

Trust, Social Capital, and Intermediation Roles in Microfinance and Microenterprise Development

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Abstract This study examines the role of trust and intermediation functions in microfinance and microenterprise development. Fifteen Self-help Groups (SHGs) were selected from three different locations in India for Focus Group Discussions (FGDs) and in-depth personal discussions. The peer trust was found higher than the intermediation trust during the microfinance group formation as well as group operations. The level of intermediation trust was higher than the peer trust during microenterprise development. The entry level trust was cognitive in nature, and transformed to ‘affective peer trust’ and ‘affective intermediation trust’ at the operational level. Trust was found to be the causality of social capital in SHGs. Intermediation trust was higher for early adopters of entrepreneurship than that of the late adopters. In case of microentrepreneur, the cognitive intermediation trust was transformed to affective intermediation trust with the passage of time.

Résumé Cette étude examine le rôle de la confiance et des fonctions d’intermédiation dans le développement du microfinancement et des microentreprises. Quinze groupes d’entraide ont été sélectionnés dans trois endroits différents d’Inde pour des discussions de groupe ciblées et des discussions personnelles approfondies. Il a été constaté que la confiance entre homologues était supérieure à la confiance d’intermédiation au cours de la formation du groupe de microfinance et les opérations de groupe. Le niveau de la confiance d’intermédiation était supérieur à la confiance entre homologues au cours du développement des microentreprises. La confiance de départ était de nature cognitive et était transformée en « confiance affective entre homologues » et en « confiance d’intermédiation affective » au niveau opérationnel. Il a été constaté que la confiance était la causalité du capital

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social dans les groupes d'entraide. La confiance d'intermédiation était supérieure pour les adopteurs précoces de l'entrepreneuriat à celle des adopteurs tardifs. Dans le cas du microentrepreneur, la confiance d'intermédiation cognitive était transformée en confiance d'intermédiation affective avec le temps.

Zusammenfassung Diese Studie untersucht die Rolle von Vertrauens- und Vermittlungsfunktionen bei der Entwicklung der Mikrofinanzierung und von Mikrounternehmen. Es wurden 15 Selbsthilfegruppen aus drei verschiedenen Orten in Indien für Fokusgruppendifkussionen und ausführliche persönliche Gespräche ausgewählt. Man stellte fest, dass das Peer-Vertrauen bei der Gründung der Mikrofinanzgruppe sowie den Gruppentätigkeiten größer war als das Vermittlungsvertrauen. Während der Entwicklung des Mikrounternehmens war das Vermittlungsvertrauen größer als das Peer-Vertrauen. Das Vertrauen auf der Einstiegsstufe war kognitiver Art und wandelte sich auf der betrieblichen Ebene in „affektives Peer-Vertrauen“ und „affektives Vermittlungsvertrauen“. In den Selbsthilfegruppen erwies sich das Vertrauen als die Kausalität des sozialen Kapitals. Das Vermittlungsvertrauen war bei frühen Teilnehmern der Unternehmung größer als das Vertrauen bei späteren Teilnehmern. Bei den Mikrounternehmern wandelte sich das kognitive Vermittlungsvertrauen im Laufe der Zeit in affektives Vermittlungsvertrauen.

Resumen El presente estudio examina el papel de la confianza y de las funciones de intermediación en el desarrollo de las microfinanzas y las microempresas. Se seleccionaron quince Grupos de Autoayuda (Self-help Groups, “SHG”) de tres lugares diferentes en India para Debates de Grupos Focales y debates personales en profundidad. Se encontró que la confianza entre iguales era mayor que la confianza de intermediación durante la formación del grupo de microfinanzas, así como también en las operaciones del grupo. El nivel de confianza de intermediación fue superior que la confianza entre pares durante el desarrollo de microempresas. La confianza en el nivel de entrada era de naturaleza cognitiva, y se transformó en “confianza afectiva entre pares” y “confianza afectiva de intermediación” a nivel operativo. Se encontró que la confianza es la causalidad del capital social en los SHG. La confianza de intermediación fue superior para los primeros en adoptar el espíritu emprendedor que la de los últimos en adoptarlo. En el caso del microempresario, la confianza cognitiva de intermediación se transformó en confianza afectiva de intermediación con el paso del tiempo.

Keywords Microfinance · Microenterprise · Trust · Social capital · Intermediation role · Self-help Group

Introduction

Microfinance is defined as the provision of financial products (i.e. microcredit, microsaving, microinsurance, remittances, micropensions, etc.) and financial services (financial intermediation, social intermediation, business development

service) for the poor and unbankables (Panda 2009; Ledgerwood 1999). Microfinance is not a new concept. It is an old thrift and credit model devised for farmers and microentrepreneurs to support their credit needs. One of the major intentions of microfinance interventions is to develop microenterprise and microentrepreneurship with the intermediation of business development services (including the capacity building programmes). There were evidences of creation of self-employment and microenterprise by various microfinance programme interventions (Khandker et al. 1998). Further, customization of microfinance intervention (with respect to business requirements; and that tremendously helped in financing small startups (Eversole 2000). It has immensely improved the business sense of programme beneficiaries and strengthened them to undertake enterprising activities (Rutherford 1998, Hickson 2001) even in places devoid of institutional and supporting facilities (Shaw 2004).

Significant literature on microfinance has been developed over last three decades, such as ‘Finance Against Poverty’ by Hulme and Mosley (1996), ‘Microfinance Handbook’ by Ledgerwood (1999) and ‘Economics of Microfinance’ by Armendariz and Morduch (2007). Adding to this pool of literature various noteworthy studies were conducted to capture the diverse dimensions of microfinance, for example, the theory on joint liability in group lending and repayment (Besley and Coate 1995), graduation from group lending to successful repayment (Rahman 1999), importance of social intermediation and participatory approach for sustainable village banks (Bennett et al. 1996), financial intermediation roles of non-government organizations (Hiatt and Woodworth 2006), association between repayments and sustainability in thrift and credit groups (Handa and Kirton 1999), peer selection and joint liability in group lending (Ghatak 1999), rural poverty alleviation and development in developing nations (Khandker et al. 1998; Mosley 2001; Hiatt and Woodworth 2006), microcredit lending models (Dasgupta 2005), fungibility of money and control on credit usages (Goetz and Sengupta 1996), women empowerment and gender roles (Kabeer 2005), importance of public resources, capital market and financial institutions in microfinance programmes (Mahajan 2005), microfinance impacts especially income effect, consumption effect, saving employment effect, empowerment effect, literacy effect (Morduch 1995; Khandker et al. 1998; Rutherford 1998; Coleman 1999; Panda and Atibudhi 2010), impact assessment methodologies (Hulme 2000a; Karlan 2001) and the darker side of microfinance (Hulme 2000b).

