

Network Destruction: When Business Networks “Kill” Social Networks: A case study in Bangladesh

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Abstract

Social networks are a key contributor to the economic and social fabric of life. There is evidence that the social cohesion that social networks provide is critical for societies to prosper economically and for development to be sustainable. These social networks and the functions they perform co-exist with, influence and are influenced by their surrounding business networks of connected firms and other economic organizations. This is increasingly so in our ever-more-complex, internationalized and connected world. This paper explores the potential consequences of this via a case study that considers the changes to a community's social network and its associated norms emerging from the growing influence of the microfinance network. A case study reports the very negative impact of microfinance on a particular Bangladesh rural community. We show there is a breakdown in traditional social networks in this (and other) poor rural villages brought about by the taking of micro loans when the families have no means of paying them back. This increased indebtedness to NGOs is perpetuating their poverty and their traditions of bounded solidarity, where families support each other as best they can through common adversities, are diminishing as is the community's quality of life. The case concludes by considering the mechanisms underpinning these processes. This includes competitive structure, i.e. the highly saturated and interconnected structure of the micro finance industry, the dominance of this business network in the economic structure of rural Bangladesh and changing norms, in particular the changes to traditional forms of financial exchange and associated support and risk management. The way these forces act and interact and thus the extent to which similar social network breakdowns are occurring/are likely to occur in other first, second and third world setting is also considered.

Keywords: social networks, microfinance, business networks

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Introduction

There is a substantial body of IMP work that considers the formation, evolution and impact of business networks on the participant firms and their members and customers, industry configurations and business practice. At the heart of this is the individual – the individual relationship in the network, the individual interaction in the relationship, the individual person in the individual relationship and the individual transaction. This is because individuals coalesce in bottom-up, self-organising ways to build systems of people, relationships, interactions and transactions that often have considerable impact (Wilkinson and Young 2005).

There is recognition that the impact is bi-directional. Individuals influence networks and relationships by their systems of interactions and transactions. It is also the case that network configurations and the wider environment in which they sit can impact substantially on individuals, firms, relationships and their interactions (Emery and Trist 1965). This has been a focus of a considerable proportion of earlier IMP work which has considered how firms “manage” (i.e. cope) with the dictates of networks and wider business environments (Wilkinson and Young 2005). In the main this work is international business oriented and considers how firms manage within and across developed economies, how firms from developed countries decide to move into less developed countries and/or how they manage the entry when they do so (Johanson and Vahlne 1992).

What is yet to be considered to any great degree is the impact of an organisation’s market entry upon the country or region they enter. When impact is considered, it has been most often from the perspective of the developed country or region’s actor, i.e. it is their problems, issues and opportunities that a market entry and ongoing participation raises that are considered rather than the changes (particularly social changes) that their entry makes to the existing environment (Dawson et al 2014). While this perspective is gradually widening to include not only the changes wrought to a local economy’s networks and the firms within them (Mattsson 2003, Welch et al 1996a, 1996b), the social implications are not yet much included in these considerations. When social relationships and networks are considered, the primary focus is on how they are and can be used to facilitate market entry and success (Coviello and Munro 1995, Ellis 2000, Ellis and Pecotich 2001, Ojala 2009) rather than on the impact that (changing) relationship activity has upon the various parts of the extended network (Sasi and Arenius 2008). This paper addresses this gap in that our focus is upon the social and business consequences to a poor community’s social network as a result of emergence and evolution of a business network into their environment.

This work is important in that as business seeks and is pressured to become more socially responsible, consideration of responsibility increasingly extends beyond environmental and economic factors (Baldachino 2008). To (at least) do no harm to the networks which provide primary benefits in sustaining communities should be a primary goal (DiMaggio and Garnip 2012). Amartya Sen, the Nobel Prize-winning economist, argues that development should be conceptualized as “process of expanding the real freedoms that people enjoy” which includes extended economic considerations such as public safety, basic education, public health, and infrastructure (Karnani 2007) and the social networks of communities play important roles in

this (Szreter and Woolcock 2004, Gostin and Powers 2006). This is even more the case in developing countries where the relative support of extended social networks is likely to be more necessary (Fukuyama 2001).

The remainder of the paper is organised as follows: first we present background literature as to the nature and importance of social networks, particularly in developing countries. Next we consider this paper's context, the burgeoning microfinance industry in Bangladesh. We then present a case study of the impact of that network of micro finance provision and providers on the social network of a rural community in Bangladesh. The paper concludes with consideration of the wider implications of this case and future research.

Relationships in Social and Business Networks

The literature that informs this research is drawn from a number of sources. These consider the value that relationships provide to networks and vice versa from a number of perspectives. There is considerable attention paid to this – recognition of the economic value that individual and combined cooperative relationships provide has been discussed for over 50 years by marketing scholars (e.g. Alderson 1965). However social value and the interrelationships between economic and social value has been less well considered in business. This is despite social psychology theories highlighting relationships' considerable social value – that relationships are needed for physical and emotional well-being, i.e. not only do relationships function to provide security and specialization but also supply the effective cognitive and emotional functioning (Argyle 1991) which are needed people to effectively engage with others, including in economic settings.

In addition to individual relationships, the wider social network in which individual relationships sit fosters well-being. (Social) networks are collections of interpersonal and/or business relationships. The composition and interrelation of these collections have important structural properties such as who interacts with whom and the nature of the connections between individuals (e.g. liking or not and the strength this) (Fleisher 2005, Adar and Ré 2007) and the distribution of power within them (Layton 2009). They arguably are fundamental to individual members as they provide psychological security, which buffers individuals from stress and alienation (Cohen and Wills 1985), and a coping mechanism that gives social support (Brissette, Scheier and Carver 2002). Their functional properties include providing informational, contactual and social resources and they further function to link the personal, professional and business spheres of a society, particularly through the creating and transferring of knowledge (Brown and Duguid 2002). They aid in the creation of resources, including social capital (Thompson 2005).

