

# Social Capital Measurement of Community Based Organizations in Microfinance (A Case of Ethnography, Sociological Inquest and Behavioral Finance)

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**Abstract:** There has been considerable and growing interest in social capital theory in current years, evidenced by its relevance to various disciplines and numerous subject areas. This interest stems from the appeal of the concept as it integrates sociology and economics, and combines a number of ideas including civic tradition, civicism, civic involvement and social cohesion. Existing studies have suggested that social capital has considerable benefits for a range of economic and sociological outcomes. These purported benefits, and the concept behind social capital, are not new but rooted in the work of early economic and sociologic thinkers.

**Keywords:** Social capital, Microfinance, Ethnography, behavioral finance.

## 1. Importance of Proposed Investigation:

The proposed research has intent to develop new research model for behavioral finance through ethnography by considering social relationships as an economic resource for the financial participants in microfinance. The proposed research envisage with psychological and sociological variables of microfinance beneficiaries.

Linkages between the people are taken as the social collaterals by the micro credit providers; hence the importance of social capital is significant.

Behavioral finance stresses that psychology and emotion prompt investors to behave in ways that are inconsistent with what is considered rational in modern portfolio theory.

The latest *World Wealth Report* devotes a special ten-page section to behavioral finance, stemming from the conclusion that one of the most profound consequences of the financial crisis has been the increasing prominence of “*emotional factors*” in the decision-making process of investors with \$1 million or more in investable assets.

In a world where almost half the population lives on less than \$2.50 a day and Rs 22.40 in rural areas and Rs 28.65 in urban areas of India, microfinance is one of the better tool for poverty alleviation, economic growth and development in emerging economies. Loans offer the same benefits to major world economies that face growth problems.

The ethnographic method is becoming increasingly imperative in the ongoing research studies. It has closed the space between cultures, enabling people to better understand the true meaning and value of different customs and practices in once distant cultures. In ethnographic research one must put aside one's own cultural views in order to enter into the mindset of the people under study. Only by putting ourselves into the "shoes" of others, can we understand the meaning of their thoughts and behavior, and so develop meaningful relationships with them.

Ethnography is crucial to international development because if we enact development programs without understanding the people who inhabit these regions it's more likely the programs will be ill-suited and unjust. The anthropology of development is devoted to avoid these issues and critiquing development programs.

The aforesaid discussion leads to the conclusion that the proposed research has potential to develop new dimensions in the area of behavioral finance.

This study is also focuses on the fraudulent practices in the microfinance industry in India, which is showing unbalanced policy and legal regulations.

The outcomes of the study may lead to policy and legal regulatory corrections in the development programmes of the Governments, NGOs and other organizations and on the other side this may helpful for the financial service providers by catering innovative products and services.

## 2. Review of Literature:

**2.1 Social Capital** - Collective efforts and cooperative action have been a part of human behavior right from the early days of civilization. Gradually such collective action led to formation of small habitations, communities, villages and thereafter large cities and metropolises.

Social Capital refers to the norms and networks that enable collective action. It encompasses institutions, relationships, and customs that shape the quality and quantity of a society's social interactions. Increasing evidence shows that social capital is critical for societies to prosper economically and for development to be sustainable. Social capital, when enhanced in a positive manner, can improve project effectiveness and sustainability by building the community's capacity to work together to address their common needs, fostering greater inclusion and cohesion, and increasing transparency and accountability.

The World Bank has broken down Social Capital into five *key dimensions*:

1. *Groups and networks* - collections of individuals that promote and protect personal relationships which improve welfare;
2. *Trust and Solidarity* – elements of interpersonal behavior which fosters greater cohesion and more robust collective action;
3. *Collective Action and Cooperation* - ability of people to work together toward resolving communal issues;
4. *Social Cohesion and Inclusion* - mitigates the risk of conflict and promotes equitable access to benefits of development by enhancing participation of the marginalized; and
5. *Information and Communication* - breaks down negative social capital and also enables positive social capital by improving access to information.

These dimensions capture both the structural and cognitive forms of social capital.

Different authors approach the subject from different disciplines and from different points of view and applications and the result is a variety of current conceptual approaches. The expression 'social capital' appears in nineteenth-century economic writing (Farr 2004; Woolcock 1998), but with no consistency in its use, and with a very different meaning from how it is now commonly understood.

The first systematic treatments of the concept were offered independently by two sociologists, James Coleman (1987, 1988), and Pierre Bourdieu (1980, 1986), both of whom, like Hanifan, were particularly interested in the field of education, and who seem to have arrived at a theoretical definition of social capital as a way of systematizing the effects of social relations, which they observed in their applied research.