Three major research gaps have been identified in the field of microfinance literature. *First*, most studies have focused on understanding programme influences across various socio-economic indicators of beneficiaries, i.e. income, expenditure, saving, migration, literacy, employment, gender, empowerment, etc. (Morduch 1995; Khandker et al. 1998; Rutherford 1998; Coleman 1999), but there is lack of significant studies probing deep into microfinance programme impacts on microenterprise or microentrepreneurship (i.e. what impact and how impact). *Second*, studies attempted to measure the impact outcome of microfinance on microenterprises across enterprises variable, i.e. finance indicators (Field et al. 2013; Mersland 2013), but did not examine a phenomenon associated with the group dynamics which may impact on microentrepreneurship development and creation of

microenterprises. *Third*, many studies have cited the intermediation roles of Non-government Organizations (NGOs) and Microfinance Institutions (MFIs) in enterprise development, but the examinations are limited to visible contribution in terms of provision of financial products or imparting business training programme or any other support (Panda 2009). The present body of literature however, is devoid of inquiries concerning how intermediation factors, especially in the psychological and sociological dimensions, which are in turn associated with enterprise creation and development.

Trust as a subject has occupied a substantial position across sociology, economics and organizational studies. Sociology literatures described *trust* in the domain of human characteristics, i.e. human value, emotion and feeling of an individual (Wolfe 1976). Organization studies believed *trust* as an attribute for collective action to achieve organization goal (Misztal 1996). Trust mollifies the adverse effects of the cultural differences and expedites institutional trust in developing economies (Hain et al. 2015). *Trust* has been discussed from the standpoint of human group performance, i.e. as a prerequisite to group performance and effectiveness (Friedlander 1970), and an influencer to the motivation which further positively influences group performance (Dirks 1999). The role of *trust* and *social capital* in the context of intermediation support of microenterprise development has not occupied a significant space in the present body of literature. The present list of literature lacks studies which binds trust, social capital, intermediation roles and entrepreneurship development in a common thread. Keeping future research of Kwon and Adler (2014), and research gaps in the field of microfinance in view, this study attempts to examine if trust and social capital has any influence on microenterprise development and group dynamics in microfinance programmes.

Microfinance programmes across the world are varied in nature with respect to the programme structure. There are two dominant models of microfinance interventions practiced in most of the countries. *Model-1*, the microfinance institution (a Non-government Organization or a Non-banking Financial Institution) engaged in the delivery of financial products to the clients and also engaged in the provision of intermediation services like social intermediation, financial intermediation and business development (Ledgerwood 1999); *Model-2*, the microfinance group carries out the group lending, group saving and other developmental activities, and the NGO as an intermediary engaged in providing social intermediation, financial intermediation and business development services (for example, the Indian Self-Help Group) (Panda 2009). Past studies have significantly discussed on the first model (Armendariz and Morduch 2007; Khandker et al. 1998; Morduch 1995; Ghatak 1999; Coleman 1999). However, very less attention has been paid to the microfinance interventions through Model-2; hence, there arises a need to have in-depth discussion of Model-2 based microfinance programmes.

The SHG-Bank Linkage Programme (SBLP) of India is considered the largest microfinance intervention in the world. The major motive of the SBLP was financial inclusion and enterprise development (Panda 2009). The importance of NGO intermediaries was considered paramount in the SBLP (Panda 2012). Therefore, it invites the attention of microfinance researchers for a deep probing of the trust matters in the intermediary roles, especially in microfinance and microenterprise operations.

This qualitative study was exploratory in nature and attempted to identify the trust matters in self-help, thrift and credit activities and microenterprise development under Indian Self-Help Group (SHG)-based microfinance programmes. The study focused on two significant elements of microfinance programmes: (i) trust and (ii) NGO intermediation. There are seven major sections in this paper: introduction, literature, method, data & results, discussion, conclusion, and limitations & future research. The literature section makes a deep scanning of existing studies which provided three important questions for designing further sections of this study. The method section discusses on sampling and data collection methods, conducting focus group discussion and personal interview, and analytical procedures followed. Qualitative data collection methods have been engaged to gather information from SHGs. Further, grounded theory constant comparison method, selective coding and axial coding methods are followed under the analytical procedure. Thereafter, data & results section explains the nature and structure of data and creates a structural framework explaining the central phenomenon of the study. The discussion section includes a detailed analysis on the results and compares the same with past studies. The conclusion section consolidates the study outcomes, followed by the limitation and scope for future research.

Literature

Role of intermediation is intensely discussed in the finance literature (Pyle 1971; Merton 1995). Also, there is literature discussing on the importance of financial intermediation in small businesses with respect to provision of financial services like credit, insurance and securities by financial institutions (Cumming et al. 2008). However, in-depth discussions are missing on other institutional intermediation (social intermediation, business development services, strategic advisory services, etc.) in the entrepreneurship literature. A recent study by Lim et al. (2010) observed that Institutions did act as mediators in venture creation worldwide. Kamukama and Natamba (2013) found social capital as a mediator between social intermediation and financial institutions. In microfinance literature, there are evidences showing business development services and the social intermediation services of microfinance organizations have tremendously improvised business sense of microentrepreneurs (Garming et al. 2013).

Kramer (1999) explained organizational trust as a psychological state and a choice behaviour (a rational choice or relational choice). In the perspective of transactional theories, the importance of trust-based intermediation was highlighted by Merton (1995) and Giusta (2008) focusing how trust influence the intermediation outcomes. Trust as a subject was discussed in partnerships, organizational collaborations and alliances (Mohr and Spekman 1994; Kochan and Rubinstein 2000). Studies discussed trust from the viewpoint of its types and sources, i.e. individual (Nahapiet and Ghoshal 1998), mutual (Coleman 1988), social system (Fukuyama 1995), and sources of trust, i.e. social structure (Coleman 1988) and reciprocity (Putnam 1993). Two very important dimensions of trust were discussed in the past: cognitive trust and affective trust (Newman et al. 2014a; Morrow et al.