The core of the social capital concept is that family, friends and associates are a fundamental asset for individuals and family groups (Portes 1998, Lin 2001). Members of a social network with close ties can be relied on and the close ties can be leveraged for material gain as well as being enjoyed in their own right. As is the case with business who use networks to help to manage uncertainty, communities that have strong networks are considered better able to deal with poverty and vulnerability (Moser 1996, Narayan 1999). In other words, the linked relationships in a network provide social capital (e.g. Flap 2002; Lin 2002; Burt 1992, 1997). These relationships both are social capital assets and also can assist in the building of further social capital (Burt 2005). And social capital is strongly linked to value creation (Tsai and Ghoshal 1998).

Networks are defined in part by the nature of their members and by the nature and interdependence of links between them (Wasserman and Faust 1998). While it has been argued that in business firms seek diversity and complementarity via networks (Wilkinson, Young and Freytag 2005), communities' social networks are likely to be (more) homogeneous, i.e. to contain similar people. Similarity may be judged based on status, i.e. age, race, religion, or occupation and/or on values, attitudes, and beliefs. McPherson et al, (2001) argue that this "homophily" enables the formation and maintenance of social relationships and facilitates their linking within social networks. And the literatures of both IMP and social networks highlight that "history matters", i.e. having continuing relational ties enables the strengthening of those ties (Bidart and Lavenu 2005). The strength of these connections and their impact on families and communities is also emphasised in the psychology literature (Kahn and Antonucci 1980, Lewis 1984, Takahashi 2005).

The ties within a closely linked network are characterized as "strong". There are close bonds between many of the network's members (Eklinder-Frick, Eriksson and Hallen 2011). Weak ties are the connections or "bridges" across social networks (Wellman 1997, Wasserman and Faust 1998). Both are important in building resilient networks and creating social capital; strong ties provide social cohesion and capability and weak ties provide access to more resources (Granovetter 1973, 1983).

Network links are built via the activities of bridging and bonding. Bridging involves interaction between different social groups, with loose bonds between actors the goal. The establishment of such bonds builds additional social capital. Bonding includes the activities which strengthen connections within groups (Eklinder-Frick, Eriksson and Hallen 2011) and strengthens existing social capital. There is a need to balance processes of bonding and bridging (Daskalaki 2010); an effective balance will depend on the homogeneity of network members, the nature and goals of their relationships and the environment in which they are (currently) operating (Woolcock and Narayan 2000, Woolcock 2001). This is discussed in the following section where we consider these network configuring activities in terms of their effects on the economic well-being of individuals and communities.

The Economic Impact of Social Networks in Developing Countries

While social and business networks operate in all strata, they function differently in different economic and cultural settings (Fukuyama 2001). Understanding how networks contribute to the economic and social fabric of life in developing countries is important in guiding economic development (Woolcock and Narayan 2000, Woolcock 2001, Collier 2002, Clark 2006).

There is increasing attention to the need to consider both social and business networks. The World Bank (WorldBank 1999) argues 'increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable'. Using both strong and weak ties, it is the social networks in rural communities of developing economies that control the flows of information and resources throughout the communities (Burt 1992; Wellman 1997; Clark 2006) and consequently influence and guide the economic climate. Narayan (1999, p 35) emphasises the contribution both social capital and social networks make to the economic environment in developing economies, saying "cohesive family, clan or tribal groups lay the foundation for social and economic wellbeing, but it is only when these groups develop ties (both weak and strong/dense) with other social groups that societies can build cohesive webs of cross-cutting social relations at all levels". Narayan

also pointed to the importance of both strong and weak ties within social networks, saying, “When the networks of those excluded or disempowered, consist primarily of people like themselves, and are not linked to outside groups, information, power, and resources, the networks serve an important insurance and solidarity function. However, they do not become agents for transformation into high return production groups or into powerful social movements which challenge the powers of the state” (Narayan 1999 p 35).

The particularly important role of close social networks and implications of lack of external links is also emphasized in the literature of poverty. Lack of economic resources brings social isolation (Tigges, Browne and Green 1998), in part because other social groups will not see value in forming bridges, particularly those associated with economic linking (Wilkinson and Young 2005). This is also emphasized in the network and complexity literature that recognizes both that the diversity that weak ties bring provides development possibilities (Ellis 1999) and that the reverse is also true. Development is impeded when there is little diversity, i.e. insufficient “requisite variety” (Ashby 1968). This has been recognized in systems theory, organisational theory and strategic management literature (e.g. Duit, Galaz, Eckerberg and Ebbesson 2010, Maranville 1999) but has been less applied to the study of social and business networks effect on economic development. However the relevance is obvious. A preponderance of strong ties and limited weak ties characterizes the poor communities of developing countries. This has implications for their ability to develop network connections and thus network structure in response to changing social and economic conditions (Takahashi 2005).

Networks impact upon aspects of social and economic life that influence long term wellbeing, including financial decision making at family and community levels (Polanyi 1957, Granovetter 2005, Pires and Stanton 2005). Duflo (2006) proposes that the financial choices made by poor people and communities are influenced by the needs of family members in different ways than is the case in other social strata. It is argued that there is a difference in the social structures including a greater relative influence of strong ties on decision and trade-off processes and that this may well result in stress and pressure from extended family members, neighbours (Payne, Bettman et al. 1988, Bettman, Johnson et al. 1990). Also noted are that actors in the process are financial institutions and their representatives can have influence on one part of a social network which can manifest in other parts. Hammill and Matthew (2008) also have concerns about the consequences of the pressured financial choices poor consumers are making, specifically with respect to microfinance credit offerings.

The majority of consideration of financial decision making considers only the strong ties and interactions among the network of financial service customers. However as the previous discussion indicates, the relationship that a poor customer has with a financial service representative can impact on other network members – as noted throughout the IMP literature (Mattsson 2003). As previously noted, the strong tie interactions are likely to be influential, creating the potential for a social network to be strongly influenced by the influence on one or more of its members’ external interactions and this can in turn impact on community wellbeing. There are serious potential consequences. Poor consumers’ (highly connected) networks can be vulnerable to malign external forces not only because they are “over-connected” to each other but also because they lack the experience and ability to manage the internal and external influences (Wilkinson and Young 2005).

