

Social Capital, Transaction Cost and Livelihood Development of the Members of Sanasa Society in Badulla District, Sri Lanka

H.M.S. Priyanath and H.W.T. Jayathma*

Department of Economics and Statistics, Sabaragamuwa University of Sri Lanka, Belihuloya

**thisurisabra2014@gmail.com*

INTRODUCTION

Small scale producers are considered as infants in the business field since they do not have sufficient knowledge and experience in the business field. Therefore, many small-scale producers fail to survive in the business field since they have a higher possibility to suffer exploitation from exchange partners mainly from middlemen (Carmel and Nicholson, 2005). To avoid the opportunistic behavior of exchange partners, a firm needs to bear a time and money cost to search for reliable buyers and suppliers, negotiate transaction agreements with them and monitor the transaction process. Such time and money costs (transaction cost) avert the performance of a business firm (Hobbs, 1996). Meanwhile, scholars argue that Community-based Organizations (CBOs) play an important role in developing the livelihoods of their members. Involving the activities of CBO, network relationships among members and quality of relationship build-up among members facilitates to sharing of information, knowledge, and resources and mitigate transaction cost as well (Priyanath & Premaratne, 2017).

There are several CBOs exist in Sri Lanka and *Sanasa* is one of the major CBOs involving poverty eradication, empowering the community, and providing microcredits that positively affected the development of the livelihood of the members of *Sanasa* society. However, scholars have not given sufficient attention to studying how the social capital among the members of *Sanasa* society affects livelihood development by mitigating transaction costs. The study attempts to fill this knowledge gap in the literature.

The main objective of this study is to investigate the effect of social capital on transaction costs and the livelihood development of the members of *Sanasa* society. The study further examines how structural

and relational social capital affect the determinant of transaction costs and livelihood success of the members of *Sanasa* society.

METHODOLOGY

Primary data were collected for this study employing a questionnaire survey. Members of *Sanasa* society in Badulla district were considered as the population of the study. A cluster sampling technique was used to select the sample following several steps. First, the list of *Sanasa* societies functioning in each of the 15 Divisional Secretariats (DS) divisions from the Department of Cooperative Development in Badulla was obtained. Second, one *Sanasa* society was randomly selected from each DS Division. Then all the beneficiaries who are engaged in income-generating activities (livelihood activities) were selected as a cluster. Accordingly, 273 *Sanasa* members were selected as the sample. A structured questionnaire administered by an enumerator to the individual respondent was used as the data collection tool.

The questionnaire items are designed systematically based on previous literature. Livelihood Success (LS) is the dependent variable. The independent variables are determinants of transaction cost (Asset Specificity (AS), Rational Ability (RA), Uncertainty, Opportunism) and social capital (Relational Social Capital (SSC) and Structural Social Capital (RSC)). The data was analyzed using Partial Least Squares-Structural equation modeling (PLS-SEM). The PLS-SEM help to examine the interrelationship between multiple independent and dependent variable to evaluate the relationship between more than one construct simultaneously. Assessing the reliability and validity test to enhance the reliability of the construct for made variables and efficiency of the structural model was evaluated by multicollinearity issues R^2 , effect size F^2 , and predictive relevance Q^2 .

FINDINGS

The study tested 20 hypotheses and the results are given in Table 1.