2004; Erdem and Ozen 2003) where shared goal was a common antecedent to both these dimensions (Zur et al. 2012). Previous studies discussed trust with regard to (a) two different levels, i.e. organizational trust and interpersonal trust, and (b) two different motives, i.e. credibility and benevolence (Ganesan and Hess 1997). Studies identified four dimensions of trust of clients on service providers, i.e. entry level trust, accuracy level trust, privacy level trust and intervention level trust (Dahal et al. 2014). But the role of trust was not discussed in other form of institutional intermediation to empower and capacitate micro-level ventures, i.e. does trust play a role in social intermediation or business development services under microfinance supported small ventures, and if so then how and what is the role of the trust in microenterprise development?

Question 1 Does intermediation trust play a role in enterprise development?

The literature on social capital discussed it from the perspective of trust and networks, as a means of coordinating and collective action among people (Burt 2001; Ferri et al. 2009). Most work on social capital was conducted from an organizational perspective, from the point of view of networks and from the perspective of knowledge transfer (Inkpen and Tsang 2005). Burt (1997) worked extensively on contingent value of social capital. Adler and Kwon (2002) worked on the conceptualization of social capital in organizational theory, i.e. developing a conceptual framework identifying the sources, benefits, risks and contingencies. Thereafter, social capital was discussed across various dimensions, and later Bjornskov and Sonderskov (2013) argued that the notion of social capital was a weak concept as a social indicator for quantitative analysis even though it was a productive idea. Subsequently, Kwon and Adler (2014) argued that the social capital concept was widely covered in the research community, and further studies indicated a shift towards more specific mechanism and aspects. Kwon and Adler (2014) illustrated the sources of social capital from the dimension of opportunity (structural dimensions), cognitive networks, potential and mobilized ties, motivation and ability, but they have shown a research gap in the causality of social capital and types of social capital.

Fukuyama (1995) argued trust as a manifestation of social capital. Castelfranchi (2008) illustrated trust as not only an attitude (exception from others, believing in others) but also willingness to rely on others making one vulnerable and dependable on others. Economic ties among members and group structure predicted the level of cognitive social capital creation in the form of collective action in microfinance groups (Sanyal 2009). Social researchers claimed that trust and social capital had the same origin, but most researchers appealed that trust was an integral part of social capital (Coleman 1988, Putnam 1993). Some studies noticed trust as an outcome of social capital (Field 2003). Few researchers explained social capital as bounded solidarity (Portes 1998) in the cognitive dimensions (Nahapiet and Ghoshal 1998). Hence, common beliefs, thinking and experiences led to collective action and empowerment. A study noticed institutional trust as a key dimension to cognitive social capital (Akram and Routray 2013). The link between *trust* and *social capital* was initially established by Coleman (1988) and Putnam (1993) who claimed trust as a component of social capital. However, there had been contradictions to this

view (Misztal 2000). Some studies found *trust* as an outcome of *social capital* (Woolcock 2001) and causality of *social capital* (Sztompka 1999).

Question 2 How are trust and social capital related to each other in microfinance programmes?

Microfinance literature has emphasized the role of intermediaries creating social capital in programme beneficiaries during forming, norming and performing of women SHGs (Newman et al. 2014a, b; Ledgerwood 1999; Panda 2009). Social capital in the entrepreneurship literature vividly discussed in terms of networking, relationships, social interactions and empowerment (Foley and O'Connor 2013). Social capital as an entrepreneurial instrument enacted in enhancing joint problem solving capability (Bowey and Easton 2007), risk mitigation capability (Gao et al. 2013) and decision-making capability (Jansen et al. 2013). Social capital is an important element for new venture creation (Debrulle et al. 2014) and startup growths (Pirolo and Presutti 2010). Studies found social capital enhancing and incubating entrepreneurship, business growth in microentrepreneurs and small enterprises (Kickul et al. 2007; Cruickshank and Rolland 2006; Honig and Karlsson 2010; McGowan et al. 2015; Roomi 2013). Social capital played an important role in the entrepreneurial process for accessing tangible and intangible resources (Ferri et al. 2009). Mosley et al. (2004) described social capital creation in the angle of trust and association, i.e. (i) between members, (ii) between members and microfinance group, and (iii) between members or group and intermediary organization.

Question 3 How is social capital created and how is it associated with microenterprise development?

Method

Data were collected from SHGs using two-stage Focus Group Discussions (FGDs) and personal interviews. Qualitative approach was adopted to analyse the data using the approach of Stewart and Shamdasani (2015). Multiple FGDs acted as a proxy for theoretical sampling and plurality (Charmaz 2000). The constant comparison method in grounded theory approach was followed. Classical content analysis was used (between the group and across groups for context analysis) for contextualization for a thematic development. Testing of reliability and validity of the research design was done following Yin (2009) (Table 1).

Sampling and Data Collection

SHGs were selected from all high-programme intensity (Telangana), moderate-programme intensity (Orissa) and low-programme intensity states (Jharkhand) to prevent overestimation and underestimation of results, respectively (Panda 2009). The requisite information was collected from microfinance groups (SHGs), i.e. microfinance clients and microentrepreneurs. Assistance from NGOs (engaged in organizing urban SHGs) was taken to get the list of existing SHGs in urban slums.

In order to eliminate the possibility of individual bias, focus group discussions (FGDs) were conducted where the researcher himself acted as the moderator

Table 1 Validity and reliability testing

Tests	Phases of research	Tactics
Construct validity or dependability (identification of correct operational measures for the concepts being studies)	Data collection	<ol style="list-style-type: none"> 1. Data triangulation: multiple source of evidences, i.e. FGDs and personal interviews 2. Plurality: multiple FGDs and multiple personal interviews 3. Methodological triangulation: comparing transcribed data with audio recorded data
Internal validity (seeking to establish causal relationship)	Data analysis	<ol style="list-style-type: none"> 1. Pattern matching: having constant comparison among FGD information and personal discussion information 2. Explanation building: constructing an initial theoretical statement, revising the theoretical statement comparing the other details and repeating the process until no further change possible with the given information
External validity (the extent of generalization of the study results)	Research design	<ol style="list-style-type: none"> 1. Neutralization of programme intensity: selecting a sample from high-, moderate- and low-programme intensity areas
Reliability (dependability)	Research design	<ol style="list-style-type: none"> 1. Deriving theoretical statement and structural framework from first round of FGDs and personal interviews, and testing the theoretical statement and the structural framework in the second round of FGDs