The following case study explores these issues via the consideration of the effects of a “collision” of a network of micro finance providers with the social network of the rural poor in a third world country.

Case context: Microfinance in Developing Countries

Microfinance is defined by Ruthven and Kumar (Ruthven and Kumar 2002) as the provision of small or ‘micro’ financial products and services designed to especially meet the needs of low income people). It has become a widespread means for poor people to gain access to credit. Microcredit is most often provided by Non-Government Organisations (NGOs). The provision of small loans to the poor is a key poverty reduction strategy that has spread rapidly and widely over the last twenty years, currently operating in more than 60 countries (Bateman 2010). According to many researchers and policy makers microfinance increases income generating activity and therefore reduces poverty, empowers the poor (especially women in developing countries), increases access to health and education, and builds social capital among poor and vulnerable communities (Khandker 2005, Westover 2008).

In the context of developing countries, often characterized by weak states and ‘institutional voids’ (Mair, Martí et al. 2012): 820), the emergence of the non-governmental organization (NGO) has been a key actor responsible for delivering social programs. Many NGOs are as multinational enterprises in their own right, managing significant resources and complex organizations across national boundaries ((Teegen, Doh et al. 2004). Many have evolved from more locally-based groups, into national or even global entities (Willets 2001).

Bangladesh, sometimes referred to as ‘the breeding ground for NGOs’ has one of the strongest NGO presences in the world (Haq 2002). There are more than 20,000 NGOs in the country including the world’s largest NGO, Bangladesh Rural Advancement Committee (BRAC) which is also the main NGO that services the communities in our study. BRAC’s \$260 million operations covers nearly 80% of Bangladesh’s population and since 2002 has expanded its operations to Afghanistan, Pakistan, Sri Lanka, Haiti, Liberia, Sierra Leone, Sudan, Tanzania and Uganda (Kelly 2008),.

Criticisms of large NGOs such as BRAC have begun to emerge in recent times. Concerns have been raised about their effectiveness, lack of transparency and accountability, dependence on foreign funding, and legitimacy of representation (Reimann 2005). Many large NGOs like BRAC have even taken over many of the roles and responsibilities normally associated with the state so as well as providing microfinance, they make inputs to agriculture and livestock, health and education. The virtual monopolization of Bangladesh’s development sector by what is essentially a private organization raises many questions about accountability and effectiveness – as a former employee of BRAC stated: ‘Government dependency on its (BRAC’s) services has grown to the extent that they almost can’t run the country without it’ (Kelly, 2008).

Methodology

This study undertakes further exploration of the consequences of financial choices made by poor people under the social pressure of close family ties and microfinance providers. The research design for this study relies on qualitative data to enable an in depth consideration of the contextual specifics (Patton 2002) of a network of poor rural consumers’ financial decision processes and outcomes and the role of the NGO network upon these.

There is an emerging argument (Chakravarti 2006, Baulch and Davis 2007, Addison, Hulme et al. 2008) that qualitative research can assist in deepening understanding about people

experiencing chronic poverty by bringing to light phenomena concealed by quantitative methods (Davis 2007) such as the structural processes that move people in and out of poverty (Du Toit 2007, Harriss 2007). This study takes an exploratory approach, examining thick, rich data collected at the level of the individual and the household about the financial decision making of people who are experiencing chronic poverty in a developing economy. In line with this, this research is designed to produce detailed data on a relatively small number of people. In order to overcome the potential for assumptions and bias, multiple data collection methods are used including ethnographic observation, focus group discussions and semi structured interviews over three periods.

Data collection was done in three phases. The main observation study with accompanying interviews took place across three villages during January and June/July of 2008 with a third phase follow up visit for more interviews and a focus group held early 2013. During phases one and two research associates lived in the area for six months conducting interviews and focus groups with villagers. This allowed us to document the experience of borrowers with microfinance over time. A total of 56 in-depth interviews and 6 focus groups were conducted with borrowers across three villages during the first two phases. An additional 17 interviews and one focus group with borrowers were conducted during the follow up visit in 2013 making a total of 73 interviews and seven focus groups which, along with the observation study field notes, constitute the bulk of our data.

The target population for this study is poor rural village dwellers that are located in the rural subculture of Matlab in Chandpur, Bangladesh who are engaged in formal and informal financial dealings such as participating in barter exchange, borrowing money and monetary substitutes such as rice from friends and relatives as well as taking micro loans from NGOs. They may or may not have a relationship with a microfinance provider however even if not, they are connected to those who do. Poor village dwellers are defined as those living on \$2 US per day or less (Rutherford 2002). The per capita income of the sampled families is approximately \$700-800US per annum.

In the rural area of Matlab in Bangladesh, which is typical of 80% of the country (Bangladesh Bureau of Statistics 2000), natural disasters such as annual floods, river erosion and cyclones adversely affect the lives of poor households. Resultant endemic poverty has meant that this area has been a focal point for micro-finance programs aimed at alleviating the poverty that is perpetuated by the environmental and economic conditions. There are a number of significant NGO's operating in the area including the Bangladesh Rural Advancement Committee (BRAC), Grameen Bank, Association for Social Advancement (ASA) and Krishi Bank (ADB 2008; Rutherford 2009).

The rationale for selecting people in the delta area of Matlab in Chandpur as the target population for the research is:

- It is representative of the typical poor village subculture of Bangladesh (Bangladesh Bureau of Statistics, 2000).
- The region is predominantly rural, with traditional agriculture being the most common form of occupation.
- Microfinance activity is known to exist in the area (Hoque 2008) and while there are very few reliable sources of data about the extent of use of micro-finance anywhere in Bangladesh, the 1996 Matlab Health and Socioeconomic Survey: Overview and User's Guide (MHSS) survey does provide data for the Matlab district on microfinance loans.