Table 1: Assignment of the significance of the structural model relationships

	Hypothesis	Path Coefficient	T Statistics	P Values	Decision
Assets Specificity -> LS	H1	0.122	4.809**	0.000	Supported
Assets Specificity -> TC	H2	-0.017	0.331	0.741	Not supported
Opportunism -> LS	H3	-0.050	1.626	0.105	Not supported
Opportunism -> TC	H4	0.025	0.324	0.746	Not supported
RSC -> Assets Specificity	H5	0.253	2.528**	0.012	Supported
RSC -> LS	H6	0.542	10.755**	0.000	Supported
RSC -> Opportunism	H7	-0.762	15.487**	0.000	Supported
RSC -> RSC	H8	0.677	11.037**	0.000	Supported
Rational Ability -> TC	H9	-0.524	4.829**	0.000	Supported
RSC -> Rational Ability -> LS	H10	-0.443	5.701**	0.000	Supported
Rational Ability -> LS	H11	0.047	1.144	0.253	Not Supported
Rational Ability -> TC	H12	-0.058	0.660	0.510	Not Supported
SSC -> Assets Specificity	H13	0.113	1.189	0.235	Not Supported
SSC -> LS	H14	0.068	1.999**	0.046	Supported
SSC -> opportunism	H15	0.014	0.230	0.818	Not supported
SSC -> Rational Ability	H16	0.168	2.928**	0.004	Supported
SSC -> TC	H17	-0.175	3.088**	0.002	Supported
SSC -> Uncertainty	H18	-0.129	1.715	0.087	Not supported
TC -> LS	H19	-0.200	7.261**	0.000	Supported
uncertainty -> LS	H20	-0.118	3.371**	0.001	Supported
uncertainty -> TC	H21	-0.072	1.131	0.259	Not supported

**P > 0.05

Source: Survey data, 2020.

According to the results, R^2 for the LS is recorded as 0.88. That means the LS of Sanasa members was explained by 88 percent by the six independent variables. Generally, it considers a stronger effect on the dependent variable. However, 12 percent of the LS is not explained by the six independent variables. Q^2 value of 0.64 is the predictive relevance for LS in Sanasa members. That means the social capital and TC determinants have large predictive relevance for the LS of Sanasa members in this study.

Results revealed that according to Table 1, the β coefficient of all the path coefficient values is higher than the 0.01. However, not all t -values are higher than the minimum threshold value of 1.95 at 0.05 significant level. Nine hypotheses namely, H2, H3, H4, H11, H12, H13, H15, H18, H21 were not statistically significant. However, the direction of relationships between dependent and independent variables may be revealed correctly in the results. As an example, when Opportunism increased by one percent LS of *Sanasa* members is decreased by 0.05 percent. On the other hand, twelve hypotheses namely, H1, H5, H6, H7, H8, H9, H10, H14, H16, H17, H19, H20 show statistically significant coefficients at 0.05 significant level. As an example, when TC increased by one percent, LS of *Sanasa* members is decreased by 0.02 percent.

CONCLUSIONS

The study revealed that social capital (both RSS and SSC) directly affects the enhancement of the livelihoods of the members of *Sanasa* society. The results further confirmed that TC leads to a decrease in the LS of *Sanasa* members. Determinants of transaction cost such as uncertainty, opportunism caused an increase in the transaction cost of *Sanasa* members. As a result, its effect on the livelihood of *Sanasa* members is negative. On the other hand, rational ability and assets specificity caused to decrease the transaction cost of *Sanasa* members. The results suggest developing market networks between *Sanasa* members and reliable exchange partners, development of a mechanism to provide sufficient market information (prices, quality, and exchange partners) utilizing ICT technologies and arrangement of more activities to develop close relationships with reliable exchange partners expecting to minimize TC.

Acknowledgments: This research was supported by the Accelerating Higher Education Expansion and Development (AHEAD) Operation of the Ministry of Higher Education funded by the World Bank.

REFERENCES

- Carmel, E. and Nicholson, B. (2005). Small firms and offshore software outsourcing: high transaction costs and their mitigation. *Journal of Global Information Management*, 13(3), 33-54.
- Hobbs, J. E. (1996). A transaction cost approach to supply chain management. *Supply Chain Management*, 1(2), 15-27.
- Priyanath, H. H. S., & Premaratne, S. P. (2017). Power of social capital on mitigating transaction cost of small enterprises in Sri Lanka: An empirical investigation, *International Journal of Arts and Commerce*, 6(4), 17 – 35.