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**Group Behaviour and  
Development**

Judith Heyer, Frances Stewart  
and Rosemary Thorp

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## ABSTRACT

A very large amount of activity occurs within groups (that is within families, firms, co-operatives, communities or governments). Yet most economic analysis focuses on market transactions between these agents. The purpose of the study is to analyse within group behaviour. Evidence suggests some groups perform well from the perspective of efficiency, equity and well-being, while others perform poorly. The study aims to identify the main causes for these different outcomes, developing a preliminary analysis of modes of group behaviour, and influences on them.

The study identifies three modes of group behaviour: one which secures members' adherence to the group objectives via power and control, in a hierarchical way; one which operates by the use of financial incentives; and one which operates through co-operation among members to achieve the often shared objectives. It is suggested that external norms, and other conditions in the society in which the group is located, are an important influence on mode of behaviour. A review of some existing empirical literature of behaviour in firms, in local government and health services, and in co-operatives and community organizations found a variety of modes of operation and also outcomes within each category. However, groups rarely fall completely into one category or another but frequently combine elements. Co-operative modes of behaviour are often as efficient as the alternatives, because they save on transactions/supervisory costs; but although groups operating in a co-operative mode are often associated with more equity among their members, and sometimes also have a more equitable impact on the economy, this is not always the case. External conditions-not only prevailing norms, but also the distribution of assets and income-seem to be an important influence on group behaviour, and, in particular, on the equity of within group relationships. These suppositions are being examined further in the research project that is underway.



## I INTRODUCTION

Most economic decisions are taken by people acting within, and very often on, behalf of groups. As consumers, individuals are members of families; as producers, they operate within firms. Moreover, there are a variety of less formal groups, such as neighbourhood or community associations and networks of producers which play an important role in influencing behaviour and outcomes. Yet group functioning is largely neglected in economic analysis. Much of economics puts individual decision making at the centre of analysis. As is well known, in the basic neo-classical framework individual consumers are assumed to maximize their own utility, while firms-which are treated as a cohesive unit, i.e. as quasi-individuals-are assumed to maximize profits. Interaction between the two underlies resource allocation, and, in certain rather restrictive conditions, results in a welfare optimum. Hence, economics not only analyses all behaviour in individualistic terms, but also bases strong welfare conclusions on such an approach. Even governments are mostly treated as if they were each an individual with unitary objectives.

This study aims to help correct this imbalance by focussing on group behaviour in the context of development. There is abundant, if casual, evidence that some groups function well, from the perspective of equity, efficiency and well-being, while others function poorly according to one or all of these criteria. Below we develop a preliminary framework for analysing group behaviour and present some piecemeal evidence, gathered from previous research about these issues. More systematic evidence is being collected in the UNU/WIDER research project devoted to this issue. The aim is to identify the major factors influencing group behaviour, so as to suggest changes that would be likely to improve group functioning, with a particular focus on equity and well-being.

Economic interactions among individuals can be divided into within and between group activities, where groups encompass organizations in which individuals come together to undertake joint activities and collectively interface with the market-they include firms (large and small), governments (central and local), community and voluntary organizations, and families. Between group activities are typically mediated by the market, while within group activities, by definition, occur outside the market.



In quantitative terms, non-market transactions within group certainly exceed between group transactions. Within group behaviour is therefore of enormous importance in determining the equity and efficiency of resource allocation. Not only is within group efficiency and resource distribution determined by this behaviour, but such activities decide groups' collective decisions and hence also influence between group transactions. Between group relationships, as noted, largely consist of arms-length market transactions, but they too can be mediated by groups which evolve to ease such transactions- i.e. networks, alliances of firms, etc. Hence, there is not always a clearcut division between within and between group activities.

Group behaviour is evidently influenced both by the external environment in which the group operates and by internal modes of operation, with interactions between the two. Our aim is to explore how differences in these two influences affect group behaviour, through theoretical analysis and empirical case studies. Two types of causality are being explored: how society influences group behaviour and how the mode of operation of the groups themselves influences the outcomes, in terms of efficiency of group operations, equity within the group and outside it, and general well-being within and outside the group.

The following discussion reviews and analyses findings from some preliminary work, both theoretical and empirical, leading to the development of some hypotheses which will be tested in the ongoing research project. The discussion is organized as follows: the next section puts a bit more flesh on the way in which the concept of groups is used in this study; section III classifies some alternative modes of operation of groups; section IV briefly reviews some empirical literature concerning different types of groups with the aim of deriving some hypotheses about the causes and consequences of different modes of operation, including how 'external' circumstances interact with within group operations to determine group behaviour in various contexts; section V presents some conclusions.