The sampling frame adopted for the research included people from all the villages in the rural area of Matlab. A sampling strategy for gradual definition of the sample (Flick 2005) was chosen based on ‘theoretical sampling’ as developed by Glaser and Strauss (1967). Ethnographic techniques, one-on-one interviews and focus groups during those periods provided rich data about the intra and inter-group behaviour, the social relationships and networks of the people living in the baris (Cresswell, 1995).

Because the research design for this study aims to acknowledge and explain the socio historical conditions which are significant contextually, an interpretative analysis of the data is the focus (Miles and Huberman 1994). This was guided by a preliminary computer-generated lexicographic analysis where transcribed interviews and focus groups, field notes and secondary data were analysed separately and collected to ascertain their conceptual content. (See Young et al 2015 for a detailed discussion of computer aided lexicographic analysis.) The concepts that emerged then guided the preliminary interpretative analysis.

The interpretative analysis that followed focussed on the discursive and cultural norms within the social context in which the data was produced. The data analysis was undertaken progressively, and the sense-making processes continuously revisited as meaning was iteratively constructed from within the cultural framework of the discourses within which they are positioned (Mishler 1986; Bishop 2005). Culturally preferred terms and the contextual idiom were preserved in the translations of the transcripts in order to appreciate how meaning is constructed in the discourses because words take on “specific and contextually grounded meanings within and through the discourse as it develops and is shaped by speakers” (Mishler 1986 p 65). Specific approaches used included:

i) *Comparison*; data was initially categorized by noting and labelling general similarities (Spiggle 1994) . This process was initially implicit and unsystematic but became more systematic as consistent comparisons emerged (Glaser and Strauss 1967; Guba and Lincoln 1982; Spiggle 1994; Guba and Lincoln 2005).

ii) *Integration*; similarities were then clustered and selective coding developed (Strauss and Corbin 1990) to specify relationships, and identify key themes that relate to one another. Relationships between themes were then mapped in the form of time-based causal linkages (Bergadaa 1990) with particular emphasis on how time affected their decision making patterns.

(iii) *Interpretation*; interpretation involved the translation of informants’ perspectives to the integrated meaning emerging for the other analyses. This ensured that informant interpretation was continually noted and to ascertain the degree to which it was in line with researcher interpretation (Spiggle 1994).

Findings: Case Study, the Kalu Family

The case study uses the discourse of the members of the community network to infer the impact of the business network, i.e. microfinance providers. This was done because preliminary research showed that to gain community trust required avoiding contact with the outsiders, i.e. microfinance agents. The story of the community is told largely through the experiences of one extended family, the Kalu’s, and considers the family’s financial decision making and its consequences with reference made to the wider social network in which they sit. This focus was chosen because the family’s help and cooperation and their open and honest sharing of information once trust in the research team had been established meant they

were able to be studied in some depth. Also, they were centrally positioned in the network enabling effective consideration of the network context.

The Kalu family is part of an extended network spread across the Matlab region. The network includes immediate family members and the wider community of three closely proximate villages. There are connected in a variety of ways to other members of the network including blood relationships, marriage, work and long-time acquaintance. The family is particularly central to the villages' social network because the mother of the family is the leader of a microfinance group of twenty women drawn from proximate villages A, B and C in the Matlab region. She was chosen for this role because according to Respondent 12 in village A

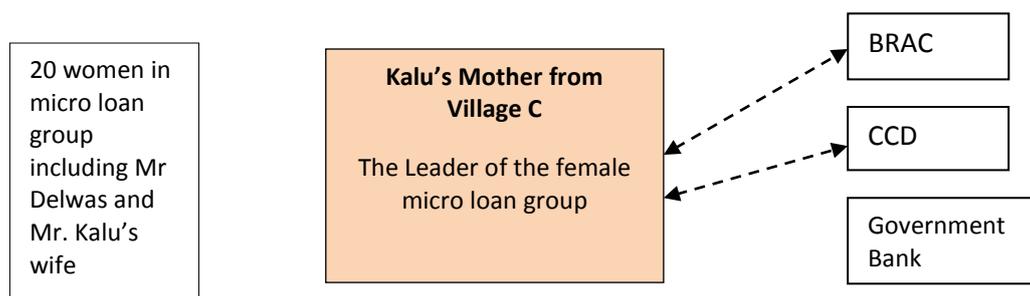
Her house is close to most of the borrowers, she offers sitting arrangement to the NGO agents, to stay at her house when they are visiting the village and she is "hot headed". She don't mind to say bad things (in other words a strong woman who is respected in the community and can be firm when asking for loan payments from her group members)

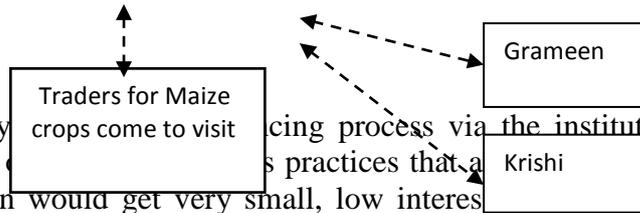
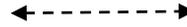
Figure 1 shows the simplified network structure of the microfinance group. The structure displayed is typical of a microfinance group as described by others (e.g. Morduch 1999). The leader of the group is central to the economic functions of the villages as she is directly linked to agricultural and finance customers and suppliers.

The Figure focuses on the central role of Kalu's mother from village B as the group leader of a female microfinance group which she put together and is made up of twenty women from villages A, B C. The members of the group are woman who are continual users of the microfinance system and represent about 25% of the women in the area who are continual users. They tend to represent extended, intergenerational families, i.e. they are the wives of the senior male decision makers however this is not always the case. A number of the members represent different branches of the same extended family; other members are friends and long-time members of the extended community.

Kalu's mother has the primary relationship with a number of NGO's who provide finance to the group. This means she often participates in the discussions and agreements between members of the group and has a significant amount of informal power as a result. Her relationships with NGOs' representatives are mostly long-standing and have emerged from a history meetings at her home (her house is centrally located – at the junction between village B and village C and it is the norm for people to visit and stay there) and from enabling agreements between village residents and microfinance NGOs. She deals with agents from BRAC, CCD, Government Bank, Grameen and Krishi Bank and acts as an informal intermediary in many of the financing agreements. She also gets visits from agricultural traders who know that her group is involved in agricultural development and want to trade for maize crops. Not shown in the figure are the connections between NGOs and between traders however these exist and also influence the financing process.