(Gibbert and Ruigrok 2010). To maintain the plurality, 15 SHGs from among the active groups in the urban slums of Ranga Reddy District of Telangana State, Puri District of Orissa State and Ranchi District of Jharkhand State in India (5 SHGs from each locations) were randomly selected. In order to study the true impact of microfinance, SHGs that were at least 3–4 years old were selected (Yunus 2007). All SHG members were requested to present in the FGD. About a day (3–5 h) was spent for each FGD. The member participation rate was roughly 75–80 percent. Semi-structured questions were designed pertaining to the research gaps, and those were asked to the microfinance clients in the FGDs. Two types¹ of membership were noticed in SHGs, e.g. (i) entrepreneurs and (ii) non-entrepreneurs. Also, two

¹ A fundamental question raised by this study. As per the SHG format, the members were self-selected and they were from the homogenous socio-psycho-economic background (Panda 2009). Armendariz and Morduch (2007) observed that the SHG participants self-select themselves for one or many reasons. Coleman (1999) observed that the projects participant have similar individual attributes which makes them different from non-members, and these attributes could be entrepreneurial ability, coping mechanism, risk bearing ability, etc. If so, then an individual self-select to a microfinance programmes if she has entrepreneurial ability, coping mechanism, risk bearing ability, etc. Going by this logic, all members in a SHG should have entrepreneurial ability, coping mechanism, risk bearing ability, etc. Then why all the members are not microentrepreneurs? I believed that the personal discussion will be able to explore the causality of this phenomenon.

formats of microenterprises observed with respect to ownership of microenterprises: (i) sole owners: microfinance clients who have undertaken their individual microenterprises and (ii) joint owners: more than one microfinance clients jointly undertaken a microenterprise. To make a deeper probe into this inquiry, SHG members were segmented into three categories for personal discussion: (i) non-microentrepreneurs: members who did not have microenterprises, (ii) sole owners: members who individually owned a microenterprise and (iii) joint owners: members who owned a microenterprise jointly with other members. Randomly one member from each category from each SHG was selected for personal discussion. So, altogether 15 respondents from each segment (e.g. 45 respondents from all the three segments) were selected for personal discussion.

Conduction of Focus Group Discussion and Personal Interview

Every SHG had a monthly group meeting as per their group policy. Some of the group meetings were moderated by NGO intermediaries. In the beginning, the dates and times of SHG group meetings for each sample SHGs were identified from their respective president and secretaries (office bearers), and then SHG members were communicated the proposed FGD date and time with the help of their president and secretaries. The FGDs were conducted just after the members were done with their official SHG meetings. During the FGD, members were requested to take part in the discussion, and the intermediary NGO functionary was requested to leave since the presence of NGO staff might have influenced the participation of members. In the first phase, a preliminary discussion with group members was conducted explaining the purpose of the FGD. This meeting was helpful in identifying all the members interested to participate in the discussion. On an average, each FGD consisted of eight to ten participants. The discussion was moderated administering predetermined questions with the support of local language translators. However, some information leakage was noticed in the process of local language translation. To counter the same, responses of the participants were audio recorded and was later translated to English by another language translator. Then the translated audio recordings were compared with the memo with the help of the local language translator to identify if any information leakage and misinterpretation (Stewart and Shamdasani 2015). In some cases, half-finished thoughts, broken words and incomplete sentences were found. Thereafter the researcher filled in the gaps between words just after the FGD was done.

Questions designed for personal discussion were both generic and specific in nature (see Appendix for personal interview questions). The FGD questions were designed to capture various dimensions of intermediary trusts while the personal discussion questions broadly focused on social capital dimensions (Appendix). Each of the personal interviews lasted about an hour.

Data Analysis

First, an iterative process of reading, analysing and rereading the text of all FGDs was done followed by the semantical content analysis (i.e. the frequency at which

certain concepts, phrases and adverbs are mentioned, the frequency at which certain object is classified) and sign vehicle analysis (number of emotion-laden words used). Various concepts, their properties and dimensions were identified by coding methods following Walker and Myrick (2006) [open coding (data analysis through line-by-line, sentence-by-sentence, paragraph-by-paragraph and document-by-document analysis to generate conceptual and theoretical ideas) followed by selective coding and axial coding (causal condition-central phenomenon-context-intervening condition-action/interaction-consequences)].

For the personal interview data analysis, responses of all the respondents were read [for example, first all responses to question 1 and then all responses to question 2 etc.]. From each question, similar ideas were clustered together [signifying an acceptable representation of an outcome/event/idea]. Thereafter, it was found that some responses answered by respondent for one thematic question was pertinent to another thematic question. All the responses/ideas/reactions of each respondent were identified and assigned the applicable thematic question/theme. Explanation building was done by constructing an initial theoretical statement (an attempt was made to interlink the ideas/outcomes/reactions to theorize the relationships among various variable and analysed on the basis of an inductive reasoning), revising the theoretical statement, comparing other details and repeating the process until no further change was possible with the given information. Finally a semi-structured structural framework was designed.

Testing of the Structural Framework

Second round of FGDs was conducted to test the theoretical statements and the structural framework. The theoretical statement and structural framework were put in the SHGs, and the members were requested to discuss for further refinement. Based on the input of the FGDs, the final structural framework was designed.