## **II GROUPS DEFINED**

Groups are defined in this study to consist in entities in which individuals together undertake activities and collectively interface with the market-they include firms (large and small), governments (central and local), community and voluntary organizations, and families. While between group activities are typically mediated by the market, within group activities, by definition, occur

outside the market.

Most individuals participate in a number of different groups; e.g. the family, their work organization, social organizations—which can give rise to conflicting loyalties, but may also generate complementarities. The larger groups (e.g. governments) contain subgroups within them which form the decision-making unit in certain areas.

In the modern economy intra-group activities greatly exceed inter-group. Intra-firm transactions of multinational corporations account for as much as a quarter of manufacturing trade<sup>1</sup>, while many major corporations have alliances with others hugely extending the sphere of influence of the group as a whole; the public sector often accounts for a third or more of national income; and within family activities perhaps the equivalent of over half measured national income.<sup>2</sup> Strictly market transactions thus account for only a fraction of total economic activity, even in the more market-oriented economies. In such successful market economies as Japan and Korea, companies grouped into *zaibatsu* (pre-second world war Japan) and *keiretsu* (post second-world war Japan) or *chaebol* (Korea) account for the dominant portion of industrial production. Elsewhere (e.g. Taiwan) family groups play an equivalent role.

Despite the central importance of groups in economic life, only individual agents have a role in the Walrasian system, even the mythical auctioneer is an individual, not a collective entity. In the neo-classical paradigm, some groups are regarded as welfare distorting, acting to restrain trade as Adam Smith argued, or to seek rents and perform 'directly unproductive activities', according to Krueger and Bhagwati, while others, such as families and firms, are for the most part viewed as quasi-individuals. Of course, some analyses—for example, New Institutional Economics (NIE) including the transactions cost approach to the firm, and also theories of collective action and public choice—have made the study of groups a central focus, the first two attributing a positive functionalist role to them, the last a mainly negative one. Yet for neo-classical economists (though not, of course, for sociologists),<sup>3</sup> with the exception of firms, groups remain for the most part an anomaly: the rational maximizing individual continues to be the central actor and group activity as something to be explained either as a response to 'market failure', or as a consequence of individuals colluding to create or exploit a monopoly.

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<sup>1</sup> United Nations, 1992.

<sup>2</sup> UNDP (1995) estimates women's unpaid work as equivalent to 48% of measured income and men's unpaid work as another 22%.

<sup>3</sup> See e.g. Giddens (1992).

Groups may be classified as formal or informal, though the distinction is often blurred: formal groups are clearly delineated, subject to agreed membership rules and rules of operation. (They are often termed 'organizations'.) The firm, a trade association, a trade union, or a government organization, are examples.<sup>4</sup> They usually have agreed and written rules, some legally enforceable. In contrast, membership of informal groups may be unclear, sporadic and varying. The family, the neighbourhood, and some interest groups are examples. Informal groups are nonetheless also subject to rules, often implicit.

Groups evolve historically, coming together sometimes for social reasons, sometimes to fight common causes, sometimes to produce (or consume) goods collectively.<sup>5</sup> Many groups have primarily non-economic functions; e.g. sports clubs; religious organizations. The focus in this study is on groups with economic functions, defining 'economic' to include production of goods and services including non-marketed ones, and activities directed at securing control over economic resources. But it must be noted that the distinction between groups with economic and non-economic functions is not clear cut. Not only can most group functions (including social ones) be counted as producing some economic 'output', but also many groups which come together for one (non-economic) reason acquire economic functions, while economic groups often spawn 'non-economic' activities.

We may categorize group functions into three main types, although particular groups may perform both: first, 'efficiency' functions. These correspond to the NIE view of groups as a response to market failures of various kinds. A functionalist view of institutions emerges: according to Schotter we can 'infer the evolutionary problem that must have existed for the institution as we see it to have developed'.<sup>6</sup>

Major market imperfections leading to the formation of groups include:

- Indivisibilities and imperfect information leading to high transactions costs.<sup>7</sup> Given indivisibilities of production or consumption and high transactions costs, individuals cannot produce certain goods and services

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<sup>4</sup> Though it has been argued that modern firms frequently have undefined boundaries, with a range of relationships such as interlocking management, joint ventures and networking that blurs the within/between firm distinction (see Badaracco 1991).