Figure 1. Functional Microfinance Network





An additional layer of complexity and deception that exists on a number of levels in the model proposed where women would get very small, low interest businesses (Yunus 2007) that would provide resources to the woman and her family and ultimately flow to the community. While ostensibly that is the case, the reality is quite different in all respects. Across the focus groups, informal discussions with members of the microfinance group and with the wider community and participant-observation over a number of weeks, a very consistent picture emerged where no new businesses were started, where women did not hold or use the money but passed immediately to male family members and where funds were used to service repayments for already-existing loans.

A specific example illustrates a typical instance of this process. Following is an excerpt of a discussion between the researcher (one of the authors of this paper) and the local assistant who observed the people in this network for some weeks which highlights that not only is the money loaned not for a women's start up business but that the wider network and the NGO lender are complicit in this:

Researcher: *So Mr Delwas from Village A took a loan. He was part of a (microfinance group) group?*

Research Assistant: *Yes, not he, his wife. His wife is a kind of, what can I say... she is there but literally she is not there. Her name is used to get the money. But money has been utilised by the sons. The leader of the microfinance group that Mrs Delwas belongs to is Kalu's mother, remember I talked about Kalu's mother?*

Researcher: *Yes.*

Research Assistant: *So Mr Delwas's wife took the money from the microfinance group run by Kalu's mother. So you can see the network. But in paying the money, the role of Kalu's mother is not there. Now the interaction took place directly between Mr Delwas and BRAC. But in the payment paper, in the book, it says BRAC goes to Delwas's wife, recommended by Kalu's mother. But you can see an invisible network there.*

The formal structure, i.e. the on-paper operation of the micro loan, has the micro finance group leader arranging for an NGO to administer the micro loan payment to Mrs Delwas. However as this story illustrates, the socio-cultural reality of the way this network functions is very different than that. Kalu's mother and Mrs Delwas are bypassed by the male NGO agent and Mr Delwas in this (and other) financial dealings,

Informant Eight from Village C provides further details of how the informal network operates and sets this story into a wider context that shows how the process of micro finance really works.:

Instead, Kalu's mother borrow money using their name and give the money to her son to use for cultivation. Kalu's mother will pay the instalments. In the application, Kalu's mother's name will be used as a witness. She gave some of the money to her husband for potato cultivation and maize as well.

She thinks that borrowing will give them higher return if they grow more maize.

Borrowing ensures job for the family members - she has mother and father-in-law, two brothers-in-law.

Traders came to their house and want to buy their maize.

Kalu (the son) works in the local cinema hall in Matlab and he is some kind of supervisor there looking after ticket sales and cleaning the chairs, he do many things in the cinema hall. And he has got a sort of permanent income source.

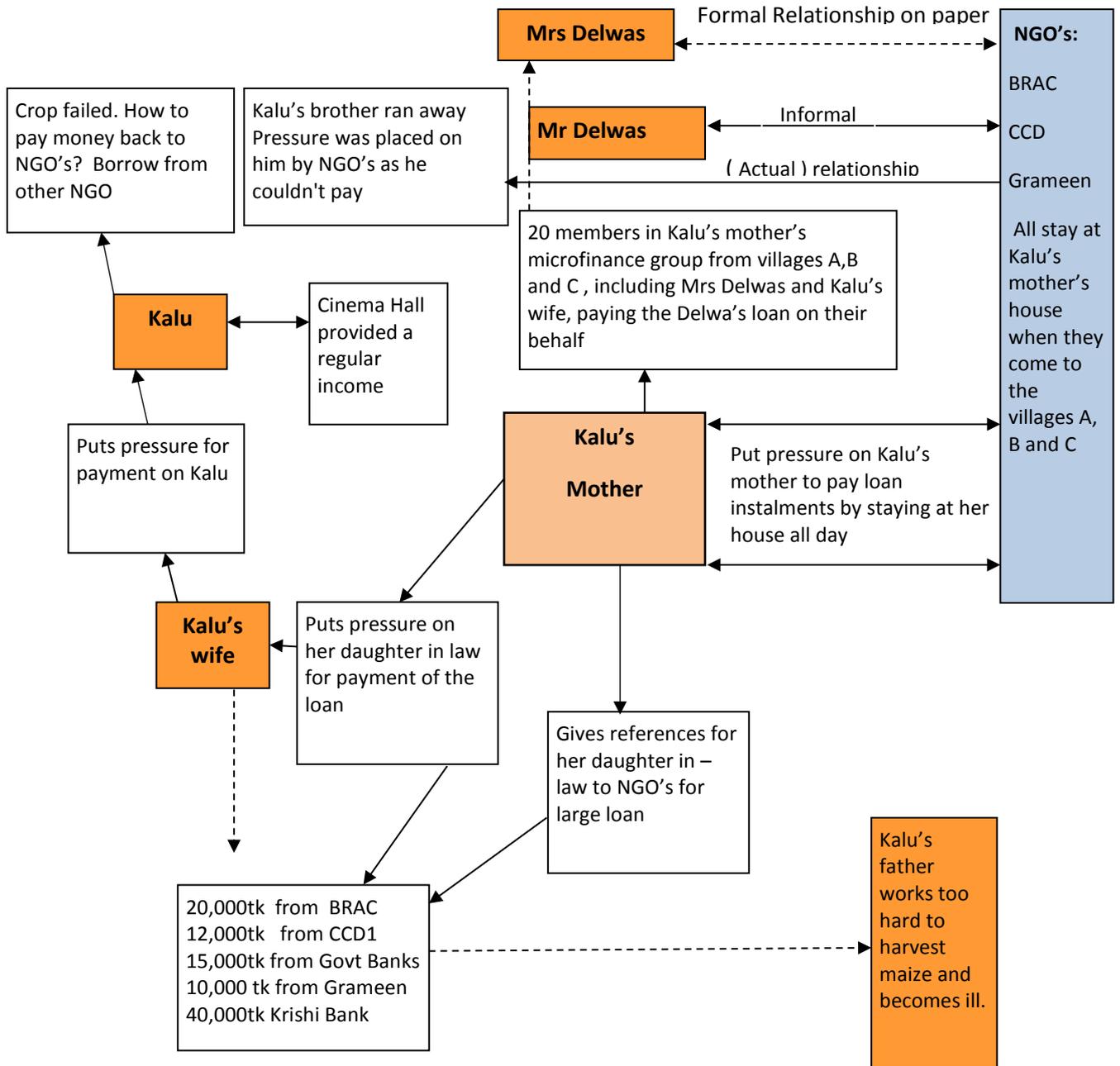
And last year he take the challenge of growing maize in a huge sort of set up. He had rented lots of land and decided to grow potato and maize, and Kalu's wife took about 20,000tk from BRAC's, 12000 from CCD, 15000 from Government banks, Grameen fund, 10,000 Krishi Bank 40,000.