Putnam (1993) examines social capital in terms of the degree of civic involvement, as measured by voter turnout, newspaper readership, membership in choral societies and football clubs, and confidence in public institutions. Northern Italy, where all these indicators are higher, shows significantly improved rates of governance, institutional performance, and development when other orthodox factors were controlled for. His recent work on the United States (Putnam 1995, 1998) uses a similar approach, combining data from both academic and commercial sources to show a persistent long-term decline in America's stock of social capital. Putnam validates data from various sources against the findings of the General Social Survey, widely recognized as one of the most reliable surveys of American social life.

Portes and Sensenbrenner (1993) examine what happens to immigrant communities when some of their members succeed economically, and wish to leave the community. Their interviews reveal the pressures that strong community ties can place on members; so strong are these ties that some members have Anglicized their names to free themselves of the obligations associated with community membership. Gold (1995) provides evidence that Jewish communities in Los Angeles manage to maintain both the integrity of their community structure and participate more fully in mainstream economic life.

Portes (1995) and Light and Karageorgis (1994) examine the economic well-being of different immigrant communities to the United States. They show that certain groups (e.g. Koreans in Los Angeles, Chinese in San Francisco) do better than others (e.g. Mexicans in San Diego, Dominicans in New York) because of the social structure of the communities into which new immigrants arrive. Successful communities are able to offer new arrivals help with securing informal sources of credit, insurance, child support, English language training, and job referrals. Less successful communities display a short-term commitment to their host country, and are less able to provide their members with important services.

Fernandez-Kelley (1996) interviewed and observed young girls in urban ghetto communities in Baltimore, and discovered that normative pressures to leave school, have a baby while still a teenager, and reject formal

employment were very powerful. Surrounded on a daily basis by violence, unemployment, and drug addicts, the girls' only way of establishing their identity and status was through their bodies. Anderson (1995) studied the role of "old heads," long-term elderly members of the poor urban African-American community, as sources of social capital. "Old heads" once provided wisdom and guidance to the young, but their advice and input today is being increasingly ignored as respect for the elderly declines, and as the community continues to fragment economically.

Heller (1996) examines the case of the south Indian state of Kerala, where literacy rates, longevity, and infant mortality rates have long been the most favorable on the sub-continent. Tracing the history of state-society relations in Kerala, Heller shows how the state has played a crucial role in bringing about these results, by creating the conditions that enabled subordinate social groups to organize in their collective interest. However, the state in Kerala has also been hostile to foreign investment and the maintenance of infrastructure, which has made it difficult for a healthy and well-educated population to transfer its human capital into greater economic prosperity.

Knack and Keefer (1997) use indicators of trust and civic norms from the World Values Survey for a sample of 29 market economies. They use these measures as proxies for the strength of civic associations in order to test two different propositions on the effects of social capital on economic growth, the "Olson effects" (associations stifle growth through rent-seeking) and "Putnam effects" (associations facilitate growth by increasing trust). (Inglehart (1997) has done the most extensive work on the implications of the WVS's results for general theories of modernization and development.)

Narayan and Pritchett (1997) construct a measure of social capital in rural Tanzania, using data from the Tanzania Social Capital and Poverty Survey (SCPS). This large-scale survey asked individuals about the extent and characteristics of their associational activity, and their trust in various institutions and individuals. They match this measure of social capital with data on household income in the same villages (both from the SCPS and from an earlier household survey, the Human Resources Development Survey). They find that village-level social capital raises household incomes.

Massey and Espinosa (1997) examine Mexican immigration to the US. They show that policies such as NAFTA, which advocate the free flow of goods and services across national borders, also increase the flow of people, since goods and services are produced, distributed, and consumed by people. Using survey and interview data, they show that a theory of social capital is a far better predictor of where people will migrate, in what numbers, and for what reasons, than are neo-classical and human capital theories. These results are then used as the basis for proposing a number of innovative policy measures designed to produce a fairer and more effective management of Mexican immigration to the US.

Temple and Johnson (1998), extending the earlier work of Adelman and Morris (1967), use ethnic diversity, social mobility, and the prevalence of telephone services in several sub-Saharan African countries as proxies for the density of social networks. They combine several related items into an index of "social capability", and show that this can explain significant amounts of variation in national economic growth rates.

Robert Putnam (2000), the earliest use that closely approximates to its current meaning can be found in Lyda J. Hanifan in the second decade of the twentieth century. Hanifan was a rural educator and a practical reformer (Farr 2004). He was keen to stress that his use of 'capital' was metaphorical, and that by 'social capital' he meant the progressive way in which a community—its spirit and its joint activities—is built. Hanifan was particularly interested in the practical means and initiatives through which such a task could be accomplished, mentioning the important role that community gatherings play in it, first for general entertainment, and later for more constructive purposes. (Hanifan, 1920). But he already showed some theoretical insight by identifying social capital with the building up of social connections and sociability; as he put it, with 'good will, fellowship, sympathy, and social intercourse'.

