 2002-03 to 2011-12. For analysis purpose growth rate compound growth rate has been used. Further focus group discussion conducted to understand the members condition and the realistic problems of cooperative society.

Table 2 discuss about the membership position of the Dindigul urban cooperative bank.

Table 2
Membership position

S.No.	Year	Number of members	Growth rate (%)	Compound growth rate (%)
1.	2002-03	25903	-	-8.29
2.	2003-04	25267	-2.45	
3.	2004-05	24676	-2.33	
4.	2005-06	24193	-1.96	
5.	2006-07	23755	-1.81	
6.	2007-08	23755	0	0
7.	2008-09	23755	0	
8.	2009-10	23755	0	
9.	2010-11	23755	0	
10.	2011-12	23755	0	

Source: computed from annual reports

The above table shows that members intake in the bank has reduced year by year from 2002-03 to 2006-07 and stable from 2006-07 onwards. Result shows that membership position of the Dindigul urban cooperative bank. Through out the study period the membership position in urban cooperative bank shows the negative or non growth. It indicates that Dindigul urban cooperative bank fail to attract the customers when compare to the growth of membership in othe public and private sector banks in Dindigul. It state that totally - 8.29 percent negative growth during the study period especially in first five years. FGD indicated that low interest rate compared to other banks, out dated technology in transactions and poor timely service are the main reason for the failure of retain the existing and maintain the present members of the bank.

Table 3 shows the working capital performance of the Dindigul urban cooperative bank through out the study period.

Table 3
Working Capital Performance

S.No.	Year	Working Capital (Rs.1000s)	Growth rate (%)	Compound growth rate (%)
1.	2002-03	2742.75	-	-53.59
2.	2003-04	2232.38	-18.57	
3.	2004-05	1795.41	-19.57	
4.	2005-06	1461.21	-18.61	

5.	2006-07	1272.74	-12.89	44.10
6.	2007-08	1224.46	-3.79	
7.	2008-09	1408.90	15.06	
8.	2009-10	1426.18	1.23	
9.	2010-11	1464.24	3.05	
10.	2011-12	1764.41	20.50	

Source: computed from annual reports

Stability of working capital performance helps to retain the existing customers and creating new customers. It shows that there is a fluctuation in holding working capital of Dindigul urban cooperative bank. Holding working capital has been reduced from the year 2002-03 to 2007-08 and started increase. Compound growth rate shows that negative growth in first half totally -53.59 percent and positive in second half 44.10 percent. It indicates that some how Dindigul urban cooperative bank find out the one of the reason of loosing existing members in terms of improper holding of working capital.

Further are found in negative growth and are get out from the negative trend to show the positive growth through out the study period. It clears the recovery of Dindigul urban cooperative bank in positive trend. FGD results show the expectations of customers from Dindigul urban cooperative bank. The customers expects computerized functions of cooperatives, openness in transactions, closeness in account maintenance and proper customer care service when compare to the other public and private banks in the city will helps to improve the efficiency of Dindigul urban cooperative bank.

Suggestions:

The idea behind the concept of corporate governance is to ensure transparency and accountability of management to various stake holders of the organization. In the context of an UCC, the term management covers both the Board of Directors and the Secretary/Chief

Executive Officer and the term stake holders include members, board members, depositors, employees and to a limited extent the government and the local community. Some specific suggestions, which an UCC may consider implementing for improving its cooperative corporate governance practices are offered below.

- Provide in the bye-laws for election of three members by the General Body to the Control Committee (CC). The CC shall act as the watch dog, apprising independently every decision of the Board and reporting the same to the General Body. In its functioning, the CC shall take care not to interfere with the working off the Board, its role model being the Public Accounts Committee of the Legislative Assembly.
- The final accounts presented by the committee shall be supported by detailed schedules, giving clear and accurate information on every head of account. No attempt should be made to hide or camouflage the accounts.
- The budgets presented to the General Body should be detailed and contained narrative explanations wherever required. Excess or shortfalls, if any, should be clearly explained.
- The reports and statements submitted to the General Body could include the following
- The list showing loans made to Board members and to their family members, the amounts outstanding in their names and overdue amounts, if any receivable from them,
- The list showing the no. of Board meetings and sub-committee meetings held during the previous year, with details of attendance of members present in each of those meetings,
- The no. of members who have actually used the services of the society during the previous year,
- The list of delegates appointed by the Board to represent the society in various affiliated bodies,
- The list of societies/other institutions, in which the society seeks affiliation,
- An analysis of the performance of the society, covering all its activities, expressed in terms of some simple comparative statements and ratios etc. (a list of some useful ratios are given in the annexure),
- A list of members, who have defaulters to the society for more than 6 months along with the names of their sureties and the name of the Committee Member who recommended the application, if any.
- Display in suitable charts/graphs etc. about the progress made by the society over the years in terms of important variables like membership, share capital, reserves, deposits, working capital, advances, sales turnover, profits/losses, rate of dividend declared, physical infrastructure built etc., in some conspicuous place inside the society.

- Encourage interested members and well meaning individuals or groups to undertake social audit of the society for objectively assessing its real impact on the lives of members and the local community.

Conclusion

The right to information, has now become a justiceable right. But for a cooperative, openness in its dealings is a matter of faith and is recognized as a basic value. By voluntarily enforcing the above accountability norms, the cooperative will only reinforce its commitment towards imbibing the value of openness in its operation. Results shows that Dindigul urban cooperative works on the working capital management after the high negative growth in the first half of the study period but, they are lack into keep and growing the number of members, share capital and credit to the needy time. It clears that the inefficiency of the bank in fund management and customer relationship management. Further more studies are needed in the area of customer relationship management, fund management and other major problematic areas of urban cooperative banks in Tamil Nadu and also in the other parts of the nation.

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