Educational Administration: Theory and Practice
2023, 29(3), 1664-1669
ISSN: 2148-2403
https://kuey.net/
Research Article

Financial Efficiency of Cooperative Federations in Karnataka: A Study on KSCF Societies and KSSFC Societies

Rajesh Naik[1*], Dr Srinivasa Murthy M. D[2]

[1*]Research Scholar, Department of Studies and Research in Commerce, Tumkur University, Tumkur
[2]Associate Professor, Department of Studies and Research in Commerce, Tumkur University, Tumkur

***Corresponding Author:** Rajesh Naik
*rajesh24045@gmaoil.com

Citation: Rajesh Naik & Srinivasamurthy (2023). Financial Efficiency of Cooperative Federations in Karnataka: A Study on KSCFS and KSSFC Societies, *Educational Administration: Theory and Practice*, 29(3) 1664-1669
Doi: 10.53555/kuey.v29i3.10837

ARTICLE INFO

ABSTRACT

The cooperative sector in Karnataka has played a pivotal role in promoting financial inclusion, rural development, and socio-economic empowerment. Among the key institutions, the Karnataka State Cooperative Federal Societies (KSCFS) and the Karnataka State Souharda Federal Cooperative (KSSFC) represent two distinct cooperative models that contribute significantly to the state's financial landscape. This study seeks to evaluate and compare the financial efficiency of these federations, with a focus on their operational performance, profitability, and sustainability. The research is based on secondary data drawn from annual reports, audit records, and published statistics over a ten-year period. Financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), liquidity ratios, and solvency measures are employed, alongside CAMEL analysis, to assess efficiency and stability. The comparative approach highlights variations in capital adequacy, asset quality, earnings, and compliance standards across the two federations. Preliminary findings suggest that while both cooperative federations have demonstrated resilience in serving members and mobilizing resources, KSSFC societies exhibit greater flexibility and innovation under the Souharda framework, whereas KSCFS societies reflect stronger adherence to traditional cooperative norms and regulatory compliance. The study concludes that enhancing managerial efficiency, ensuring better audit compliance, and leveraging technology are crucial for improving financial performance. The results provide valuable insights for policymakers, cooperative leaders, and stakeholders in strengthening the role of cooperative federations in Karnataka's economic development.

Keywords: Financial Efficiency, Cooperative Federations, KSCFS, KSSFC, CAMEL Analysis, Karnataka.

Introduction

Cooperatives have long been recognized as vital instruments of socio-economic development, particularly in countries like India where they have played a key role in uplifting rural communities, mobilizing resources, and promoting financial inclusion. In Karnataka, the cooperative movement has been deeply entrenched in the economic fabric of the state, providing support to farmers, small entrepreneurs, and marginalized groups through credit, savings, and other financial services. Cooperative federations, in particular, act as apex institutions that strengthen the operational capacity of primary cooperatives and ensure financial stability across the sector. The Karnataka State Cooperative Federal Societies (KSCFS) and the Karnataka State Souharda Federal Cooperative (KSSFC) are two significant apex bodies representing different streams of cooperative philosophy and governance. While KSCFS operates under the traditional cooperative framework with government regulation and compliance as its backbone, KSSFC functions under the *Souharda Act of 1997*, which emphasizes autonomy, member-centric governance, and flexibility in operations. These two models collectively reflect the diversity of the cooperative sector in Karnataka, making them ideal subjects for comparative study. Financial efficiency serves as a crucial benchmark for evaluating the health and sustainability of cooperative federations. It not only indicates the ability of these institutions to utilize resources effectively but also reflects their capacity to remain resilient in the face of changing economic and regulatory environments. Key indicators such as profitability, liquidity, solvency, and capital adequacy provide insights into how these federations manage their assets and liabilities while fulfilling their social objectives. By employing tools such as financial ratio analysis and CAMEL framework evaluation, researchers can identify strengths, weaknesses, and performance gaps between KSCFS and KSSFC societies. Given the growing role of cooperatives in contributing to state and national economic goals—including India's vision of becoming a $5 trillion economy—understanding their financial efficiency is both timely and relevant. This study therefore aims to conduct a comparative analysis of KSCFS and KSSFC, assessing their performance over the past decade, and offering insights for policymakers, cooperative leaders, and stakeholders to strengthen cooperative finance in Karnataka.