Nan Lin (2001) defines Social capital as resources embedded in one's social networks, resources that can be accessed or mobilized through ties in the networks. Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions. Increasing evidence shows that social

cohesion is critical for societies to prosper economically and for development to be sustainable. Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together.

Krishna (2003) compared development outcomes in 69 North Indian village communities and found villages that have high levels of social capital also have high development performances which he measured in terms of enhancement in livelihood stability, employment generation, poverty reduction and improvement in quality of basic services.

He also stated that social capital has multiplicative relations with other development resources such as capacity of village leaders to bring out socioeconomic change.

Requena (2003) suggested that the importance of social capital lies in that it brings together several important sociological concepts such as social support, integration and social cohesion. This view is supported by Rothstein (2003) who stated that the real strength of social capital theory is the combination of macro-sociological historical structures with micro-level causal mechanisms, a rare feature in the social sciences.

Coffe and Geys (2005) study the impact of social capital on financial performance of local governments such as 300 Flemish municipalities assuming that social capital is likely to increase public monitoring abilities, effectively resolve social problems and lead officials to better performance. The authors selected three indicators to judge the level of social capital in the municipalities such as the density of voluntary organizations, rate of political participation and crime rate per capita in municipal areas. The empirical results showed that not only social capital had significant positive impact on budgetary surplus in Flemish municipalities; it also showed that one standard deviation improves the municipality budget surplus with 2 to 2.25 percent of total revenues.

Blair and Carroll (2008) give a precise explanation of how social capital can be used as a tool for community development. They state that social capital can be used for bonding or uniting individuals within a group or network as well as bridging or overcoming vertical barriers with unequal social status or power to work together. It helps local communities in different ways such as reducing cost of negotiations and monitoring due to increased trust established within the society, improving efficiency of transactions and mitigating negative economic effects on non-market transactions such as damage to environment, etc. as individuals who are part of same network also share trust, same values and reciprocity. Social capital also acts as a catalyst for encouraging innovations due to increased trust, improving quality of life, taking local competitive advantages in global competition, mitigating economic development conflicts due to availability of common platform to discuss issues and development of social economies.

## **2.2 Social Capital & Microfinance**

Different forms of social capital not only pre-exist microfinance programme implementation, but they also play a role in the functioning of the programme itself. Microfinance programmes can also have an impact on building or modifying existing social capital. Many microfinance schemes have based their programme design and implementation on a presumption of knowledge about social relationships, and only after an in-depth analysis has it emerged that several forms of social capital, rather than simply horizontal networks, have intervened in the success of microfinance.

Ito (1998) suggests that Peer pressure itself can be viewed as an element of social capital inasmuch as it is embedded within the horizontal structure of the ROSCA membership. In group lending microfinance programs participation is promoted by an external agent, the NGOs for example. Under the joint liability arrangements the borrower takes over the lender's responsibilities for selecting other borrowers, monitoring their repayment behaviour and taking action, if necessary, to enforce repayment.

According to Larance (2001), Development assistance programs in low income countries often emphasize group participation. The classic Grameen microfinance program works by forming groups of women who repay their loans via frequent instalments in a group setting. Repayment meetings provide clients' opportunities they did not have before including \walking across the village to attend the center meeting, sitting in conversation with a diverse set of women, handling money for the group and receiving personal address".

More than any other development programme the link between microfinance and social capital is stronger and clear. Social capital cultivated through peer group pressure and monitoring replaces conventional collateral

requirements and improves credit worthiness of millions of clients especially women. Along with that it also contributes other benefits such as greater sense of community, trust, reliance on each other in times of crisis, sharing of information, skill up-gradation, better decision making and bargaining power within family and in community and creation of support system.

Microfinance programme by nature and by objectives depends on creating virtuous spiral the base of which is creation and utilization of social capital (Mayoux, 2001). Access to savings and credit contributes to economic empowerment of women through productive use of credit. It leads to better control over resources by women and better wellbeing of themselves as well as their families. It further enables them to renegotiate and bring out changes in gender relations in their families as well as in local or community level which leads to social and political empowerment. At all these levels social capital in terms of networking, higher access to information and skill up-gradation and collective action to tackle gender and social issues enhances their abilities to bring out desirable change.