So she gave all the money to Kalu to grow potato and maize. She borrowed money from BRAC upon the given that they will pay after the maize harvest.

This story illustrates one of a number of ways that micro finance is being used at variance with original model and in ways that are not documented in the contracts. A larger scale speculative investment to augment the family income has been undertaken by borrowing money from five different sources including banks and NGOs to be used by Misters Kalu senior and junior to grow crops. This pays for the land and seed to enable the operation. Other conversations highlight the substantial costs that are involved for the Kalu family to undertake this endeavour. The NGOs charge 30-60% annual interest for the loans as do the banks. Given that money will not be paid back for some months, the amount to be repaid will be very much greater than that which was borrowed.

Figure 2 details a more complex picture of the network including both a schematic of how the process of micro finance works and this story within it. The figure demonstrates how the intense informal socio-cultural relationships among extended family members in the bari govern the interactions in this network. (*Bari* refers to the basic unit of social organization in rural Bangladesh. Baris usually consist of a cluster of extended family households in close physical proximity.)

Figure 2: Informal Socio-Cultural Realities of Kalu's Mother's Microfinance Group



Given the high cost of borrowing, the research assistant asked Kalu's wife (daughter in law of Mrs Kalu, the leader of the group) what the rationale for undertaking this debt is:

Research Assistant: *So why are you not paying the loan back in weekly instalments?*

Informant 8: *Because if you say you are going to give the money after harvest, BRAC has to wait for at least 3 months, 90 – 100 days*

Mrs Kalu (wife) continues: *Actually when I talk to my mother in law who is the group leader so she has to collect...*

Research Assistant: *So without her mother-in-law's reference Mrs Kalu can't borrow money?*

Informant 8: *So she got the reference from her mother-in-law and anyway, her mother-in-law is the mother of Mr Kalu, so is all family thing. Is all about getting money using different references.*

Mrs Kalu (wife): *But we'll not be able to pay the loan because we are not getting better price for maize*

Research Assistant: *So how you going to pay back the money?*

Mrs Kalu (wife) didn't know or wouldn't say how the money and interest were to be repaid. However in a later interview Mr Kalu (son) was more forthcoming.

Research Assistant: *How you going to pay back the money now?*

Kalu: *I'll borrow money from someone, from some other NGO's and I will pay back BRAC and Grameen and CCD.*

Research Assistant: *So actually that's how it was. But the pressure is actually on Mrs Kalu, not Mr Kalu because the NGO's come to Mrs Kalu, and the reference is her mother-in-law or Kalu's mother.*

Mr Kalu (son): *NGO's always when they come to Village B, they stay at Kalu's mothers place. So they stay from the morning till sometimes at 8-9 in the evening. So when they (Kalu family) don't pay the money, they (NGO agents) will stay there. And this Kalu's mother's responsibility, to take the money from Mrs Kalu and Mrs Kalu put pressure to her husband. So you can see the financial network there. It starts from NGO. It's all about the family.*

The initial consequences of non-payment are not pleasant.

Research Assistant: *Now, I ask Kalu you are a very brave person because you borrow such amount of money, and you can't even pay half of the money because you have a total loss of your maize and potato, how you going to pay it back?"*

Mr Kalu (son): *Ok. BRAC will come to my house for the money, but I can't pay it, so what can I do? If they have to come every day, they have to scream to my mother, wife to my mother-in-law, but I don't have money.*

This reflects an earlier incident. Previously when a loan was unpaid the NGO lender sought repayment. Kalu's mother reported that one of Kalu's brothers ran away from the village because he couldn't afford to repay the money the family had borrowed from NGOs and was being harassed for payment. The money had not been lent to him, but rather through the female microfinance group. However Kalu's mother was not held responsible by the NGO, rather it was her son who the NGO pursued.

This further highlights the complicity of the NGO agents. They recognize the informal network's structure, which reflects their culture's social norms and act accordingly. Women contract loans but all parties – the male and female village members and NGO agents recognize that does not represent the actual process. It was not possible to interview these agents (as this would have severely undermined the relationships built with the villagers) and the secondary data and promotional information from the central management of NGOs hold to the rhetoric of the idealistic microfinance models. However the evidence is nevertheless quite clear. It was observed that the agents from the NGO, BRAC, also knew that Kalu was not in a situation to pay back the loans, yet they provided him with the money anyway and they don't know how he will repay the loan. It is a reasonable assumption that this is not an isolated case.

The longer term prognosis for this village (and others) is poor. The observations of the researcher and her assistant are that despite the very best efforts of the villagers many of their entrepreneurial agricultural ventures fail. An excerpt from the research assistant's field work journal reads:

Kalu's father is over 70 and he was working (hard) like Kalu. I saw him falling asleep while they are working. Everybody was asking him to go home and take rest, and he said if I take rest now, next day it might be rainy day, it might be gloomy day so not enough sun then the quality of the maize shell going to deteriorate. So everybody is working.