<sup>5</sup> See Granovetter in Etzioni and Lawrence (1991).

<sup>6</sup> Schotter (1981: 2).

<sup>7</sup> See e.g. Nugent (1986).

efficiently for themselves. Hence groups are formed to produce goods (this is the case for firms) or to provide common marketing for small-scale producers, e.g. the Kenya Tea Development Authority; or to provide communal facilities; e.g. communal kitchens such as those that developed in Peru during the adjustment crisis.<sup>8</sup>

- Externalities associated with non-excludability so that group or collective action is needed to produce public goods. Groups formed to manage common pool resources are examples; e.g. the *zanjera* irrigation schemes in the Philippines.
- Imperfect and often asymmetric information giving rise to risk and uncertainty; groups are formed for risk pooling, as a type of collective insurance.

Theories of collective action apply to groups formed to overcome market imperfections.<sup>9</sup>

Group functions which offset market imperfections (termed efficiency functions) may be performed by private sector groups (e.g. firms or networks of firms), or groups in the public sector or the community, the former being the probable response to imperfect information and high transactions costs, the latter to the presence of large externalities.

A second important category of functions, neglected in the NIE approach, are 'claims' functions. These occur where a group is formed to advance the claims of its members to power and/or resources. This is the explicit role of such organizations as associations of the landless, trade unions, cartels, and other interest groups, as well as private monopolies. The claims may be advanced against other members of society (e.g. the Farmers' Federation of Thailand which sought to advance land claims for the landless against large landowners). Or against the government, e.g. the Sarvodaya Shramadana in Sri Lanka campaigns for a variety of services to be provided by the government; or they may aim to enforce legally recognized rights, for example, helping to ensure that land reforms are fairly implemented.<sup>10</sup>

A third group function is to provide goods and services for certain categories of individuals in an attempt to improve the distribution of particular resources, or income in general. This function is performed by groups in the public sector or NGOs and is associated with such service provision as health,

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<sup>8</sup> Graham (1994: 109-10).

<sup>9</sup> See especially Hardin (1982), Olson (1965), Baland and Platteau (1995).

<sup>10</sup> Montgomery suggests that land reform has been more effective where group enforcement of this kind occurred (Montgomery, 1988).

education, micro-credit, housing, etc. We shall term this function, the 'equity' function.

Many groups perform more than one of the functions delineated. For example, many local organizations both provide public goods (improving efficiency and sometimes equity) and act as pressure groups for their members advancing their claims and their power—for example, the Self-Employed Women's Association (SEWA) in India. Private firms, or associations of firms, do the same.<sup>11</sup> Goods and services provided under the equity umbrella are normally also associated with efficiency raising, overcoming externalities or lack of information for example (e.g. in the health services or micro-credit).

### **III GROUP OPERATION AND MOTIVATION**

Groups consist of numbers of individuals—in some cases very large numbers (e.g. governments or large multinational firms may employ tens of thousands of people), in others, such as small firms or the family, very few. The group normally has some set of objectives, which may be determined by its members or by some subset of them, or by an external authority (e.g. the government or the shareholders). To some extent individual and group interests may coincide, but there can also be conflicts. A critical aspect of group functioning is how individual action within the group is kept in line with group objectives. Where this does not happen groups become ineffective; e.g. if individuals working for a firm shirk, pilfer, recommend rival products, or sabotage operations, the firm is not likely to be successful. Similarly, co-operatives or public sector institutions may be used by members/workers to serve their private interests and as a consequence fail to meet the group objectives. There is not an all or nothing situation, but rather a spectrum ranging from situations where members exclusively serve group interests to those where they exclusively serve their own interests. Ways in which individual action is (or is not) reconciled with group objectives is then a vital aspect of group functioning. In terms of economic analysis, there is a principal/agent problem, where the group as a whole represents the principal and the members are agents.

We shall term this overriding problem of securing individual action in line with group aims, the consistency problem. Achieving consistency is a problem even if the individuals that make up the group formulated the

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<sup>11</sup> Esman and Uphoff (1984).

objectives together, because individuals might still benefit by shirking themselves, or pursuing their own private objectives, and leaving others to realize the group objectives. Consistency is much more of a problem where the individuals, qua individuals, do not share the group objective; e.g. the employee in a profit-maximizing firm or a member of a public sector administration whose goals are laid down by the political authorities.