Ismawan (2002) explained the relationship between economic intermediation through micro finance programme on existing social capital. He stated that economic intermediation sometimes strengthens existing social capital such as local communities, local government, etc and destroys social capital such as money lenders, social hierarchy, etc. He states that microfinance helps building social capital to enhance degree of information sharing, democratic participation, collective decision making and sustainable development.

Anderson, Locker, and Nugent (2002) outline how new social capital can be created by microfinance programmes through meetings and other services such as education and training. This allows members of the community to acquire new skills that enable collective action. The periodic meetings necessitated by microfinance programmes assist villagers in better designing, developing, and managing community projects.

Rankin (2002) draws attention towards coercive and exploitative dimensions of social capital when groups are formed on the basis of social hierarchies. In such case it is also possible that social capital may justify and perpetuate inequality and leave people more oppressed and disadvantaged. Thus the ultimate aim of bringing collective consciousness to change the subordinate position of women in the society is not an automatic outcome of any microfinance programme.

Bislev (2003) also makes a critical evaluation of microcredit programme in Yunnan, China and finds that social capital may not be facilitated if the objective of micro finance programme is only making members collectively responsible for better repayment without having focus on poverty alleviation. The higher sense of participation and transfer of vital information and knowledge will take place only if microfinance programme has some higher content outside providing low interest loans. Microfinance may create negative social capital as its selection for credit provision is anti industrial and anti technology and in favour of tiny, informal, non industrial areas with no clear direction towards sustainable development. He further states that by emphasizing on individual survival as a function of individual entrepreneurial success and higher focus on cost recovery of services, the existing bonds of solidarity are likely to get destroyed.

The study undertaken by Brata (2004) in Javanese village throws light on the impact of social capital on access and repayment of rural credit where social capital is assessed in terms of number of membership in a group, meeting attendance and participation in decision making. The study found out that regularity in attendance of meetings and the higher positions in the group have positive influence over the amount of formal credit provided by the group.

Ronchi (2004) states that social capital and micro finance are reinforce each other. Any sustainable development requires combination of natural capital, physical capital and human capital. Micro finance programmes make use of existing social capital in the society and link that to physical capital to foster economic growth. The higher the social capital, higher the cost of defecting and missing of mutual benefits which enhances repayment performance.

Similarly higher the social capital, higher the trust builds amongst members and higher will be the impact of microfinance programmes on other aspects besides access to credit. Ronchi studies the role of social capital in implementation of microfinance programmes in Ecuador and concludes that it has helped in bringing wider

political participation, stronger interventions in decision making process and more bargaining position for poor women.

Mosley, Olejarva and Alexeeva (2004) find that the impact of social capital created with informal associations is not uniform across all economies. Social capital is valued more where issue of corruption is a serious impediment to the access to credit. In some societies it helps in inducing greater trust in government officials and developing complementary services such as insurance where development of trust is essential.

Morris, Woodworth and Hiatt (2006) make a comparative analysis of financial performance of individual lending and cooperative micro lending to self employed entrepreneurs in Bulgaria and Philippines. They concluded that cooperative micro lending leads to higher survival rates and better performance of self employed entrepreneurs due to higher level of social capital created by organizations. The social capital created through social ties and network help self employed women entrepreneurs in having flexibility in interest payment and repayment schedule, training and skill up gradation, networking with suppliers and customers as well as sharing responsibilities such as child care, etc.

Woodworth (2008) has shown a strong connectivity in success of micro entrepreneurship and development of social capital. In fact he gives more importance to access to social capital than to financial capital as it is this intangible asset which helps micro entrepreneurs in various ways such as leveraging relationships in building customers and suppliers, expanding businesses, reducing stress in times of economic crisis and building commitments towards your enterprises.

Oksan (2008) throws light on how microfinance programme can contribute to the political awareness and social activism of its clients through the process of development of self efficacy and social capital.

### **2.3 Microfinance & CBOs**

In group lending methodologies (microfinance intermediary process), loans are offered to clients by using a group guarantee for the repayment of each client's loan. Group lending methodologies can, in turn, be divided into lending to Community Based Organizations (CBOs) or Solidarity Group Lending (SGL), where the solidarity group is principally considered as a guarantee mechanism.

