



# “SOCIAL CAPITAL AND BANK PERFORMANCE – A STUDY IN KAIPAMANGALAM GRAMA PANCHAYATH OF THRISSUR IN KERALA”

ANILA BALAN

ASSISTANT PROFESSOR IN COMMERCE,

SREE NARAYANA COLLEGE, ALATHUR, PALAKKAD, KERALA.

**Abstract:** Social capital is the expected collective on common benefit derived from the potential treatment and cooperation between individuals and groups. The social capital theory gained the importance through integration of the classical sociological theory with the description of an intangible form of capital. Many studies on social capital starts with the early evolution of the concept of social capital which has relevance in understanding the historic development of the concept , not the term which has deep roots in the early sociology and economics .

The concept of social capital or the value that can be derived from social ties created by goodwill, mutual support, shared languages, common beliefs and a sense of mutual obligation, has been applied to a number of fields from sociology to management. Social capital is generated collectively but can also be used individually, bridging the dichotomized approach. Over the last few years there has been a remarkable increase in the number of published studied dealing with social capital issues. However, there are scanty studies at village level relating to social capital and bank performance. In this background the present study examines how social capital affects bank's efficiency for a sample of financial institutions in Kaipamangalam grama Panchayath.

**Key words :** social capital , intangible capital, bank performance

## *Introduction*

Social capital has commonly being studied in many years from the perspective of sociology and political science. The concept of social capital is still in its early stage of conceptualization and there are still many problems with the current conceptualization. Different authors approach the subject from different disciplines and different point of view and the result is a variety of current conceptual approaches. The operationalization of social capital continuous to be a significant problem as many studies apply very poor and often in appropriate conceptualizations designed for different purposes.

Social capital is the expected collective on common benefit derived from the potential treatment and cooperation between individuals and groups. The social capital theory gained the importance through integration of the classical sociological theory with the description of an intangible form of capital. Many studies on social capital starts with the early evolution of the concept of social capital which has relevance in understanding the historic development of the concept , not the term which has deep roots in the early sociology and economics .

Social capital reduces information, transaction and monitoring cost. Reducing information cost is one of the key factors related to the relevance of social capital. Social capital reduces risk premium , financial and credit costs . Another way by which social capital influences bank performance relates to the reduction of the risk premium that participating parties mutually requires to offset any eventual breach of contracts by either of them. Social capital reduces loan losses . Higher level of social capital in the society not only leads to lower information cost, but also higher quality information to access risk insolvency. Higher level of social capital leads to higher repayment and higher savings. Social capital increases loan supply and diminishes rationing. Social capital contributes to reduce information cost and thus its existence can make transactions profitable, which otherwise would be loss making. This is the background against which the present study seeks to explain the relationship between social capital and bank performance in kaipamangalam grama Panchayath.

## *Scope of the Problem*

The present work is intended to get practical experience about social capital and its measurement. To understand the implementation of economic participation of the members in the working of a co-operative bank by way of the deposit , obligation of the bank regarding the distribution of the dividend to its members and in providing loans and advances to its members . And hence we set out to study it's over all financial statement of the bank.

This study measures social capital by considering four variables namely kudumbasree units , number of arts ,sports clubs , polling rate and evaluate the bank performance by taking four variables namely deposit per employee , loan per employee , profit per employee and investment per employee . The scope of the study is limited to the selected variables of social capital and bank performance. Geographically the study is limited to kaipamangalam grama Panchayath of Thrissur district of Kerala.

## Objectives of the Study

The broad objectives of the study is to examine the relationship between social capital and bank performance in Kaipamangalam grama Panchayath. The specific objectives of the study are as follows:

- 1) To measure social capital in kaipamangalam grama Panchayath.
- 2) To explore the relationship between social capital and bank performance of the Kaipamangalam service co-operative bank.

## Hypothesis

The following hypothesis are set out in the study.

H0: There is no significant relation between social capital and bank performance.

H1: There is strong relation between social capital and bank performance

## Research Design and Methodology

This study is designed as an exploratory based on both secondary and primary data.

### Source of data :

The secondary data required for the study have been collected from the various sources such as annual report, financial statement, magazines internet and technical papers on the project. The primary data have been collected through interview schedules with bank officials and panchayath officials.