Data and Results

The study found two significant consequences of the SHG-based microfinance programme. One set of consequences was group activity, i.e. empowerment and linkage and contact building. This consequence was named as '*Social Capital*' (Foley and O'Connor 2013; Anderson et al. 2007). The other consequence was 'entrepreneurship'. *Trust* was found to be the central phenomenon in creation of social capital and microentrepreneurship. Six codes under the concept '*trust*' were identified. These codes were (i) beliefs, (ii) feelings, (iii) responsibilities, (iv) affection, (v) likings and (vi) supporting. Also six types of trust (along with the intensity as a key dimension) were noticed in the SHGs: *First*, peer trust: trust between microfinance group members [Intensity increased with time]. *Second*, intermediation trust consisting of (i) interpersonal intermediation trust (trust between group member and NGO worker) and (ii) organizational intermediation trust (group members' trust on the NGO organization) [Intensity increased with

time]. *Third*, entry level trust: trust among the group members and group members' trust on NGO worker, and NGO Organization at the beginning of the microfinance intervention (low intensity). *Fourth*, operational level trust: trust among the group members and group members' trust on NGO worker and NGO at the operational

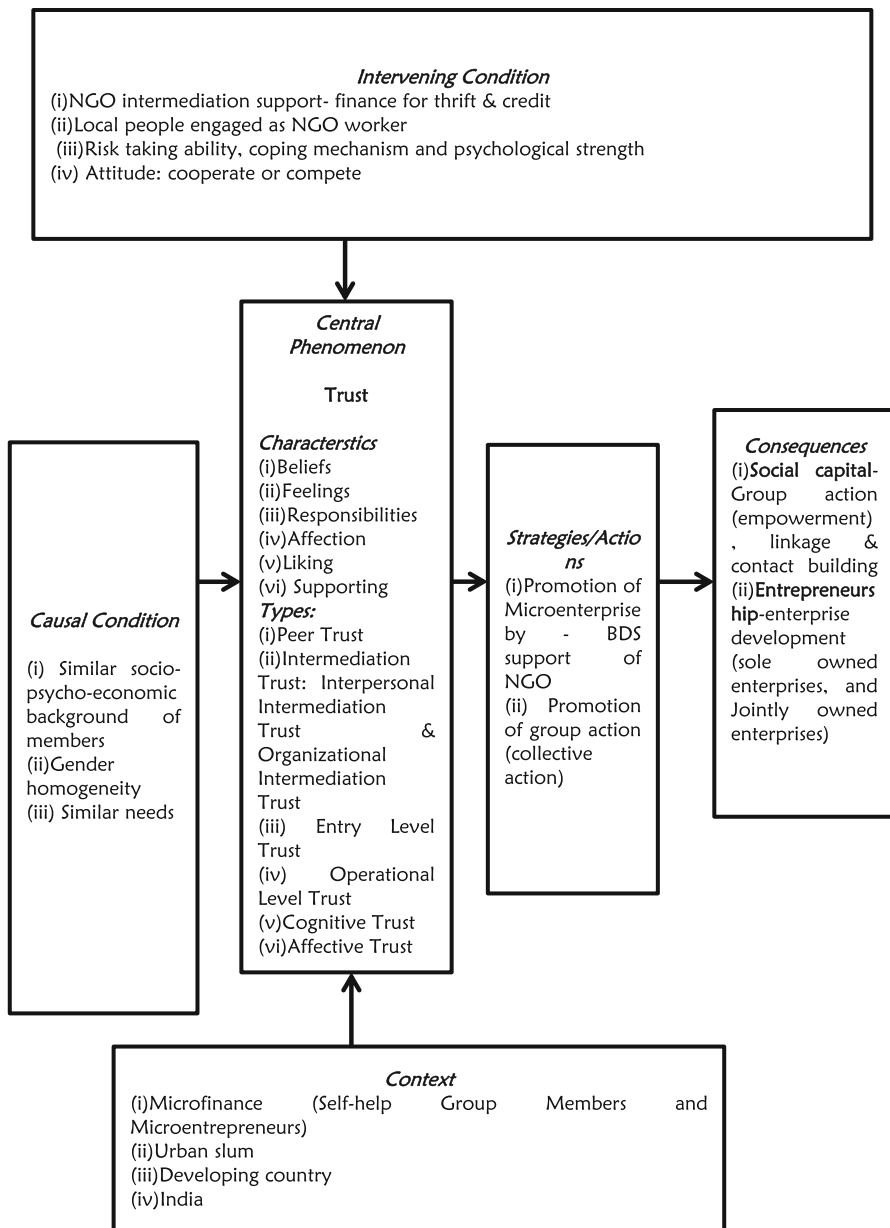


Fig. 1 Generic framework of trust and social capital in Self-help groups

level, i.e. when the programme became 2–3 years old (high intensity). *Fifth*, cognitive trust: members' trust on NGO workers because they understood from different sources that the NGO has a purpose and the NGO worker must do certain tasks (low intensity). *Sixth*, affective trust: members' trust on NGO workers due to a long relationship (high intensity) (see Fig. 1). The central phenomenon was not static rather dynamic in nature, i.e. one form of trust was converted to another form of trust over time.

The intervening conditions of the central phenomenon (trust development) were (i) NGO intermediation support—finance for thrift and credit and (ii) local people engaged as NGO worker. There were two reasons behind the creation of the intermediation trust, and these reasons were (i) interpersonal intermediation trust: the signals of integrity and benevolence of the NGO worker (spending hours together with slum dwellers in understanding their issues and participating in resolving issues) and (ii) organizational intermediation trust: members' understanding on the role and responsibility of NGO as a development organization.

The central phenomenon was subjected to the context of (i) microfinance programmes, (ii) urban slum, (iii) developing country and (iv) India. The trust (formation and transformation of trust) gave rise to a set of actions/strategies [(i) promotion of microenterprise by BDS support of NGO, and (ii) Promotion of group action] which finally led to the two consequences, i.e. (i) social capital and (ii) entrepreneurship.

Discussion

The study noticed two types of trust in the sample SHGs, i.e. *peer trust* and *intermediation trust*. Peer trust ascended from the combination of *cognitive trust* and *affective trust* during SHG formation. The level of cognitive trust was higher than affective trust in the SHGs during the group formation phase (since individuals self-select into SHGs after knowing the background of the peer members). Even though members had the cognitive understanding of the purpose of collective action, few members dropped out from the SHGs just after the group formation due to the lack of affective trust (i.e. Inability to emotionally understand and participate in the collective action). However, a combination of cognitive and affective trust ensured active membership in the SHG for the purpose of thrift and credit.