Lending to CBOs (i.e. village banking, self-help groups, or ROSCAs) involves providing loans to larger groups (from twenty to 100 people). Rotating Saving and Credit Associations (ROSCAs) are present in almost all countries and are completely informal. CBOs function as a group of individuals that periodically meet each other; during the meeting each member gives the group a small, and normally fixed, amount of money, except one person in the group that, in turn, receives the pot. At the end of the rotation, each of the group had received the pot once. The service provided by a ROSCA is, at the same time a savings and a loan (for the one receiving the pot) service. CBO functioning is based on the knowledge and the trust of all the participants. For the financial facility offered by the ROSCAs, the group itself, or rather, the social relationships play an important role in the risk management of the 'clients'. In fact, in case of default, exclusion from the association means not only no more access to loans, but also receiving social sanctions (van Bastelaer 2000). The group manages and mobilizes the received fund and then provides loans to its members. Members are normally asked to save money, to adhere to the group and, depending on the adaptation of the method, the group elects a president, a credit committee to determine loan delivery, and a treasurer.

According to Berenbach and Guzman (1994), SHG is based on group peer pressure whereby loans are made to individuals in groups of four to seven. Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Payments are usually made weekly. Solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank, who use this type of microfinance model.

Holt (1994) states, village banks are community-managed credit and savings associations established by NGOs to provide access to financial services, build community self-help groups, and help members accumulate savings. They have been in existence since the mid-1980s. They usually have 25 to 50 members who are low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services.

As explained by Global Development Research Centre (2005), the loans are backed by moral collateral; the promise that the group stands behind each loan.

Dinakar Rao (1994) reported that networking of SHGs and Self-help promoting institution are elements of propagating self-help. And that SHGs linked with formal credit agencies had advantages of pooled enterprises, economies of scale and organization to relish exploitation.

Harper (1996) in his study “Self-help groups – some issues from India” indicated that in India, as in other parts of the developing world, the banking community is extending its services to the poor by lending to self-help groups. By providing single larger loans, relying on the group, on NGOs, to monitor the on lending of micro-loans, the banks transaction charges are reduced, making the operation potential profitable.

Kumaran (1997) examine self-help groups promoted by a voluntary agency in Andhra Pradesh and their role in promoting thrift and credit activities among the poor. Further he also examine in detail the process of development of self-help groups, structure and function, resource mobilization and socio-economic, activities. Various factors responsible for active functioning, passivity and disbandment of self-help groups are examined in detail.

Puhazhendhi and Jayaraman (1999) reported that the SHG members taking up more than one activity increased from about 30% during pre group formation situation. They undertook supplementary activities such as animal husbandry, poultry etc, and non-farm activities like Petty shop, Kirana shop, Flower selling business etc.

Grameen Bank (2000) states, ROSCAs are formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as a lump sum to one member of the group in each cycle.

According to Harper (2002), this model (ROSCAs) is a very common form of savings and credit. He states that the members of the group are usually neighbours and friends, and the groups provides an opportunity for social interaction and are very popular with women. They are also called merry-go rounds or Self-Help Groups (Fisher and Sriram, 2002).

## **2.4 Behavioral Finance**

Behavioral finance is the paradigm where financial markets are studied using models that are less narrow than those based on Von Neumann-Morgenstern expected utility theory and arbitrage assumptions. Specifically, behavioral finance has two building blocks: cognitive psychology and the limits to arbitrage. Cognitive refers to how people think. There is a huge psychology literature documenting that people make systematic errors in the way that they think: they are overconfident, they put too much weight on recent experience, etc. Their preferences may also create distortions. Behavioral finance uses this body of knowledge, rather than taking the arrogant approach that it should be ignored. Limits to arbitrage refer to predicting in what circumstances arbitrage forces will be effective, and when they won't be.

At its foundation, standard finance assumes that finance participants, institutions, and even markets are rational. On average, these people make unbiased decisions and maximize their self-interests.

Over time, people would either learn to make better decisions or leave the marketplace. Also, any errors that market participants make are not correlated with each other; thus the errors do not have the strength to affect market prices.

This rationality of market participants feeds into one of the classic theories of standard finance, the efficient market hypothesis (EMH). The rational market participants have impounded all known information and probabilities concerning uncertainty about the future into current prices. Therefore, market prices are generally right. Changes in prices are therefore due to the short-term realization of information. In the long term, these price changes, or returns, reflect compensation for taking risk. Another fundamental and traditional concept is the relationship between expected risk and return. Risk-averse rational market participants demand higher expected returns for higher risk investments. For decades, finance scholars have tried to characterize this risk-return relationship with asset pricing models, beginning with the capital asset pricing model (CAPM).

Although the traditional finance paradigm is appealing from a market-level perspective, it entails an unrealistic burden on human behavior. After all, psychologists had been studying decision heuristics for decades and found

many biases and limits to cognitive resources. In the 1960s and 1970s, several psychologists began examining economic decisions. Slovic (1969, 1972) studied stock brokers and investors. Tversky and Kahneman (1974) detailed the heuristics and biases that occur when making decisions under uncertainty. Their later work on prospect theory eventually earned Daniel Kahneman the Nobel Prize in Economics in 2002.