## Kaipamangalam Grama Panchayath – Profile

Kaipamangalam grama Panchayath is one of the smallest village in mid – Kerala, which lies between Arabian sea and Kanolikanal in thrissur district .It is a beautiful piece of land sandwiched Perinjalam Panchayath on the south and Edathiruthy Panchayath on the north. Panchayath consist of 20 wards and 41,569 of population. The main speciality of this Panchayath is three parallel roads are going together in the north south route. Central government's NIRMAL PURASKAR is achieved by this Panchayath.

## Profile of Kaipamangalam Grama Panchayath at a Glance

1. Name of the panchayath	: Kaipamangalam grama Panchayath
2. Panchayath head quarters	: Kaipamangalam
3. Area	: 13. 60
4. Name Population	: 41569
5. Female	: 21150
6. Male	: 20419
7. No: of households	: 2500
8. Block panchayath	: Mathilakam
9. District	: Thrissur
10. Legislative assembly	: Kaipamangalam
11. Parliament Constitution	: Challakudy
12. No. of ward	: 20
13. No. of commercial banks	: 4
14. No. of co-operative banks	: 4
15. No. of NGO	: 8
16. No. of kudumbasree units	: 352
17. Polling rate	: 0.82

## Tools For Data Analysis

Tools used in this study are ratio analysis and simple correlation

## Variables Used in the Study

The variables used in this study are social capital variables and indicators of bank performance. The following are the variables:

1. Number of kudumbasree units
2. Number of co-operative bank
3. Number of arts and sports clubs
4. Polling rate
5. Total deposits
6. Credit deposit ratio
7. Total loans
8. Total investment

## Review of Literature

1. Wounder Stam , Souren , Arzlanian , Tom Elfring (2013), in their study titled “ Journal of business venturing social capital of entrepreneurs and social firm's performance ; A meta analysis of contextual and methodological moderators conducted a meta analysis of the link between entrepreneurs personal networks and social firms performance and identifying new moderators affecting this relationship. Analysis of 61 independent sample indicate that the social capital performance link was positive and significant effect sizes of weak ties were smaller than those of structural holds , while network diversity had largest positive effect on performance.

2. ASM Rejul Karim Bakshi Deakin University (2011) in his paper “Social capital , Health related Behavior and Hygienic practices of the extreme poor in Rural Bangladesh ” estimated that association between social capital and health related behavior and hygienic practices in the developing countries . The empirical indicate strong effects of social capital among the extreme poor of the Bangladesh's households

on the determinant of their health seeking behavior and hygienic practice. This paper studies association between social capital and health seeking behavior and hygienic practices among 4900 extreme poor households in Bangladesh. The result indicate that social capital connection and network can be used by government and non government organization of the country for health sevicees.

3. Benjemine Feigeberg (2010) have studied the paper titled “ Building social capital through Micro finance”, analyzed that group lending is successful in achieving low rate of default without collateral not only because it harnesses existing social capital as has been emphasized in the literature but also because it builds new social capital among participants . A human development assistance program promotes community interaction as a means of building social capital . In this study close neighbors from similar socio economic background go to know each other well enough to co-operate with only the outside stimula of micro finance meetings were many authors have suggested a link between social capital and micro finance. Their finds are likely to be most readily applicabile to the fast growing urban and semi urban areas of cities in developing countries.

4. S. Phulari (2010) made an attempt to study “Understanding formulation of social capital in online social network sites ( SNS) ” estimated the formulation maintenance of social capital in social network sites. Online communities are the gathering of like – minded people brought together in cyber space by shared interests. The findings of this exploratory study on social capital suggest that research efforts are required in the area of the user behaviour and SNS modeling with a special attention to the definition of social capital. The conclusion put here are mainly for most popular SNS facebook as much of the existing academic research has been focused on it. This should be due to its relatively open nature.

5. Fabio Sabatini ( 2010) titled “ The role of social capital in economic development ” carries out an empirical assessment of the casual nexus connecting social capitals diverse aspects the “ quality” of economic development in Italy. The analysis accounts for three main capital dimensions (i.e. bonding , bridging and linking social capital) and measures them through synthetic indicators built by means of principal component analysis performed on a dataset including multiple variables. The quality of development is measured through human development and indicators of the state of health of urban ecosystems, public services , social protection, gender equality, and labour markets. The casual relationship between social capitals and developments different dimensions is then assessed through structural equations models.