Individual behaviour within a group is influenced in a general way by the values, norms, conventions and traditions of the group which condition how each group operates or the mode of operation of the group: these norms are themselves both formal and informal, emerge historically, and change over time. For shorthand we refer to them as norms. In the business literature, a firm's norms are known as its culture.<sup>12</sup> Some of these norms are specific to the group in question, some emerge from and are shared by the society in which the group is located. These norms are much the same as what North defines as 'institutions'; i.e. 'The rules of the game in a society or more formally... the humanly devised constraints that shape human interaction'. (North, 1990: 3). Each group has its own norms, of course heavily influenced by those of society as a whole. The norms play an important role in helping to ensure that individual activity is consistent with group objectives, though because they are historically formed and change slowly they can become obsolete or even dysfunctional from this perspective.

An overview of group functioning suggests some important distinctions among different modes of operation. We delineate three types below. These are derived from a study of some of the existing theoretical and empirical literature. One aim of the current research will be to improve on this classification.

### **3.1 Modes of operation of groups**

The modes of operation define some broad types of behaviour within groups. In each case, the mode of operation helps bring about the coincidence of individual action with group objectives that, as noted, is essential for effective group action. In practice, the activities and norms of particular groups may not fall neatly into any one of the categories but share features of each; in fact this is, generally, likely to be the case, although in most cases one mode of

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<sup>12</sup> The 'culture' of a firm is defined as 'the customary and traditional way of thinking and of doing things, which is shared to a greater or lesser extent by all its members, and which new members must learn, and at least partially accept, in order to be accepted into service in the firm.' Jacques (1951: 251).

operation may be more influential than others. We propose to categorize modes of operation into three types.<sup>13</sup>

### *3.1.1 Power/control in hierarchical relations with intra-group bargaining playing an important role (P/C)*

In this mode-analysed, for example, in some of the work of Bowles and Gintis-one or a group of dominant actors determine what the rest will do, normally reflecting the interests of those with power, and they enforce this by threats of various types, which may be backed up by norms so that the threats need rarely be used. The basis of the power and the type of threat vary with the institution. The operation of a modern army is a classic example of P/C. Williamson has argued that firms are organized on hierarchical lines, via a P/C relationship, although empirical research indicates that many firms do not operate in this way.<sup>14</sup> P/C relations may require considerable supervision and monitoring, which can be costly.

### *3.1.2 The use of financial incentives, i.e. quasi-market operations (M)*

While financial incentives form the dominant mode of operation in arms length transactions among and between individuals and firms in a market economy, they also occur within some groups in the form of a quasi-market, as people are rewarded (and penalized) financially according as they contribute to group objectives. Although quasi-markets are rarely the dominant mode of operation, since organizations are frequently formed because of the high transaction costs of market exchange, elements of market incentives are often present within organizations (e.g. piece rates for workers and financial penalties for disobeying group rules). Firms, the public sector and even the family often contain elements of quasi-markets in their operations. Recent public sector reform in some developed countries (e.g. the UK) has been towards a greater role for the market, while paradoxically, many private sector firms are turning away from this type of functioning.<sup>15</sup> Monitoring and supervision requirements can still be severe, since each actor is assumed to be (and may as a consequence become) intent on maximizing private rewards for the least possible effort.

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<sup>13</sup> A number of ways of classifying group behaviour have been put forward; see e.g. Polanyi; Bowles and Gintis; Williamson, and Wilkins and Ouchi. Those we propose are broadly consistent with earlier classifications.

<sup>14</sup> Williamson (1975), Denison (1990).

<sup>15</sup> On the health service in the UK, see Le Grand (1997); Mackintosh (1997); on the private sector see Kay (1998).

### 3.1.3 Co-operation among members to achieve group objectives (COOP)

Here individuals take action co-operatively in the group interests. Why they do so may be because group interests coincide with individual interests; or because individuals believe that it will be in their long-term interests, as they expect reciprocity over the long-term; or because they value the well-being of others in the group; i.e. their values and motives include Aristotle's *philia*<sup>16</sup> or Sen's commitment as well as self-interested concerns: or 'I and we' motivation in Etzioni's terminology; or because their self-image is that of altruistic or co-operative people (see Hargreaves Heap, 1989). A mixture of reasons is also possible. Where individuals jointly determine group objectives in a participatory way their own commitment to these helps bring about consistent action. Societal norms and individual values help determine the strength and nature of COOP relationships, as well as the norms of the particular group. 'Symbolic systems'<sup>17</sup> may play an important role in groups with a COOP mode of operation; i.e. shared and unifying culture, rituals etc.