The beginning of this psychologically based financial analysis coincided with the start of many empirical findings (starting with the small firm effect) that raised doubts about some of the key foundations in standard finance: EMH and CAPM.

The early anomaly studies examined security prices and found that either market were not as efficient as once purported or that the asset pricing models were inadequate (the joint test problem). However, later studies cut to the potential root of the problem and examined the behavior and decisions of market participants.

For example, Odean (1998, 1999) and Barber and Odean (2000) find that individual investors are loss averse, exhibit the disposition effect, and trade too much. Researchers also discovered that employees making their pension fund decisions about participation (Madrian and Shea, 2001), asset allocation (Benartzi, 2001; Benartzi and Thaler, 2001), and trading (Choi, Laibson, and Metrick, 2002) are largely influenced by psychological biases and cognitive errors. Evidence also shows that even professionals such as analysts behave in ways consistent with psychologists' view of human behavior (DeBondt and Thaler, 1990; Easterwood and Nutt, 1999; Hilary and Menzly, 2006).

Cognitive psychologists have documented many patterns regarding how people behave.

Some of these patterns are as follows:

- *Heuristics*

Heuristics, or rules of thumb, make decision-making easier. But they can sometimes lead to biases, especially when things change. These can lead to suboptimal investment decisions.

When faced with N choices for how to invest retirement money, many people allocate using the 1/N rule. If there are three funds, one-third goes into each. If two are stock funds, two-thirds goes into equities. If one of the three is a stock fund, one-third goes into equities. Recently, Benartzi and Thaler (2001) have documented that many people follow the 1/N rule.

- *Framing*

People's perceptions of the choices they have are strongly influenced by how these choices are framed. In other words, people often make different choices when the question is framed in a different way, even though the objective facts remain constant. Psychologists refer to this behavior as frame dependence.

- *Emotions*

People's emotions and associated universal human unconscious needs, fantasies, and fears drive many of their decisions.

## 2.6 Ethnography

Ethnography is a qualitative research method aimed to learn and understand cultural phenomena which reflect the knowledge and system of meanings guiding the life of a cultural group. It was pioneered in the field of socio-cultural anthropology but has also become a popular method in various other fields of social sciences—particularly in sociology, communication studies, and history—that study people, ethnic groups and other ethnic formations, their ethno-genesis, composition, resettlement, social welfare characteristics, as well as their material and spiritual culture. It is often employed for gathering empirical data on human societies and cultures. Data collection is often done through participant observation, interviews, questionnaires, etc.

Organizational behavior (Bergman, 2003), strategy (Whittington, 2004) and accounting research (Dey, 2002), forms of ethnographic research have been utilized in order to address questions of 'culture'; 'strategic practice' and 'change'. Each of these areas is incredibly complex and has involved both ethnographic advocates and backlashes against attempts to 'capture' culture or waste time in its pursuit. Several ethnographers sit at the juncture between anthropological and management research through the use of ethnography (see, for example, Darrah, 1996; Rosen, 2000).

Baba (1986) suggests that the origins of organizational behavior lie in anthropological research such as the Hawthorne studies. It was in these studies that the grounds for in-depth, up-close studies of the everyday, routinized, informal activities of the workplace were established.



Czarniawska-Joerges (1992) traces the historical shifts which saw the fields of anthropology and management research move apart over time. She suggests that organizational-management research developed rapidly in the 1950s and 1960s, moving away from anthropological ideas towards supposedly scientific notions being developed in much sociological research at the time (for example, sociological researchers were pushing the development of survey sampling techniques, statistical formulas, experimental designs and data processing). However, Bate (1997) argues that it may be time for reconciliation.

Bate (1997) suggests that ethnography has an important part to play in demonstrating counter-intuitive aspects of this organizational activity. Bate draws on examples such as Latour and Woolgar's (1979) study of laboratory scientists, which suggested that objective, factual scientific method is far more complex and far less clear-cut than may be taken for granted. It is such counter-intuitive results, Bates argues, that offers ethnographic researchers the possibility of producing revelatory findings. Getting close to the organizational action is not just about telling the audience what they already know, but also involves a refusal to take anything for granted. In the same way that anthropologists encountered exotic locations, tribes and customs, the organizational ethnographer can shift the everyday into the exotic, by carrying out detailed and close examination of their subject matter.

Weeks (2004) provides a detailed ethnographic analysis of organizational complaining, at once both an ignored and frequent feature of workplace settings. Through a thoroughly sceptical treatment of each aspect of organizational activity, the ethnographer can get close to those everyday features of activity which hold the organization together.