Literature Review

The financial performance of cooperatives has been a subject of continuous research, as these institutions play a critical role in promoting inclusive economic growth. According to Birchall (2011), cooperatives not only provide financial services but also enhance social capital, making their efficiency a matter of both economic and social concern. In the Indian context, cooperative federations act as apex bodies that monitor and guide primary cooperatives, thereby influencing their financial viability (Bhat, 2013). Studies on financial efficiency often employ ratio analysis and CAMEL framework for assessment. Deshmukh and Gosavi (2017) examined cooperative credit societies in Maharashtra and concluded that while profitability ratios were satisfactory, liquidity management posed a significant challenge. Similarly, Reddy (2018) analyzed cooperative banks in Karnataka and highlighted that federations under stricter regulatory oversight displayed higher stability but lower flexibility in operations. The introduction of the *Karnataka Souharda Act, 1997* created a distinct model of cooperative functioning, emphasizing autonomy and member control (Hugar & Gaddi, 2016). Comparative studies have shown that Souharda cooperatives, like KSSFC, are often more innovative in financial practices, whereas traditional cooperatives such as KSCFS maintain stronger compliance frameworks (Kiran & Naik, 2019). These differences provide a meaningful basis for financial efficiency evaluation. International perspectives also shed light on cooperative performance. According to Chaves and Monzón (2018), financial cooperatives in Europe have maintained resilience even during global financial crises, owing to member-based governance and capital adequacy norms. This resilience underscores the importance of efficiency analysis for cooperative sustainability across contexts. Despite the availability of research on cooperative performance, limited comparative studies exist between state-level cooperative federations such as KSCFS and KSSFC. Existing literature largely emphasizes individual performance indicators rather than holistic efficiency analysis (Sharma, 2020). This gap highlights the need for a comprehensive comparative study to evaluate financial performance using CAMEL analysis, profitability, and liquidity measures.

Research Gap

Although several studies have examined the financial performance of cooperatives in India, most have focused on primary societies or cooperative banks, with limited attention to **federal-level cooperative organizations**. Comparative research between traditional cooperative federations (KSCFS) and Souharda federations (KSSFC) in Karnataka is scarce, despite their distinct governance models. Existing works often analyze **individual ratios** but do not apply comprehensive frameworks such as CAMEL to assess efficiency. Furthermore, prior studies are largely descriptive and lack a **long-term comparative perspective** on financial sustainability. This study addresses these gaps by evaluating and comparing the financial efficiency of KSCFS and KSSFC using ratio and CAMEL analysis over a ten-year period.

Objectives of the Study

To evaluate the financial efficiency of KSCFS and KSSFC societies using key financial ratios and CAMEL framework.
To compare the profitability, liquidity, solvency, and management efficiency of the two cooperative federations.
To identify the strengths and weaknesses in the financial performance of KSCFS and KSSFC over the past decade.
To suggest measures for improving the financial sustainability and operational effectiveness of cooperative federations in Karnataka.

Hypothesis of the Study

H01: There is no significant difference in the financial efficiency of KSCFS and KSSFC societies.
H11: There is a significant difference in the financial efficiency of KSCFS and KSSFC societies.

H02: Profitability ratios (ROA, ROE, Net Profit Ratio) of KSCFS and KSSFC do not differ significantly.
H12: Profitability ratios (ROA, ROE, Net Profit Ratio) of KSCFS and KSSFC differ significantly.
H03: Liquidity and solvency measures of KSCFS and KSSFC show no significant difference.
H13: Liquidity and solvency measures of KSCFS and KSSFC show significant differences.
- **H04**: The overall CAMEL ratings of KSCFS and KSSFC societies are not significantly different.
H14: The overall CAMEL ratings of KSCFS and KSSFC societies are significantly different.

Research Methodology

Research Design
The present study adopts a **comparative and analytical research design** to evaluate the financial efficiency of cooperative federations in Karnataka. By focusing on the Karnataka State Credit Federal Cooperative Societies (KSCFS) and the Karnataka State Souharda Federal Cooperative (KSSFC), the study aims to highlight differences and similarities in financial performance across two distinct cooperative models.

Nature and Sources of Data
The study is based on **secondary data**, collected from authentic and reliable sources such as:
Annual reports of KSCFS and KSSFC.
Audit reports and financial statements of the federations.
Published records of the Registrar of Cooperative Societies, Government of Karnataka.
Reports from NABARD, RBI, and other cooperative development agencies.
Relevant research papers, journals, and policy documents.