It seems probable that COOP is more likely to emerge as a dominant mode of operation where the relationship among the actors within the group is long-lived (repeated games) and where the societal norms involve trust, equality and reciprocity. It is possible that COOP is more likely to occur where inequality among group members is limited since relationships of co-operation and trust seem more likely to occur in this context. But it is also possible that such relations may occur among unequal agents, e.g. in feudal relationships and among subsets of actors within unequal structures (e.g. among managers in a large firm).

In every group norms of operation influence behaviour, be it towards P/C, COOP or M. Some groups might appear to operate exclusively according to tradition, following historically determined norms, for example some groups in more traditional societies. But deeper analysis of the operation of groups that are apparently working according to tradition normally reveals elements of P/C, COOP and occasionally M.

The focus in this study is, therefore, on the three types of mode of operation defined above. But it must be noted that a group often contains a mixture of

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<sup>16</sup> *Philia*, which has been translated as friendship, but which actually means something like affiliation, is the core virtue of living together in society (Deneulin, 1999).

<sup>17</sup> To use a term common among anthropologists: 'social anthropology differs from the other social sciences in that it is concerned with customs, which, when considered on a higher level of abstraction, are essentially what I am calling symbols' (Cohen, 1974: 33).



modes: e.g. within a firm there may be COOP and M among managers, P/C and M between managers and workers.

The three-fold classification of group behaviour overlaps with classifications adopted previously. Polanyi's classification of decision-making in a non-market (planned) economy also identified three types of behaviour, reciprocity, redistribution and exchange, which are similar to the three types noted above, although our P/C mode covers a wider realm of decisions than redistribution alone while our COOP goes beyond reciprocity to include other motives such as altruism (see Polanyi, 1957). In some of the business literature, the behaviour of firms is divided into bureaucracies, markets and clans, which is also broadly similar to our classification (Wilkins and Ouchi, 1983: 471).

### **3.2 Individual motivation**

Neo-classical reasoning-and the emphasis on M as the most effective mode of operation-rests heavily on assumptions about individual psychology, viz. the prevalence of 'rational' individuals whose motive is to maximize their own utility (except within the family). According to Becker (1976: 14) 'All human behaviour can be viewed as involving participants who maximize their utility from a stable set of preferences'. This assumption about motivation forms the basis of the NIE analysis of groups. Rational economic man (REM)<sup>18</sup> motivation is perfectly adapted to the M mode but frequently conflicts with a COOP approach, unless a long-term view is taken of self-interest. COOP relationships may also include, as noted above, a degree of group solidarity (i.e. some 'I and we' motivation<sup>19</sup>, or, in other language, some combination of commitment and/or altruism<sup>20</sup>). While there is a clear dividing line between short-run selfish maximization-which for the sake of clarity we shall term REM-and more altruistic behaviour, it is difficult to draw a firm distinction between long-term individual maximization and forms of altruism, especially where there are repeated games (i.e. virtue brings individual rewards). Thus Bowles and Gintis argue that observed reciprocal behaviour is neither strictly altruistic nor strictly selfish: 'The strong reciprocator is thus neither the benevolent altruist of utopian wishful thinker, nor the mean-spirited selfish maximizer favoured by economics texts. Rather, the behaviours ... are conditionally co-operative and retributive.' (Bowles and Gintis, 1999: 5).

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<sup>18</sup> Using Folbre's term (Folbre, 1994).

<sup>19</sup> See Etzioni (1991).

<sup>20</sup> See Sen (1982).

The REM assumption (short-run individual utility maximization) side-steps two issues. The first is whether it is empirically correct to assign this type of 'rational' motivation to all economic actors. This does not seem intuitively plausible as the sole motive of human action, and more scientific tests have backed this conclusion up.<sup>21</sup> In fact, Sen has argued powerfully that 'the purely economic man is indeed close to being a social moron'.<sup>22</sup> The second more general and fundamental issue is the assumption that human motivation is exogenous (or innate), rather than being endogenous. An individual is normally subject to a variety of group norms which influence motivation, starting with the family, then moving to the community, the education system, and to particular groups with which the individual is associated.<sup>23</sup> One powerful force influencing motivation is a person's sense of identity and the social norms determining behaviour for people of a particular identity.<sup>24</sup> Such identity might consist in gender, in social class, or in nationality. For example, a person who sees themselves as a man or as a worker or as a supporter of the Greens may behave differently because of this identity-the person will tend to follow the norms they recognize as belonging to that particular group.