Intermediation Trust in SHG Formation

The intermediation trust (i.e. SHG member's trust on the NGOs and their functionaries) was cognitive in nature at the entry level since SHG members believed that the NGOs and their functionaries were reliable, responsible, committed and competent (Nahapiet and Ghoshal 1998). In the beginning, the intermediary NGOs patiently explained slum dwellers the purpose and role of forming SHGs, and thereafter, some slum dwellers self-selected themselves to the groups. The self-selection (of the members) to the SHGs was governed by (i) similar socio-psycho-economic background or similar expectations of the members and (ii)

members' belief in the NGO and its functionaries. SHG members clearly perceived the goodwill and good intentions of the NGOs (i.e. the NGO functionaries had come to do something good for them) in the forming stage. The initial trust (trust of an individual on an individual) was instrumental in the creation of membership in SHGs. The formation of the initial trust was triggered by (i) the signals of integrity and benevolence of the NGO worker (spending hours together with slum dwellers in understanding their issues and participating in resolving issues) and (ii) the role of the NGO as a development organization (for example, some SHG members said that they believed in the NGO because they came to know that NGO's job was to develop the slums through poverty alleviation programmes). Some members responded *'the NGO workers are not different from us. They are like us and among us. The only difference is that they reside in another slum. They understand us and we understand them'*. Since NGO functionaries have been working with the SHGs for a long time, so this *cognitive trust* would have influenced in the development of *affective trust* (Newman et al. 2014a, b). Hence, it can be assumed that the membership or participation in a SHG was determined by (i) trust on the NGO workers and (ii) trust on an organization, i.e. NGO.

Peer Trust and Social Capital in SHG Formation

Self-selection of a member into the SHG was predicted by trustworthiness of the other members. The other variables (apart from common socio-psycho-economic background as a prerequisite) which influenced the slumdwellers' self-selection into the groups were common thinking, common beliefs, common expectations and similar experiences. Hence, it can be claimed that trust among peers led to participation in the SHG (Coleman 1990). It was found that every SHG experienced membership drops and new memberships in the first few months of their formation. Most members revealed that *'in the initial days some members (who were seemingly trustworthy at the beginning of SHG formation) either voluntarily step-down or asked to step-down from the group because of failing in the collective action in terms of thrift and credit operations.'*² *Even to understand our own peer, we need to*

² The self-selected members organized themselves into groups and then selected a president, secretary and a treasurer for the group with the help of the NGO. Thereafter, the SHG members started micro-scale banking with an active intermediation support from the NGO. Members contributed a regular monthly saving (a predefined saving amount for members in SHGs) to the group's saving pool, and the group started lending interest bearing credits to members from the group saving pools (with a predefined lending criteria). The interest rates on credit, repayment period, penalty, etc., were predefined. However, in some SHGs the monthly saving amount, credit disbursement criteria, interest rates on credit, repayment period, penalty, etc., were changed with time as per the appeal of most of the members. SHGs have opened a bank account in the name of the SHG at their nearest nationalized commercial bank. They were depositing the collected monthly saving in the bank and withdrawing during credit disbursal or whenever necessary. Every SHGs has conducted fortnight meetings which were called as group meetings. The monthly saving was ranging from Rs. 50 to Rs. 200 per member per month. There were two types of credits, i.e. (i) production credit and (ii) consumption credits. Production credits included credits for the purchase of productive assets, while consumption credits included credits for children's education, health expenses or social obligations. However, interest rates of both of these credits were same for all the SHGs. With respect to repayment periods, different SHGs have had different repayment plans.

work together'. This signified that (i) trust led to collective action and (ii) trust developed over time while working together.

Peer Trust and Social Capital in Enterprise Development

Peer trust with respect to thrift and credit was found to be different from the peer trust with respect to enterprise development. Two formats of enterprises were noticed, i.e. enterprise owned by a single member (sole owner) and enterprise owned jointly by members (joint owners). Joint owners had trust on their partners with respect to their *entrepreneurial ability*, *expected business outcome* and *collective action* in their enterprise. Joint owners said that *'we are different with respect to our functional capability; somebody good at contacts while somebody good at production. However, we learn business functions from each other'*. Fundamentally, it was the *peer trust* which led members to collaborate, thereby facilitating growth in entrepreneurial ability. When sole owners were asked the reason behind selecting a particular enterprise format (selection of sole owner format instead of joint owner format), there were two dominant sets of reactions from them, i.e. (i) other members likely to take a free ride at their cost and (ii) inability of other members to assimilate business activity at the same pace at which sole owners did. In the triangulation process, the non-microentrepreneurs and joint owners also revealed their inability to assimilate and decipher business problems, and grab business opportunities at the level of the sole owners. The mental power of assimilation of enterprise problems was probably a function of entrepreneurial ability in SHG-based microentrepreneurship programmes. It was also noticed that the sole owners continued to help joint owners and prospective entrepreneurs in conceptualizing business and enterprise plan, forward and backward linkages, production practices, etc. Competitions prevailed between sole owners and joint owners for resources. Sole owners lobbied for resources in SHG and NGO guaranteed their successful utilization of resources (for example, sole owners lobby for larger credits from group fund, resource grants from NGO promising sure repayments and optimum utilization). Competition also existed among sole owners for larger share of resources and credits from the group. Hence, there existed both cooperation and competition among members with respect to microenterprise resources.

The study identified two distinct traits common in jointly owned microentrepreneurs, and those traits were (i) proactiveness and (ii) truthfulness. Members in jointly owned microenterprises quoted *'we should be ready to bear the ownership of our success and failure. The blame game is dangerous. It is not only destroying the enterprise, but also brings negativity in group activities. If there is a window of opportunity, whoever (from our microenterprise) available at that point of time should own the responsibility to grab that opportunity. Though there were many cock fights among ourselves for some business decisions, and actions but we believed in the intentions of our business partners'*. The above excerpt shows that the partnerships in microenterprises were governed by trust among partners, and the trust was represented by an expected outcome of proactiveness and truthfulness from members.

The risk-averse behaviour was the most common feature among non-microenterprise members (those members were safer borrowers who spend their money when they are assured of the certainty of their return). Non-microenterprise members viewed entrepreneurs as risk-loving members. For example, some non-microenterprise members said *'my peer's family has a sound source of income so she can take a risk. Our family does not have a stable income source. So we cannot take risks like them'*. Non-microenterprise members were typically late adopters, while the microentrepreneurs were the first movers or early adopters with respect to microenterprise development. There were some members who earlier entered into microenterprises but withdrew after some time due to lack of a coping mechanism and psychological strengths. For example, some non-enterprise members cited was *'my peers' families do not have many responsibilities, but we have in terms of taking care of ailing parents, children, ill family members and in-laws'*. Non-microenterprise members perceived microenterprise members as members with the illusion of control and planning fallacy, while microentrepreneurs considered non-microenterprise members as individuals with inadequate risk bearing ability and coping mechanism. This differential thinking process would have resulted from the creation of mistrusts among these two sub-groups. Slums located at the heart of the city surrounded by posh apartments and markets were able to fetch employment in household works in apartments, and sales and cleaning jobs in shops; hence, some members preferred to go for less riskier employment than riskier enterprises (workers' group). Because of the risk-averse attitude of these members, both the sole owners and joint owners of enterprises had shown their disinterest in collaborating with the workers group. So the trust for partnership among SHG members collapsed because of the (i) risk-related behaviours, i.e. risk-averse and risk-loving behaviours, and (ii) psychological strength.