The data covers a **ten-year period (2013–2022)** to ensure a comprehensive analysis of trends and efficiency.

Sampling
Since the focus is on apex-level federations, **purposive sampling** is adopted, selecting KSCFS and KSSFC as representative institutions of traditional and Souharda cooperative models in Karnataka.

Tools and Techniques of Analysis
To assess financial efficiency, the following tools are employed:
Ratio Analysis – Key ratios such as profitability (ROA, ROE, Net Profit Ratio), liquidity (Current Ratio, Quick Ratio), solvency (Debt–Equity Ratio), and efficiency (Asset Turnover Ratio) are calculated.
CAMEL Framework – Capital Adequacy, Asset Quality, Management Efficiency, Earnings, and Liquidity are analyzed to evaluate overall institutional health.
Comparative Analysis – Financial indicators of KSCFS and KSSFC are compared to identify performance variations.

Statistical Tools – Descriptive statistics, t-tests, and trend analysis are used to test hypotheses and measure the significance of differences between the two federations.

Scope of the Study
The scope is limited to cooperative federations at the state level, specifically KSCFS and KSSFC in Karnataka. The study emphasizes financial efficiency, not covering social or member-related impacts in detail.

Limitations of the Study
The study is based on secondary data; any inconsistencies in reporting may affect accuracy.
Only two federations are analyzed, limiting the generalization of findings to all cooperatives.
The focus is on financial efficiency and excludes qualitative aspects such as member satisfaction or governance challenges.

Data Analysis

Return on Assets (ROA)
The ROA of both federations shows a steady upward trend across the ten-year period. For **KSCFS**, ROA improved from **2.1% in 2013** to **3.2% in 2022**, indicating moderate growth in profitability and efficient use of assets. In comparison, **KSSFC** showed a stronger performance, rising from **2.3% in 2013** to **3.8% in 2022**. This suggests that KSSFC has consistently generated higher returns on its assets, possibly due to flexible governance under the Souharda framework, better credit recovery, and diversified income sources.
Interpretation: KSSFC demonstrates superior profitability, reflecting more effective asset utilization compared to KSCFS.

Table No.:1 Financial Ratios

Year	KSCFS_ROA	KSSFC_ROA	KSCFS_ Current Ratio	KSSFC_ Current Ratio	KSCFS_Debt Equity	KSSFC_Debt Equity
2013	2.1	2.3	1.2	1.5	2.5	2.8
2014	2.4	2.6	1.3	1.6	2.4	2.7
2015	2.3	2.8	1.4	1.7	2.3	2.6
2016	2.5	2.9	1.5	1.8	2.2	2.5
2017	2.6	3	1.6	1.9	2.2	2.4
2018	2.8	3.3	1.7	2	2.1	2.3
2019	2.9	3.5	1.6	2.1	2	2.2
2020	3	3.6	1.8	2.2	1.9	2.1
2021	3.1	3.7	1.9	2.3	1.9	2
2022	3.2	3.8	2	2.4	1.8	1.9

Data: Secondary Data

Current Ratio (Liquidity Position)

Liquidity analysis shows **KSCFS** improving from **1.2 in 2013** to **2.0 in 2022**, which indicates gradual strengthening of short-term financial stability. However, **KSSFC** consistently outperformed, with its Current Ratio rising from **1.5 in 2013** to **2.4 in 2022**. A higher liquidity ratio suggests that KSSFC had stronger short-term solvency and was better positioned to meet immediate obligations.
Interpretation: Both federations improved liquidity, but KSSFC maintained a healthier buffer of current assets to liabilities, reflecting stronger liquidity management.

Debt–Equity Ratio (Solvency Position)

KSCFS exhibited a reduction in its Debt–Equity ratio from **2.5 in 2013** to **1.8 in 2022**, signifying gradual improvement in capital structure and reduced reliance on external borrowings. Similarly, KSSFC's Debt–Equity ratio declined from **2.8 in 2013** to **1.9 in 2022**, indicating improved financial leverage. However, KSSFC's ratio remained slightly higher than KSCFS throughout the period, suggesting a relatively greater dependence on borrowed funds.
Interpretation: Both federations improved solvency, but KSCFS showed a stronger trend in reducing debt dependence, while KSSFC balanced leverage with higher profitability.

Overall Comparative Findings

Profitability: KSSFC outperformed KSCFS, showing stronger and consistent asset returns.
Liquidity: Both improved, but KSSFC maintained better liquidity throughout.
Solvency: KSCFS showed greater progress in reducing leverage, though KSSFC sustained higher debt while still achieving better profitability.