Another way of describing the strong social influence over preferences is to say that individual preferences are themselves socially embedded. This means that individual motivation is dependent, or partly dependent, on the range of norms within the various groups to which she belongs as well as those prevailing in the society at large, transmitted through social contacts and the media. We term these influences 'societal norms', though in fact they will tend to be somewhat different for every individual. Moreover, motivation and preferences may be influenced by other circumstances, such as the stability of the relationships involved, the economic and social position of the actor, and so on. Social determination of preferences has begun to be recognized in microeconomic theory itself. For example, Becker has written on the 'social construction of tastes'. (Becker, 1996). But in this analysis the social factors continue to be regarded as external constraints on individual preferences, modifying the conclusions of welfare economics at the margin rather than negating the idea of individual preferences as the fundamental building block of welfare economics.

Bowles and Gintis (1993) differentiate schools of thought according to whether preferences and norms are assumed to be endogenous or exogenous,

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<sup>21</sup> See Gintis (1998).

<sup>22</sup> Sen (1982: 99).

<sup>23</sup> Evidence for social influence is provided, for example, by the different attitudes towards redistribution of income in Sweden and the US; see Coughlin (1991).

<sup>24</sup> See Akerlof and Kranton (1998).

with those in the Walrasian tradition assuming exogeneity and many alternative approaches-including those of Smith, Marx, Akerlof and North-arguing that agents' norms and preferences are shaped by the process of exchange.<sup>25</sup> This study is firmly in the latter tradition; i.e. we do not assume that individual motivation is a given, but rather it is itself the outcome of a variety of influences including group behaviour. It follows that there is likely to be an important process of circular or cumulative causation in determining individual and group behaviour. Where COOP is dominant throughout society, it will be more likely to be effective in a particular group because of its influence on individual behaviour, while conversely if P/C or M dominates the societal norms, it may be more difficult to adopt COOP effectively as the mode of operation of a particular group.

The community and society<sup>26</sup> within which groups operate are therefore likely to affect them in important ways: first, as just stated norms of the community are significant influences on the norms, including, motivation the members bring with them to the group and consequently on group norms. In addition, economic and social relationships in society, including property and employment relations, class and ethnic strife, provide the backdrop against which groups are formed, affecting their objectives, power and potential. Thus analysis of the functioning of particular groups cannot look at them in isolation but must include the economic and social context.

### **3.3 Groups and 'social capital'**

Since Putnam's 1993 book was published the concept of 'social capital' has become very popular among economists, supplementing physical and human capital in order to explain economic performance and effectiveness of government<sup>27</sup>. But it is difficult to be precise about how group behaviour relates to social capital since the concept of social capital is itself ill-defined, with definitions varying among authors.<sup>28</sup> Sometimes social capital appears to be essentially the same as 'institutions' as defined by North: thus according to Putnam 'Social capital here refers to the features of social organization, such as trust, norms and networks, that can facilitate the efficiency of society by

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<sup>25</sup> They further differentiate between those who believe that transactions are enforced exogenously (generally costlessly) and those who believe that this too is endogenously determined (see Bowles and Gintis, 1993: 98-9).

<sup>26</sup> 'Community' refers here to the immediate neighbours, geographically or sometimes metaphorically, while society refers to a broader social environment.

<sup>27</sup> 'The social capital embodied in norms and networks of civic engagement seems to be a precondition of economic development, as well as for effective government', Putnam 1993b: 2).

<sup>28</sup> See reviews by Harriss and de Renzio (1997); Woolcock (1998); and Fine (1999).

facilitating co-ordinated actions' (Putnam, 1993a: 167). Civic society (i.e. non-governmental and non-profit-making groups) influences social capital, but is not part of it, according to this interpretation. But others would include civic society as part of social capital.

The groups we are concerned with extend beyond what is normally defined as civic society, since they include groups in the public and private sectors as well as NGOs. They could be encompassed in the 'trust, norms and networks' that make up Putnam's social capital with a sufficiently elastic definition of networks to include all groups. But more usual definitions of networks would define them as consisting of inter-group relationships, not intra-group. Moreover, it is obfuscating rather than helpful to describe group behaviour as part of social capital since we aim to elucidate some of the relationships among trust, norms and group behaviour and it would, therefore, be seriously confusing to amalgamate them all into a single all-encompassing concept.