The failure of a number of ventures means that the Kalu family are increasingly struggling under the burden of multiple micro debts. The terms under which loans are repaid (or not) has fragmented the family and their traditional way of life is being undermined. At a certain point in the cycle of indebtedness this family, like many others, is unable to continue to finance their debt by taking out further loans. Their level of debt escalates through lack of income and crippling interest rates and like other villagers in similar circumstances they are forced to sell off some land to repay the NGOs and banks. Then the cycle begins again. The decreasing asset base make further ventures less likely to succeed, e.g. there are higher costs involved in hiring others' land for agriculture and as some family members have been forced to leave the community there are fewer people to assist in the present ventures. Therefore it is anticipated that this cycle will continue.

The Kalu family and village that surrounds them report a highly coordinated set of dysfunctional activities. The family's financial decisions are a highly interconnected set of activities with the extended social network participating in various ways. The network is evolving. For example the Kalu family's values and behaviours have changed, precipitated by the opportunity to borrow relatively large sums of money through microcredit. This has resulted in an abandonment of their traditional risk managements practices. The consequences of non-payment of micro debt include a breakdown in moral values in part because villagers are increasingly fraudulent in their behaviour as they struggle to recover. Family structures are also damaged. Kalu's brother ran away to avoid facing up to the losses incurred in his name. Kalu is moving towards a similar situation.

There is considerable confirmation of this. Everyone in the bari knows what is going on and there were a number of similar reports on the dysfunctional nature of microfinance process and outcomes. This also highlights that similar activities are happening in parallel in other village families. In the woman's microfinance group women are usually bypassed by the (male) NGO agent and the actual loan arrangements are often quite different from written

contracts. An additional example is that of the 20 members of Kalu's mother's microfinance group two of the members actually had never borrowed any money but Kalu's mother put their names on to load contracts and got extra microcredit to assist her own family.

The financial services network that operates alongside these social networks is somewhat opaque. As already mentioned, they were not the focus of this study which rather concentrated on the *perceived* business network and its impact upon the members of a particular social network. The activities reported by the Matlab community line up with the rhetoric of these organisations to some degree. They indicate that sustainability, i.e. not losing money, is a central goal of Banks and NGOs as this enables a larger scale of finance provision to poor communities and continuation of such finance (Morduch 2000). This aligns with pursuing non payers. However avoiding losses requires high interest rates, and it is argued that this is acceptable because microfinance clients require not cheap credit but rather access to credit. The experiences reported here however contradict this, high interest rates are a cause of at least some of the problems reported.

The Grameen Bank in Bangladesh is presented as an example of a rural microfinance operation that has been very successful. A study by Khandker (1996) reports that this bank has "helped to increase significantly household incomes, productivity, labour force participation, and rural wages in Bangladeshi villages. It is further reported that in Grameen Bank villages the level of absolute poverty is 75% lower than in villages without such a program" (in Brau and Woller 2004, p2). This rhetoric of the NGOs, banks and their agents that are included in this business network is in line with the win-win, sustainable development, poverty alleviation propositions that is at the heart of the microfinance model (Morduch 2000). However this "Win-win" certainly does not match the reality relayed by our informants and reported here. Instead they report worsening poverty and banks and NGOs who are ethically and morally deficient in their dealings. This is evidenced by i) the reported norms of fraudulent lending, i.e. in reality lending to different people and for different purposes on an ongoing basis than those in the loan documentation, ii) inappropriate risk assessment with agents often aware that their clients will not be able to pay back loans, iii) no evidence of provision of information, training or guidance from any NGO or other entity that could assist clients to develop more sustainable financial strategies, iv) aggressive practices when loan recipients are unable to pay back loans, v) destruction of economic assets and social capital and parts of the social network with decreasing economic well-being the result.

Discussion and Conclusions

The case reports the very negative impact of microfinance on a particular Bangladesh rural community. We show there is a breakdown in traditional social networks in this (and other) poor rural villages brought about by the taking of micro loans when the families have no means of paying them back. This increased indebtedness to NGOs is perpetuating their poverty and undermining their traditions of bounded solidarity, where families support each other as best they can through common adversities.

The "destruction" of a social network that was reported by our informants – specifically, the degrading rather than development of their traditional economic system despite widespread use of microfinance – is very worrying. It is at variance with the outcomes that are supposed to accompany microfinance's best practices as espoused by banks and NGOs and bodies such as the Consultative Group to Assist the Poorest (CGAP; a donor consortium housed within the World Bank), the US Agency for International Development and the United Nations

Development Group Program (Morduch 2000). Given the large and increasing reach of microfinance into poor rural communities in many other parts of the world, further investigation of our informants' reports is urgently needed.

It may be that our case study is an isolated and extreme example and is not representative of microfinance's usual reported outcomes. For example Ahmed (2009) reports that it is widely agreed that about 15% of recipients of microfinance loans borrow from a second provider – considerably less than in our case and he goes on to report considerable success in microfinance in Bangladesh. However there are other voices who report evidence similar to our case. Karnani (2007) reports that micro finance has not alleviated poverty in Bangladesh and goes on to report similar findings as to social outcomes – that women do not start micro businesses, entrepreneurship is not facilitated, poverty is often exacerbated and high interest rates create economic problems in rural communities.

There are a number of possible explanations for the observed divergence from the goals of microfinance including: deficiencies in the metrics used to measure performance, lack of consideration of long term effects and in line with our focus, lack of consideration of the underlying social network dynamics. These are considered in turn.

Khandker's (1996) study is more comprehensive than most assessments of the effectiveness of microfinance in that it assesses the impact on communities' economic development and does so across a number of communities (in Khandker 2005). However these results and those of other authors require further scrutiny. Often the data collected is anecdotal, or based on self-reports (Ahmed 2009). The main focus is on supply-side measures, with the most common measures the percentage of loans that are not paid back and somewhat related to this, the degree to which lenders break even, i.e. the programmes are self-sustaining (Morduch 2000). These measures consider the social welfare impacts of microfinance only in terms of the ability of the system to continue to provide microfinance. Our case study highlights that there are other indicators such as who is using the funding (as distinct from the name on the loan contract), what the money is being used for, how repayment of loans is being expedited and more macro level welfare and development measures that need to be taken into account.