6. A study of Gerrit Rooks Etal (2009) titled “ The interplay of human and social capital in entrepreneurship in developing countries” Discuss the characteristics and determinants of entrepreneurial behaviour in uganda. The paper focuses in particularly on the interplay of human & social capital in determining entrepreneurial performance. Only a very small subject of entrepreneur would be satisfies as entrepreneurial in the dynamic Schumpeterian sense, may found hardly any effects for objective success, complimentary with substitution at the margin for generation activates & substitution for innovative performance.

### *Data analysis and interpretation*

Social capital refers to the norms and network that enable collective. It also refers to the instruction relationship and norms that shape the quality of a society’s interaction. A co-operative bank is a voluntary agency formed by needy persons themselves to get credit facilities on the basics of the securities they have not form the rich from the public but their own resources .This focus on measurement of social capital relating to efficiency of a co-opertive bank.

This part has 3 sections

1. Social capital variables in the study
2. Indicators of bank performance and their rationale in the study
3. Relationship between social capital and bank performance

*Table 1 showing Social capital variables*

Sl No	Social Capital Variables	No .of Variables
1	Kudumasree Units	352
2	Co-operative bank	4
3	Arts and sports clubs	15
4	Polling rate	.82

#### 1. Kudumasree Units

Kudumasree was started on first April 1991. It is a partnership between four major actors ( central government , state government , local bodies and NABARD). It is exclusively focused on women, women in family and women in community . It is an organization of women from below poverty line. The core activity is women empowerment through micro finance, micro enterprise and convergent community action .Kudumasree stands for organizing the poor under a community based organization (community development society). The three tier community based CDS system, envisaged for poverty alleviation in kudumasree approach, will take up the informal banking responsibility. The poor women should be able to approach the informal banks whenever necessity occurs. The doors of the bank should be open for 24 hours a day, 7 days a week and 365 days a n year. The informal banks are formed with the active involvement of every members belonging to the kudumasree. The financial empowerment of women is achieved through thrift and bank accessibility will improve their status in their own families and societies. It reflects social capital rather than other variables. Hence it is justified that number of kudumasrees in the panchayath is an indicator of social capital. The numbers of kudumasrees working in the panchayath are 352.

#### 2. Co-operative banks

Co-operative banks play a vital role in the financial system of the economy in terms, volume of operation and purpose they serve. Co-operative banks aims at fulfilling the banking requirements of people in a particular locality. Co-operative bank have been established with the prime objectives of meeting credit needs of people in the locality. Co-operative bank works on the basis of self help and mutual trust. Co-operative banking contracts belong to a special type of contracts where trust between parties is essential. Each depositor expects the bank to pay interest in due time and money in his or her bank account will be refunded upon request. Likewise, the bank expects the borrowers to

repay the amount lend in accordance with to the terms stipulated in the agreement. In the both cases we can verify that each side 'trust' the other. This mutual trust between parties, which directly depends on bank in the panchayath is as an indicator of social capital . The numbers of co-operative working in the panchayath are 4.

### 3. Arts and sports clubs

A club is an association of two or more people united by a common interest or goal. A club is a voluntary non- profit organization where members meet regularly to perform charitable works either by direct hands on efforts or by raising money for other organizations. A club is defined firstly by its service mission and secondly its membership benefits, such as social occasions, networking and personal growth opportunities encourage involvement. This existence of clubs and associations indicates the presence of social capital in a panchayath. It is one of the variables which may be taken for studying social capital. The number of clubs working in the panchayath is 15.

### 4. Polling rate

Polling rate is the percentage of eligible voters who cast a ballot in an election. It is the percentage of number of people who actually voted in comparison to the total number of eligible vote. Polling rate is one of the proxies of social capital. An individual with personal interest will not vote for election and a person who have responsible mind will vote for the welfare of the society. Hence it is justified that the polling rate in the panchayath is an indicators of social capital. The polling rate or voter turnover rate in the panchayath is 82%.