Van Maanen (1979) argues that the purpose of organizational ethnography is 'to uncover and explicate the ways in which people in particular work settings come to understand, account for, take action, and otherwise manage their day-to-day situation'.

It should not be assumed that management research engages with ethnographic analyses without encountering problematic issues. For example, management research often operates with particular expectations regarding the number of publications to be produced. Ethnographic analyses generally operate at a far slower pace than alternative management research methodologies. In business schools, the utility of ethnography thus requires some demonstrative effort on the part of the ethnographer in convincing colleagues, heads of department and so on of some specific form of value.

Wakeford (2003) highlights a number of innovative and interesting directions that a hybrid of scholarly and corporate ethnographic research could take.

### **3. Research Gaps for Proposed Investigation:**

Review of literature leads to the following research gaps:

1. Behavioral Finance aspect in Microfinance is yet not been applied in absolute form.
2. More favorable outcomes of Social Capital in Microfinance lead to forming of nexus for fraudulent activities, which is not highlighted in the prior research studies.
3. Social Capital variables are not been correlated with the Microfinance variables at micro level.

### **4. Objectives:**

The Primary Objective of the research is to measure the Social Capital formed through microfinance intermediary processes in Community based Organizations through Ethnography by combining Social Capital Assessment Tool (SCAT) with suitable modifications.

The Secondary Objectives of the study are as follows:

1. To study the relationship between various Microfinance variables and Social Capital variables at Community based Organization Level.
2. To portray the in depth view of social aspects of microfinance beneficiaries through Ethnography.

### **5. Hypotheses:**

Following hypotheses have been formulated in accordance with objectives of the study:

#### **Null Hypothesis**

H<sub>0</sub>: Social Capital doesn't have any relationship with Microfinance.

**Alternate Hypotheses**

Ho<sub>1</sub>: Trust & Solidarity doesn't contribute significant role in Microfinance Intermediary Processes.

Ha<sub>1</sub>: Trust & Solidarity contributes significant role in Microfinance Intermediary Processes.

Ho<sub>2</sub>: Microfinance does not encourage Collective Action and Cooperation.

Ha<sub>2</sub>: Microfinance encourages Collective Action and Cooperation.

Ho<sub>3</sub>: Social Cohesion and Inclusion are not related to quantum of Micro saving and credit.

Ha<sub>3</sub>: Social Cohesion and Inclusion closely related to quantum of Micro saving and credit.

Ho<sub>4</sub>: Information and Communication do not affect Micro credit repayment patterns.

Ha<sub>4</sub>: Information and Communication significantly affects Micro credit repayment patterns.

Ho<sub>5</sub>: Groups and Networks of CBOs reduce reciprocity among group members.

Ha<sub>5</sub>: Groups and Networks of CBOs enhance reciprocity among group members.

Ho<sub>6</sub>: Bridging Social Capital is inappropriate type of Social Capital for Microfinance.

Ha<sub>6</sub>: Bridging Social Capital is most appropriate type of Social Capital for Microfinance.

**7. Research Methodology:**

**7.1 Research Design**

Proposed Research involves empirical investigation of micro nature which comprises social capital measurement of CBOs through microfinance. Proposed research characterized by the *prior formulation* of specific *research questions* and *hypotheses testing*. Thus, the information needed is clearly defined. As a result, this research is pre-planned and structured. It is typically based on predetermined representative samples and specifies the methods for selecting the sources of information and for collecting data from those sources.

**7.2 Sample Design**

*Population*- Community Based Organizations in Indian Microfinance Industry

*Elements*- Microfinance Beneficiaries which are framing significant part of CBOs

At the first stage, Microfinance Poverty Penetration Index (MPPI)<sup>1</sup> is taken to select states and regions of India. Microfinance India-State of the Sector Report 2010 envisages with MPPI of top five states as given below:

Name of state	MPPI	Weights
Andhra Pradesh	6.35	0.423
Tamil Nadu	2.77	0.184
Kerala	2.49	0.166
Karnataka	1.74	0.116
West Bengal	1.65	0.11
Source: State of the Sector Report-Microfinance 2010		

The top three states viz. Andhra Pradesh, Tamilnadu and Kerala are representing more than 50 % of MPPI. Hence, there are three states which are showing appropriate microfinance density and penetration among poor people.

At the second level, due to Cost and Time constraints, Convenience sampling has to be employed for microfinance beneficiaries and CBOs.

*Sample Size*- Since the probable sample size within the time and cost constraints, would be five hundred.