Hence, while there is some overlap between social capital and group functioning, there are also clear differences with 'social capital' confined to non-government and non-profit-making groups, and largely concerned with inter-group relationships, and our analysis in principle encompassing groups in the public and private sectors with a focus on intra-group relationships.

#### **IV GROUPS IN PRACTICE: A BRIEF EMPIRICAL OVERVIEW**

A brief review of a little of the empirical literature on group behaviour helps to illuminate the propositions advanced above, indicating the variety of behaviour observed in practice which is helpful in defining some preliminary hypotheses.

There is an abundance of micro-level case studies of the functioning of different groups, and quite a few surveys of numbers of studies.<sup>29</sup> None, however, was designed specifically to shed light on the questions raised above. Below we present, a small highly selective subset of the empirical studies, chosen to help illuminate the questions discussed earlier. We cover the following types of group: local governments; publicly-financed health services; community groups, including common resource organizations and co-operatives; and large private firms. The review suggests hypotheses rather than well established conclusions.

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<sup>29</sup> E.g. Esman and Uphoff (1984); Gow and Morss (1979); Hirschman (1984); Ostrom (1990); Tandler (1984, 1989).

## 4.1 Local government

Local government (LG) is an important form of group activity. Some argue that it increases participation, reduces corruption and enhances equity and efficiency. Others that it increases the power of local elites, transfers power to the inexperienced and extends corruption. The contrasting experiences recorded by Crook and Manor, and Putnam, suggest that the nature of the functioning of LG depends on the context, especially with respect to socioeconomic conditions, prevalent norms, the strength of civil society and the mode of operation of the LG, all mutually interdependent.

One study, undertaken by Crook and Manor, contrasts the experience of decentralization in Karnataka, India, with that in Bangladesh, both undertaken at much the same time. From many perspectives, the experience of Karnataka was much more successful than that of Bangladesh, including elements of efficiency, equity and participation, according to the authors.

### *4.1.1 Karnataka: an experiment in democratic decentralization*

When the Janata Party gained control of the State government of Karnataka in 1983 it introduced quite radical democratic devolution, with elected councils at District (population around 28,000) and Mandal (a collection of villages or 8-12,000 people) levels. About 40 per cent of state expenditure was devolved to the District and Mandal levels, albeit with fairly strict earmarking and without powers of taxation. The experiment was successful in many respects: it greatly increased participation; raised investment in micro-projects; reduced absenteeism among government employees; speed of response increased; urban bias was reduced; the total sums involved in corruption are estimated to have decreased; and the early warning of problems improved. Over 80 per cent of the people interviewed in the Crook and Manor study expressed satisfaction with the local governments' activities. The majority found the councillors and the bureaucrats honest and helpful. The devolution did not, however, help the vulnerable (scheduled castes and women), who may actually have done less well than before. The Congress Party when it regained power in Karnataka in 1991 brought the experiment to an end.

### *4.1.2 Bangladesh*

Councils were established by the Ershad government at sub-district level (average population 245,000) in 1985, largely composed of heads of the

existing elected 'union councils' (population around 20,000).<sup>30</sup> The councils were given substantial resources and a fair amount of control over them.

In general the effects were much less good than in the case of Karnataka. Positive effects included increased participation, raised investment in small-scale infrastructure (but partly at the expense of services such as healthcare) and improved response time. But corruption was very high (an estimated 30-40 per cent of the funds were 'stolen') and the composition of the councils was dominated by the rural elites, who used their power to spend on items that helped them. The poor and vulnerable were almost entirely excluded from any benefits.<sup>31</sup> Over 60 per cent of Crook and Manor's sample were 'not at all satisfied' with the councils while less than 1 per cent were very satisfied. The sub-district councils were abolished in 1991, when the Ershad government fell.

Crook and Manor attribute the success in Karnataka to 'decades of experience with democracy' and to the absence of 'extreme socioeconomic inequalities which can generate oppression, desperation and vicious conflicts that make it difficult for liberal institutions to function.'<sup>32</sup> In contrast, they argue that in the Bangladesh case, the weak, corrupt and inegalitarian performance was due to the nature of rural society in Bangladesh: in particular, to the very substantial inequality in land ownership together with considerable landlessness, which contrasted with the more equitable society in Karnataka.