There has been very limited consideration of the longer term impacts of microfinance. This is to some degree inevitable as the microfinance model is a relatively recent innovation. Furthermore, the original programmes (that have most often been evaluated for long term effects) were different in many respects from the current offerings. They were administered by charitable foundations and their loans were low or zero interest (Ahmed 2009). There is strong anecdotal evidence (e.g. stories of successful micro business start-ups by women) that the loans made that corresponded to the original microfinance model often led to positive outcomes (Karnani 2007b). In contrast our case indicates a progressive deterioration in the administration and effects of the loans and lending process. Divergence may be in part because initial success was evaluated and there was no follow up study that would take into account when economic conditions changed, i.e. when there was increased competitiveness in low tech industries where these start-ups occurred or when successful entrepreneurs attempted to expand their businesses. We conclude that previous studies' outcomes need to be (re)evaluated in terms of not only what was measured but the timing of measurement.

The continuing impact of micro finance here has been considered for a particular social network in a particular context. To extrapolate these finding, the processes that underpin the

observed evolution require exploration. Previous discussion indicated networks that overlap and/or are connected by weak ties have the potential to exert powerful influence upon one another. The nature and extent of that influence is influenced by a number of factors including the relative power, disposition, history of the networks and their members (Johnston, Peters and Gassenheimer 2006). In this case, there is very asymmetric power with the loan providers dominant. Their power is strengthened by the lack of alternative networks, i.e. while there are competing microfinance providers, there do not appear to be any credit alternatives to the existing network of banks and NGOs to which these villagers can apply as traditional channels have diminished or disappeared.

The loan-providing microfinance network has evolved, in the ways previously described. We can infer from the stories of the villagers that the performance metrics of agents with whom villagers interact have evolved to focus on quantity of loans made and repaid. Some agents are now prepared to informally conspire with loan applicants to secure loans, overturning safeguards about quantity and recipients of loans that the original models provided (Ahmed 2009). The removal of these safeguards has had negative consequences for the villagers' social networks as their social norms have evolved so that they, often in collusion with boundary agents, conspire to mislead and defraud the supplier network. The increasingly self-serving behaviour has also become more prevalent within the strong tie network with loans taken out in others' names, considerable social pressure put on defaulters to repay by other members of the village, etc. (also reported by Feiner and Barker 2007).

The expectations and aspirations of the villagers have also evolved. They have become more entrepreneurial and seek larger scale opportunities which bring larger risks. Their history includes events whereby they have bailed themselves out of debt by taking on more debt. They have learned to "play" the system for short term gain but do not appear to have learned to assess the long term consequences. Some of the responsibility for this appears to lie with the lenders' networks who have neglected the education and training functions, thereby making it easier mislead clients and to improve their performance metrics and this further increases their power. While the lenders' network power has increased, the villagers' social capital has been eroded. It appears that their social network weak ties have diminished as the micro finance industry has supplanted tradition linkages to an extended social network that in part functioned to assist economically. The advantages that extended social networks provide in terms of diversity, knowledge and social capital could well be lost. Apart from the economic consequences of this, there are likely to be personal consequences. For example, there are a number of studies that show that the weakening of social networks is likely to lead to substantially poorer physical and mental health (e.g. Cattell 1985, Cohen and Willis 2001).

The implications of these findings are substantial. There is a strong possibility that a business network can cause the serious deterioration of a social network under a number of conditions. For most social networks this is undesirable. For the very poor it is calamitous as it reduces the already too-small safety net that they have. Public policy is needed that provides greater oversight in the establishment and ongoing monitoring of business' interface with the vulnerable members of society including the very poor (Karnani 2007). Here, these needs are retrograde, i.e. policy is needed to try to undo damage that has been done but there is also need for policy that sets in place preventative measures such that these situations do not emerge in other guises.

There is a sense the bottom of the pyramid presents business opportunities to be exploited, with a natural consequence that there is need to monitor and control business' activity given

the vulnerability and asymmetry in the relationships between the networks. This monitoring and control needs to include regular review of the nature and outcomes of relationships between these overlapping networks which will continue to evolve. In this case the norms within both networks as to the way interactions between are and should be managed have changed, and as shown the consequences are substantial. Further change is inevitable and likely to be ever-increasing in its scope and pace. Therefore policy needs to be framed accordingly, with incentives in place to guide managers and their agents towards responsible and not exclusively self-serving relationships with customers. In addition incentives that educate and empower the social networks that are served by business need to be continuously developed. Various authors have proposed options that would focus on empowering communities in ways that would increase their economic skills and thus their well-being, e.g. saving programmes (Vonderlak and Schreiner 2002).

Future research will address this area in a number of ways. Additional case studies are planned in other communities such that comparative analysis of the dynamics of overlapping networks can occur. Longitudinal studies that include more systematically mapping the evolution of the networks and their overlaps are also planned to extend analysis of the mechanisms that operate. In addition research more specifically focussing on the business networks of microfinance is envisaged. There are natural limitations. Methods that will allow researchers to observe both positive and negative behaviour of network members will require careful design and considerable resources, e.g. extended participant observation studies. We assume that various forms of (further) ethnographic work such that researchers can move beyond self-serving, self-reports to be able to ascertain and report the reality of the situation will provide a better chance that meaningful remedies can be found and applied. In addition research that allows effective modelling of social network evolution may play a role. In other work we have considered the way group versus individual goals influences network evolution and performance (Ladley, Wilkinson and Young, 2015). It may be possible to apply these simulation techniques to this context in ways that will both provide better understanding of the underlying causes of social network evolution and provide evidence of this that can guide public policy in a direction that balances the social and economic needs of the very poor and effective provision of microfinance credit and other goods and services to them.

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