State	Probable Sample Size <sup>2</sup>
Andhra Pradesh	200

<sup>1</sup> Intensity of Penetration of Microfinance among Poor (MPPI) was derived by dividing the share of the state in microfinance clients by share of the state in population of poor. Since the microfinance clients are in the numerator, a value of more than 1 indicates that clients acquired were more than proportional to the population. Higher the score is above 1, better the performance. Lower the score from 1 the poorer is the performance in the state.

<sup>2</sup> State having higher MPPI carries higher Sample size.

Tamilnadu	150
Kerala	150
<b>Total Sample Size</b>	<b>500</b>

### 7.3 Sources of Data and Information

Primary as well as Secondary data sources will be used to generate evidence to supplement the research design.

The Primary source of data will include the respondents i.e. Microfinance Beneficiaries which are framing significant part of CBOs. The researcher will make it possible through any of the primary source data collection technique viz. observation, interview and structured questionnaires from the respondents as per the convenience.

Secondary sources will comprise Annual Reports of MFIs, Annual Reports of NABARD, publications of CGAP, World Bank's Social Capital Initiative, Social Capital and Microfinance Journals, Government of India's Policy Documents, Planning Commission's Reports etc.

### 7.4 Research Instrument

- *Social Capital Assessment Tool*

Social Capital Assessment Tool (SCAT) is a field tested set of indicators and methodologies that measure levels of cognitive and structural social capital in communities designated as beneficiaries of development projects. The SCAT draws on qualitative and quantitative data useful for determining baseline levels of social capital and monitoring progress over the course of project implementation, thereby permitting the analysis of the relationships between development indicators and social capital accumulation.

In the proposed research the SCAT has to be modified in accordance with Microfinance and its intermediary processes.

In the other part of the questionnaire, several questions and (or) statements included for sociological, psychological and behavioral variables which participate in the financial decision-making.

- *Ethnography*

Ethnography will be used to identify cultural dimensions, points of financial decision making and economic exchange, validity of the need of the microfinance and so forth of the CBOs. Primarily, ethnography is the qualitative method but there can be a possibility to "quantify" the levels or preferences of the variables. The focus of the ethnography will be laid down towards mapping of the sociological, cultural and behavioral finance variables of the individuals of CBOs.

### 7.5 Analysis Tools

The proposed research study envisages with the following analysis tools:

#### A. Statistical Analysis Tools

1. Factor Analysis
2. ANOVA, MANOVA, ANCOVA
3. Correlation, Partial Correlation
4. Regression, Multiple Regression, OLS Regression
5. Social Capital Index

#### B. Financial Analysis Tools

## 8. Chapter wise details of Proposed Research:

### *Chapter – 1 Introduction*

This Chapter is introductory in nature, which will cover the meanings and various dimensions of Social Capital, Microfinance, and CBOs.

### *Chapter – 2 Social Capital in Microfinance and CBOs*

This chapter would cover all the aspects of Microfinance by which social capital takes place.

Group-based microfinance programmes, based on trust and solidarity among members, currently dominate development policy and practice as the approach compensates for individual poor's lack of material resources and market imperfections.

### *Chapter – 3 Ethnographic and Behavioral Issues in Microfinance and Social Capital*

This chapter would cover the Ethnographic and Behavioral issues in microfinance. Instead of this, this chapter will discuss Points of financial operations and role of behavioral and psychological variables of lenders and borrowers simultaneously.

#### ***Chapter – 4 Review of Literature***

This chapter would cover the various paper books authored; research studied carried out, research made by various trade bodies, their findings and conclusion on the similar or identical title. This would also cover the various interdependent dynamics of microfinance and CBOs. Moreover, this chapter is also deals with the review of current social capital theory including the dimensions of social capital, the levels at which it is located, the types of social capital, the determinants of social capital, the benefits and importance of social capital and the disadvantages or downsides of social capital.

#### ***Chapter – 5 Research Methodology***

This chapter would present the objectives for this research study. The chapter shall also discuss the Hypotheses to be tested and the research design, sample design and the method of data collection which will be used. The Measurement part of Social Capital is complex due to the nature of social networks. Social Capital Assessment Tool developed by the World Bank will be discussed in detail.

#### ***Chapter – 6 Data Analysis and Interpretation***

This chapter would cover the analysis of data gathered from Primary and secondary source, interalia covers the analysis of Primary data gathered from Judgment sampling at first level and Convenience sampling method, by application of various statistical tools such as Chi Square test, factoring and other advance statistical applications. This would equally cover the secondary data analysis from Ratio analysis management tools etc.

#### ***Chapter – 7 Findings, Conclusions and Recommendations***

This chapter would be based on the results and observations recorded through the analysis and interpretation from the previous chapter. This chapter would give the final outcome of the present study, which can further be used for advance studies, on the subject.

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