Two forms of microentrepreneurs were observed in the SHGs, i.e. early adopters of microenterprises and late adopters of enterprises. Irrespective of microenterprises, all members self-selected in the group because of cognitive trust on the NGOs and NGO workers. With time, the participatory action of the NGO workers created a learning environment in SHGs and slowly the interpersonal relationship between members and NGO workers developed into affective trust (emotional bonding between NGO worker and SHG members) (Swift and Hwang 2013). Both cognitive and affective trust had helped members in graduation from microfinance to microenterprises (i.e. first, cognitive trust and then affective trust). Early adopters of microenterprises developed affective trust on the NGO earlier than the late adopters. The pessimism and risk-averse behaviour of members at times led to argumentation as a cognitive conflict (because of inadequate coping mechanism, lack of risk taking ability and entrepreneurial ability). However the affective trust between SHG members and NGOs would have helped in resolving the cognitive conflict of the pessimist and risk-averse late adopters (Parayitam and Dooley 2007).

Members in jointly owned microenterprises respected and believed each other's capability (cognitive trust) and emotionally held themselves associated with their partners (affective trust). Cognitive trust was derived from reputations (as mentioned in the finding that members know the background of other members since they come from same slum, i.e. peer understanding), but affective trust was an

outcome of collective action (in-depth understanding of partners while working together and emotionally responsible for the outcome under the joint action).

The trust outcomes in jointly owned microenterprises enhanced knowledge and skill of the members by a process of inter-learning and therefore created significant social capital (Bakker et al. 2006). Inkpen and Tsang (2005) argued that any kind of networking—cognitive or relational dimensions—leads to the creation of social capital. This study also captured instances where members dropped from jointly owned microenterprises because of bad organizational performances. Therefore, it can be inferred that the peer trust is associated with alliance performance (Suseno and Ratten 2007). It can be argued that ‘*peer trust*’ is related to ‘*collaboration or alliance*’ of microentrepreneurs, and ‘*collaboration or alliance*’ related to ‘*social capital*’. Hence, jointly owned microenterprises demonstrate the creation of social capital in SHGs with respect to enterprise development (Putnam 1993), and this social capital either influences or is influenced by peer trust. Like the previous argument, similar logic can be drawn from the trust between microentrepreneurs and intermediary. The more the trust between microentrepreneurs and the intermediary (the stronger is the trust bond), the higher is the social capital creation.

The sole owners did not find confidence and capabilities in other members, which led to distrust and suspicion (Kramer 1999) which further weakened the social capital creation in the SHG. With respect to microenterprise operations in the SHG, the strength of trust on intermediary was very high in case of sole owners, relatively lesser in case of non-enterprising members and medium in case of joint owners (lesser than sole members and higher than non-enterprising members).

Intermediation Trust in Enterprise Development

The intermediary NGOs supported members for enterprise development in all possible ways. As discussed earlier, there were two categories of entrepreneurs (i) early adopters and (ii) late adopters. Early adopters believed in and relied on NGOs and their functionaries in their roles and motives earlier than other members. So there existed an *interpersonal trust* between early adopters and NGO functionaries, an *organizational trust* between early adopters and NGO, and an *inter-organizational trust* between SHG and NGO. The interpersonal trust and organizational trust were an outcome of entrepreneurial ability and willingness for a new venture creation. For example, most early adopters were successful entrepreneurs. While early adopters developed entry level trust (entry of NGO), late adopters developed intervention level trust (i.e. believing in the NGO and its functionaries while they helped early adopters and provided other intermediation supports for future enterprise development).

Organizational trust was found to be an outcome of entrepreneurial ability and human traits. Even though almost all SHG members underwent training programmes on forward and backward linkages, business networking, etc., conducted by NGOs, not all the SHG members were able to put it into practice. Whoever had the capability of contact development and networking was found doing well in their respective microenterprises. Although NGOs assisted the members, especially those who were poor at contact development, still many of those members could not

imbibe that trait and shut down their enterprises. Such members posited that the NGO could not do a miracle for them and also that it could perform a miracle only for those members who had the entrepreneurial traits in them. The quantum and momentum of business development activities were dependent on the NGO functionaries. With respect to SHGs, where the old NGO functionaries were replaced by new people, the speed of business development activities also changed accordingly.

Similarly, optimism and pessimism behaviours were noticed among the SHG members. There were two sets of reactions among members when the NGO functionaries suggested business ideas and activities. One set of members immediately accepted or accepted with a small brainstorming (optimism behaviour leading to an interpersonal trust), while the other set of members reacted and rejected; and if at all accepted, then accepted at a later stage after observing the outcome of other members (pessimism behaviour leading to mistrust). With respect to thrift and credit activities, members believed more in their peer than the intermediary. Members opined *'my co-members will always remain with me in my slum, but the NGO worker may be relocated. Nevertheless, we believe in the NGO workers, but we believe more in our co-members. This has happened from the time of the formation of the SHG to till now'*.

Members' trust on the NGOs and NGO functionaries increased over time, i.e. the intervention level trust was higher than the entry level trust (of members) on the NGO (Dahal et al. 2014). Sharif et al. (2005) identified reputation, skill, formal information exchange, informal information exchange and flexibility as important antecedents of trust in small businesses. There were two significant operations in SHGs: (i) thrift and credit and other development work and (ii) microenterprise development. Members' trust building on intermediary was probably done due to informal information exchange and flexibility in thrift and credit operations (all the members were involved in thrift and credit operations). In microenterprise development, the reputation and skill set of NGOs acted as an antecedent of members' trust on intermediary (for example, NGO provided social intermediation, financial intermediation and business development services to members). The cognitive flexibility and collaborative decision-making processes were cultivated significant trust of microentrepreneurs on intermediaries (Roy and Dugal 1998). The trust on intermediary in the entry level was lesser than the intervention level. But over time, the NGO workers understood how to reincarnate themselves in the specific cultural setting of SHGs, which further enhanced gaining trust from the SHG members (McLeary and Cruise 2015).