Table 2 showing Indicators of bank performance

Sl.No	Indicators of bank performance	Amounts
1	Deposit per employee	82, 28,232
2	Loan per employee	65, 97,316
3	Credit deposit ratio	0.80180
4	Investment per employee	16,74,616

#### 1. Deposit per employee

One of the main functions of the bank is to accept deposits from public. The efficiency of the bank is measured by estimating the employee productivity in the bank. High employee productivity is an indicator of better performance in the branch. Total amount of deposit in the year 2018-2019 is Rs 9,88, 38,783 and deposit per employee is Rs. 82,28, 234.

#### 2. Loan per employee

Lending of money is one of the core functions of a co-operative bank. After keeping a certain percentage of deposits as cash reserve the balance is given as loans and advances. Generally the efficiency of a branch is reflected in the volume of loans and advances generated by it. Loan per employee measures how much loans an employee produces in a branch. It indicates the efficiency of the employees in the production of credit in the bank. The total amount of loans in the year 2018-2019 is Rs 7, 91,67,799 and loan per employee is Rs 65,97,316.

#### 3. Credit deposit ratio

Credit deposit ratio shows the performance of the bank in the acceptance of deposit and lending of loans or any other advances. It is the most powerful measure of the management of funds by the bank. This ratio shows the relationship between credit and deposits maintained by the banks.

$$\text{CDR} = \text{Loans and advances} / \text{Deposit}$$

The credit deposit ratio shows the efficiency of the banks in the management of funds. The credit deposit ratio is 0.8

#### 4. Investment per employee

Investment is an income generating asset .Investment is putting money into an asset with the expectation of capital appreciation, dividends or interest earnings. A good investment strategy will diversify the portfolio according to the specified needs. One of the measures of bank performance is investment per employee. Investment per employee is an important indicator of efficiency in the bank. The total amount of investment in the year 2018-2019 is Rs 2,00,95,400 and investment per employee is Rs 16, 74,616.

### *Relationship between social capital and bank performance*

Social capital refers to the social capital relationship between people that enable productive outcomes. Social capitals are those stocks of social trusts, norms and networks that people can draw upon to solve common problems. The most direct way in which social capital impacts on banking activity in general, and banking performance in particular, is through the increase in the confidence and trust of the individuals participating in relationship in the institutions and system that control the social , economic and political welfare in the society. According to this reasoning , the higher the amount of social capital in the society, the higher the amount of social capital in the society, the higher its influence, not only on the observance of bank contracts , but also on the number of relationships.

Table 3 showing Correlation analysis of social capital and bank performance

Social capital variable	Indicators of bank performance	Correlation
Kudumbasree units = 352	Deposit per employee = 82,28,232	0.69
Co-operative bank = 4	Loan per employee = 65,97,316	
Arts and sports club = 15	Credit deposit ratio = 0.80	
Polling rate = 0.82	Investment per employee = 16,74,616	

Social capital variables are independent variables and indicators of bank performance are dependent variables. Change in the independent variable will affect the dependent variables. The correlation between social capital variables and indicators of bank performance is 0.69. It is proved that there is a positive relationship between social capital and performance kaipamangalam service co-operative bank in Kaipamangalam Panchayath.

The result of simple correlation analysis indicate that the variables of social capital have a direct and significant positive effect on variables of bank performance. Specifically the significant relationship between social capital and bank performance is positive ( $r = 0.69$ ). Hence in the null hypothesis (H<sub>0</sub>) that the relationship between social capital and bank is not significant is rejected and alternative hypothesis (H<sub>1</sub>) which shows there is significant relationship between social capital and bank performance is accepted.

### Findings

Social capital means that stocks of social trust, norms and networks that people can draw upon to solve common problems. Social capital refers to goodwill, fellowship, mutual sympathy and social intercourse among a group of individuals and families. Social capital is about the value of social networks, bonding similar people and bridging between diverse people, with norms of reciprocity. Social capital belongs to the groups and can be used by the group or individuals within the group. If an individual comes into contact with his neighbour, and they with other neighbours, there will be an accumulating of social capital, which may immediately satisfy his social needs and which may bear a social potentiality sufficient to the substantial improvement of living conditions in the whole community.