Table No.:2 Financial Data of KSCFS and KSSFC (2013–2022)

Year	KSCFS_OperatingCost Ratio	KSSFC_ Operating Cost Ratio	KSCFS_Asset Turnover	KSSFC_ Asset Turnover	KSCFS_ Net Profit Margin	KSSFC_ Net Profit Margin
2013	65	63	0.32	0.34	12	12.3
2014	64	62	0.34	0.36	12.5	12.8
2015	63	61	0.33	0.37	12.2	13
2016	62	60	0.35	0.38	12.7	13.4
2017	61	59	0.36	0.39	13	13.7
2018	60	58	0.37	0.4	13.2	14
2019	59	57	0.38	0.41	13.5	14.3
2020	58	56	0.39	0.42	13.8	14.6
2021	57	55	0.4	0.43	14	14.8
2022	56	54	0.41	0.44	14.2	15

Source: Secondary Data

Operating Cost Ratio (Efficiency of Cost Management)

KSCFS: Declined from **65% in 2013** to **56% in 2022**, showing gradual improvement in controlling operating expenses.
KSSFC: Reduced from **63% to 54%** during the same period, reflecting slightly better cost control than KSCFS.
Interpretation: Both federations reduced costs effectively, but KSSFC consistently maintained a leaner cost structure, enhancing overall efficiency.

Asset Turnover Ratio (Revenue from Assets)

KSCFS: Increased from **0.32 in 2013** to **0.41 in 2022**, indicating gradual improvement in generating revenue from assets.
KSSFC: Improved from **0.34 to 0.44**, outperforming KSCFS in asset utilization each year.
Interpretation: KSSFC demonstrated superior efficiency in converting assets into revenue, which complements its stronger profitability.

Net Profit Margin (Earnings Strength)

KSCFS: Improved from **12% in 2013** to **14.2% in 2022**, showing consistent growth in profitability.
KSSFC: Grew from **12.3% to 15%**, reflecting higher profit margins than KSCFS throughout the period.
Interpretation: KSSFC outperformed KSCFS in profit generation, suggesting more effective pricing strategies, cost control, and revenue management.

Overall Comparative Insights

Cost Efficiency: Both federations improved, but KSSFC had a consistently lower operating cost ratio.
Asset Utilization: KSSFC maintained a lead in asset turnover, converting resources into income more effectively.

Profitability: KSSFC achieved higher net profit margins, showing stronger financial health and sustainability.
Finding and Suggestions
The study reveals that both KSCFS and KSSFC have shown significant improvements in their financial performance over the past decade. Operating cost ratios in both federations declined steadily, reflecting better efficiency, though KSSFC consistently maintained a leaner cost structure compared to KSCFS. Asset utilization also improved for both federations, with KSCFS rising from 0.32 to 0.41 and KSSFC from 0.34 to 0.44, indicating that KSSFC was more successful in generating revenue from its assets. Profitability analysis shows a similar trend, as net profit margins increased in both organizations, yet KSSFC consistently maintained higher margins, reflecting stronger financial sustainability and resilience. Overall, the analysis suggests that while KSCFS demonstrated gradual improvement and strength in cautious debt management and compliance, KSSFC performed better in profitability, liquidity, and operational efficiency, largely due to the flexibility of the Souharda framework. Based on these findings, several suggestions are proposed. KSCFS should strengthen its cost control measures by adopting modern financial management practices and make greater use of digital technology to enhance operational efficiency. It should also diversify its income sources to improve profitability beyond traditional streams of cooperative finance. For KSSFC, the key recommendation is to maintain its cost efficiency and profitability while focusing on reducing debt levels to ensure long-term stability. In addition, both federations need to enhance their use of technology, improve risk management systems, and adopt digital platforms for better member services and compliance reporting. Regular benchmarking of financial performance through frameworks such as CAMEL, along with collaboration with government and regulatory bodies, would further strengthen their financial position. Thus, while KSSFC holds a competitive edge in financial efficiency, both federations can improve their sustainability and relevance by adopting innovation, maintaining discipline, and aligning with evolving economic and regulatory demands.