Conclusion

The study identified two forms of trust in the thrift and credit groups, i.e. (i) *peer trust* and (ii) *intermediation trust*. Members self-selected themselves into their group because of peer trust (they believed in their peer in their respective groups) and intermediation trust (they believed in the good intent, commitment, competency and skill set of NGO functionaries). It was the *cognitive trust* (mutual) among the

members which helped in grouping them, and thereafter, the *affective trust* was developed by working together, which further created solidarity among them to continue the group operations. Similarly, members joined the group because they trusted (cognitive trust) the NGO functionary, and thereafter, the trust was further increased (affective trust) while working with NGO worker. During the group formation and group operational period, the cognitive peer trust was higher than the cognitive intermediation trust with respect to thrift and credit activities. The peer trust and the intermediation trust at the entry level (SHG formation time) was lesser than that of the operational level (thrift and credit operations). Both peer trust and intermediation trust increased from entry level to the operational level since the cognitive trust slowly transformed into the affective trust.

In case of microenterprise development, the intermediation trust was higher than the peer trust. Early adopters of entrepreneurship had shown higher intermediation trust than that of the late adopters. With respect to microenterprises, the peer trust was found only in joint owners. The intermediation trust was relatively higher in case of sole owners as compared to that of the joint owners. With the passing of time as microentrepreneurs started working together with the NGO functionary, the cognitive intermediation trust transformed to affective intermediation trust.

All the while in the thrift and credit operations, the *interpersonal intermediation trust* (members' trust on NGO functionary) was higher than *organizational intermediation trust* (members' trust on NGO). The *organizational intermediation trust* of microentrepreneurs was higher than that of the non-entrepreneurs in the SHGs. Even though the non-entrepreneurs had trust on NGO functionaries, they could not take up enterprises due to poor entrepreneurial ability, psychological strength and coping mechanisms.

This study identified *trust* as a causality of *social capital* in the thrift and credit groups with respect to both of thrift and credit operations, and microenterprise development. The group formation itself was a demonstration of social capital (collective action in thrift and credit operations), and the group formation was done by peer trust and intermediation trust. Similarly, acceptance of microenterprise development services from intermediaries and putting those in practices with collective action (joint work of microentrepreneurs and NGO workers) were the outcome of both interpersonal intermediation trust and organizational intermediation trust. Again, creation of the joint owner format of enterprises (reflects social capital) was the consequences of peer trust and intermediation trust.

Microfinance institutions (MFIs) and policy makers have been designing microfinance and microenterprise programmes based on the tangible component of intermediation (subsidized capital, grants and capacity building programmes). Still then the survival rate of SHGs were less than sixty percent in the Indian subcontinent (Panda 2009). Over and above that, the MFIs demonstrated their inability to graduate from microfinance activities to microenterprises despite so many of intermediation supports. This study provides a new dimension to the success of microfinance and microenterprise programmes, i.e. the intangible component of intermediation (peer and intermediation trust). MFIs and policy makers should appropriately incorporate the intangible component of the intermediation to bring success in the intermediation support.

Limitations and Future Research

This study analysed trust and social capital from the perspective of members of the SHGs. The outcome reflected from one side of the phenomenon, i.e. group members' side. However, it is important to understand the trust and social capital from the side of intermediary NGOs. The possibility of an impact on the creation of social capital in terms of group performance by mutual trusts (i.e. Members' trust on intermediaries and intermediary's trust of members) cannot be rejected (see Kramer 1999). Future researchers should examine (i) intermediary's trust of members as a source of social capital creation in groups and (ii) members' trust on intermediary in the viewpoint of adverse selection and moral hazards in subsidized capital supported microenterprises.

The intermediation support (social intermediation, financial intermediation and business development services) can be categorized into two sets (i) software support, i.e. provision of advisory services, capacity building trainings, forward and backward integration and networking supports and (ii) hardware support, i.e. provision of subsidized capital and other physical assets, and grant of microenterprise assets, etc. This study could not verify which intermediary support (whether hardware support or software support or both) helped in creating members' trust on NGO or MFI and how. The future studies should look into it.

Trust can be considered as a causality of social capital in thrift and credit groups corroborating the arguments of Sztompka (1999). However, studies have found trust as a consequence of social capital (Woolcock 2001) and as an integral part of social capital (Coleman 1988; Putnam 1993). Future research may also focus on quantitatively verifying the relationship between trust and social capital, thus leading to refinement and validation of the argument put forth in the study.

Compliance with Ethical Standards

Conflict of Interest None.

Appendix: Important Questions in FGD

Thrift and Credit

- i. How did the SHG form, develop and perform? What was the members' role and what was intermediary's role? What did the intermediary do from the beginning till now and how did they do this?
- ii. Why did believe in your peer and intermediary during the SHG formation?
- iii. Is there any change in the belief in peer and intermediary from starting to till now? If yes, why and how?

Enterprise Development

- iv. How does an enterprise develop in SHGs?
- v. What is the role of intermediary in SHG?
- vi. How much you know understand about your intermediary?

- vii. What is your role and what is the role of intermediary in enterprise development?
- viii. Why do you need an intermediary for an enterprise development?

Important Questions in Personal Discussion

Members Without Microenterprises

- i. Why did you not have microenterprise?
- ii. What is different between you and those who have microenterprises? What is your view of those members who have microenterprises?
- iii. Do you think that the SHG intermediary helps in enterprise development? Explain your relationship with intermediary organization?

Members Who Individually Own a Microenterprise

- iv. What made you to have an enterprise to your own?
- v. How are you different from those who did not have microenterprises?
- vi. Do you think that the SHG intermediary helps in enterprise development? Explain your relationship with intermediary organization?

Members Who Jointly with Other Members Own a Microenterprise

- vii. How and what made you jointly own a single enterprise?
- viii. Why and how are you different from those who did not have microenterprises or who had microenterprise of their own?
- ix. What is comment on your peer? Do you trust your peer? What is the outcome of your trusting to your peer in your enterprise?
- x. Do you think that the SHG intermediary helps in enterprise development? Explain your relationship with intermediary organization?

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