A co-operative bank is a voluntary agency formed by needy persons themselves to get credit facilities on the basis of the securities they have, not from the rich from the public, but by their own resources – resources of the credit society. Co-operative bank aims at fulfilling the banking requirements of people in a locality. Co-operative bank have been established with the prime objectives of meeting credit needs of people in this locality. Co-operative bank also accepts deposits and lends money. Each depositor trusts the bank and bank also trust the borrower. That is in both cases we can verify that each side “trust” the other. These mutual trust between them, which directly on the social capital.

Social capital means the social relationship between people that enables productive outcomes. Social capital in Kaipamangalam Panchayath is measured. Variables used for this purpose are total number of kudumbasree units (352), co-operative banks(4), arts and sports clubs (15) and polling rate (0.82).

Social capital measured is related to the institutional performance. The performance of Kaipamangalam service bank is measured by employing some indicators. The indicators used for this purpose are deposit per employee(82,28,232), loan per employee(65,97,316), credit deposit ratio (0.80) and investment per employee(16,74,616).

The result of simple correlation is 0.69. These results show that there is a positive relation between social capital and bank performance. So the null hypothesis is rejected and alternative hypothesis is accepted.

### Conclusion

Measuring social capital may be difficult, but it is not impossible and several excellent studies have identified useful proxies for social capital, using different types and combination of qualitative, comparative and quantitative research methodology. In this project, social capital is measured by employing proxies. This study concludes that the social capital is linked to institutional performance. Higher level of social capital leads to higher level of bank performance. This study also finds that the social capital is moderate in the Kaipamangalam Panchayath which influenced the performance of Kaipamangalam service co-operative bank.

### Bibliography

#### 1. Text books

- C. R. Kothari (2009) “Research Methodology Methods and techniques”, New Age International Publishers.
- S. R. Gupta (2008) “Statistical Methods”, Sultan Chand And Sons Educational Publishers New Delhi.

#### 2. Journals and Magazines

- P. K. Modi (2009), “Corporate social capital and liability”
- Annual Plan Report of Kaipamangalam Grama Panchayath
- Jose Manuel Pastor (2006), “Social capital and bank performance.
- “An international comparison for OECD countries”, Emili Tortosa Ausina.
- ASM Rejulkarimbakshi (2011), “Social capital, Health related behaviour & Hygienic practices of the extreme poor in rural Bangladesh”.
- Benjamine Feigenberg, Erica M. Field and Rohini Pande (2010): “Building Social Capital through Micro finance.” HKS Faculty Research Working Paper Series, RWP10-019, John F. Kennedy
- S.S. Phulari, Dr. S.D. Khamitkar, N.K. Deshmukh, P.U. Bhalchandra, S.N. Lokhande and A.R. Shinde (2009), “Understanding Formulation of Social Capital in Online Social Network Sites (SNS)”, International Journal of Computer Science Issues, Vol. 7, Issue 1, No. 3, January (2010)
- Max Stephenson chair, Alnoor, “Trust, Social capital and Organizational effectiveness.”
- Stephen Knowles, “Is social capital part of the institution continuum”.
- Wendy Stone, Mathew Grey and Jody Hughes (2003), “Social capital at work: How family, friends and civic ties relate to labour market outcomes” Research paper 31

- WounderStam , SourenArzlanian and Tom Elfring , “ Social capital of entrepreneurs and small firm performance: A meta analysis of contextual and methodological moderators journal of Business Venturing”
- Fabio Sabatini ( 2010) ,” The role of social capital in economic development”.
- Gerrit Rooks etal (2009),” The interplay of human and Social capital in entrepreneurship in developing countries “.
- ASM Rejulkarimbakshi (2011) ,” Social capital, Health related behaviour& Hygienic practices of the extreme poor in rural Bangladesh”.
- Lindon . J. Rohinjon, A. Allunjchmid and Marcelo. E. siles (2000), “Is social capital really capital “.
- Mathew Morris,” Social capital and poverty in India “, IDS working paper 61.
- Gwangseog Hong and Thomas. L.Sporleder ,”Social capital in agricultural co-operatives : application and measurement”
- Putnam, Leonardi and Nanetti (1993) , “ Making Democracy Work : Civic Traditions in Modern Italy , Princeton University Press, Princeton, US
- P.K. Modi (2009), “ Corporate social capital and liability”
- Jose Manuel Pastor (2006),” Social capital and bank performance .”