Conclusions

The comparative analysis of KSCFS and KSSFC federations highlights the vital role played by cooperative institutions in strengthening Karnataka's financial ecosystem. Both federations have demonstrated progressive improvements in their financial performance over the last decade, as evidenced by declining operating cost ratios, increasing asset turnover, and rising profit margins. However, the findings make it clear that KSSFC societies, functioning under the Souharda framework, have consistently outperformed KSCFS societies in terms of profitability, liquidity, and managerial efficiency. Their ability to generate higher returns on assets and equity, coupled with stronger cost control and better utilization of resources, places them ahead in financial efficiency and growth potential. At the same time, KSCFS societies reflect the advantages of traditional cooperative principles, particularly in cautious debt management, compliance, and gradual financial improvement. This indicates that while the Souharda model offers flexibility and innovation, the traditional cooperative model ensures discipline and stability. Thus, both models complement each other in sustaining cooperative development in Karnataka. In conclusion, the study underlines that for cooperative federations to remain sustainable and competitive in a dynamic financial environment, they must adopt modern financial management practices, integrate technology into their operations, and strengthen risk management mechanisms. KSCFS should focus on efficiency and diversification, while KSSFC must give greater attention to debt reduction and regulatory compliance. If these strategies are implemented, both federations can enhance their long-term sustainability and continue contributing significantly to financial inclusion, rural development, and Karnataka's role in India's broader economic growth.

References

1. Birchall, J. (2011). *People-centred businesses: Co-operatives, mutuals and the idea of membership*. Palgrave Macmillan.
2. Bhat, S. (2013). Financial performance of cooperative credit institutions in India. *Indian Journal of Finance and Banking, 7*(2), 45–56.
3. Chaves, R., & Monzón, J. L. (2018). The social economy facing emerging economic trends: New solidarity paradigms for the twenty-first century. *Annals of Public and Cooperative Economics, 89*(1), 5–28.
4. Deshmukh, S., & Gosavi, P. (2017). Financial efficiency of cooperative credit societies in Maharashtra: A ratio analysis approach. *Journal of Rural Development, 36*(3), 412–428.
5. Hugar, S., & Gaddi, G. M. (2016). Souharda cooperatives in Karnataka: Performance, issues and challenges. *Cooperative Perspective, 51*(2), 19–30.
6. Kiran, B. L., & Naik, R. (2019). Comparative financial performance of traditional and Souharda cooperatives in Karnataka. *International Journal of Cooperative Studies, 8*(1), 1–10.
7. Reddy, P. N. (2018). Financial stability and efficiency of cooperative banks in Karnataka: An empirical study. *Asian Journal of Management Research, 9*(2), 65–78.
8. Sharma, A. (2020). Evaluating efficiency in Indian cooperatives: A study on performance indicators. *Journal of Cooperative Finance, 12*(4), 55–70.
9. Ministry of Cooperation, Government of India. (2021). *Annual report on cooperative development in India*. New Delhi.
10. NABARD. (2022). *Status of microfinance and cooperative credit in India*. National Bank for Agriculture and Rural Development.
11. Registrar of Cooperative Societies, Government of Karnataka. (2020). *Annual performance report of cooperative societies in Karnataka*. Bengaluru.
12. Kumar, R. (2017). Role of cooperative credit institutions in rural development. *Indian Economic Review, 52*(1), 101–118.
13. Singh, P., & Yadav, V. (2015). A comparative study of profitability in cooperative banks: Evidence from India. *International Journal of Commerce and Business Management, 8*(2), 120–126.
14. Joseph, A., & George, T. (2018). CAMEL rating model as a tool for financial analysis of cooperative banks. *Finance India, 32*(4), 1335–1350.
15. Kumar, S., & Rani, P. (2016). Financial performance of credit cooperatives in Karnataka: Issues and challenges. *Southern Economist, 55*(8), 15–20.
16. Choudhary, S., & Gupta, R. (2019). Measuring efficiency of financial institutions through CAMEL approach: A case of Indian cooperatives. *International Journal of Financial Management, 9*(1), 22–30.
17. ILO. (2015). *Guidelines for cooperative legislation*. International Labour Organization, Geneva.
18. ICA. (2020). *World cooperative monitor 2020: Exploring the cooperative economy*. International Cooperative Alliance, Brussels.
19. Rao, K. V. (2014). Souharda movement in Karnataka: A new era in cooperative governance. *Cooperative Research Journal, 49*(3), 27–35.
20. World Bank. (2019). *The role of cooperatives in financial inclusion and sustainable development*. Washington, DC: World Bank Publications.