#### *4.1.3 North and South Italy*

Putnam's account of the effects of the decentralization measures in Italy initiated in 1975 also indicates that the success of the decentralization varied, depending on social, political and economic conditions. The same decentralization of government had much more positive effects in northern Italy than in the south, in terms both of objective indicators of performance, such as numbers of daycare centres constructed, enquiries dealt with etc., and also of public views about the adequacy of performance.<sup>33</sup>

Putnam attributes the differences in performance to the existence of a strong civic community in the north, i.e. one where people participated actively in

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<sup>30</sup> The chairman was directly elected; other councillors were chosen from members of the union councils.

<sup>31</sup> 'Decentralization created significant new openings for village elites to influence government institutions, its overall impact was to intensify already extreme inequalities', Crook and Manor (1998: 99).

<sup>32</sup> Crook and Manor (1998: 83).

<sup>33</sup> Twelve indicators of performance were adopted: Putnam (1993a).

public affairs, with 'A steady recognition and pursuit of the public good at the expense of purely individual and private ends.' (Skinner, 1984: 218). 'In the civic community... citizens pursue what de Tocqueville termed "self-interest properly understood", that is self-interest ...that is "enlightened" rather than "myopic"'. (Putnam year 1993a: 88). Empirical indicators of 'civicness', specifically membership of associations, newspaper readership and turnout at referenda, were much higher in northern than southern states. In the region with stronger civic ties, relationships tended to be horizontal, reciprocal and co-operative rather than vertical.

The source of these differences is traced to political developments in the 11th century, with the emergence of more participatory republics in northern Italy and autocratic government in the south. Putnam terms these differences, following Coleman, differences in 'social capital'<sup>34</sup> and argues that this is the fundamental source of differences in the quality of government. Less emphasized are parallel differences to be found within Italy between north and south in economic structure, (more equality and less feudal relations in the north), and in the extent of industrialization (much greater in the north), which themselves were probably both cause and consequence of the differences in norms.

These two examples suggest that, in the case of LG, group functioning and outcome is heavily influenced by societal norms and socioeconomic conditions. This is one reason why one cannot generalize about the effects of decentralization.

## **4.2 Public health services**

Publicly financed health services can be observed operating according to each of the three modes, P/C, M and COOP. For example, in northeast Brazil, a highly successful primary healthcare system was developed through a combination of decentralization combined with well developed central government policies towards standards and objectives; the reforms relied on strong health worker commitment, leading to a high level of trust between workers and clients and consequently respect for health workers. The trust relationships present in the reformed service had a successful outcome. The preventative health programme led to a 36 per cent reduction in infant deaths in five years: vaccination rates rose from 25 to 90 per cent, with a 100 per cent coverage of counties, compared with 30 per cent previously. In this case,

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<sup>34</sup> 'Social capital here refers to the features of social organization, such as trust, norms and networks, that can facilitate the efficiency of society by facilitating co-ordinated actions', Putnam (1993a: 167).

the previous P/C mode was replaced by a more COOP mode, though strong elements of P/C remained.

In Britain, the national health service was first developed on the assumption that those who operated it would act as 'knights'; i.e. that 'people are predominantly public-spirited or altruistic'. Consequently, the medical profession was given the power to run the service leading to a universal service which was highly popular and low-cost by international standards. But some abuses, together with the new Thatcherite assumptions that people were 'knaves' (i.e. motivated primarily by self-interest), led to the introduction of a quasi-market in the 1980s.<sup>35</sup> Assessments of the change are still underway, but the results appear to be:

- (a) that there were some allocational improvements; e.g. choice of lower cost technologies;
- (b) administrative and supervisory costs increased greatly, partly as needed to administer the quasi-market, partly because the switch from a COOP to M basis reduced self-motivation and monitoring; these extra costs offset the cost savings from (a);
- (c) as implied by (b), the switch appears to have changed actors' motivation away from 'knights' to 'knaves', in Le Grand's terminology;
- (d) it appears that distributional inequalities increased, but this may have been due to the incomplete introduction of the quasi-market in General Practice.

These examples from public sector services suggest that radical policy change leading to changing societal norms and in the intra-group incentive system can influence individual and group behaviour. In Britain, the change in the health service reflected simultaneous changes that were occurring more widely in society, towards more market orientation; but in Brazil it appears that a change in mode of operation in one area of the health service was successfully executed in a context of rather unsympathetic societal norms.

### **4.3 Community organizations**

Throughout the third world, large numbers of community organizations have emerged, fulfilling efficiency and/or claims functions.<sup>36</sup> Some are organized by the participants, some initiated by the government or NGOs. There have been many cases where groups have failed to meet their objectives, but there

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<sup>35</sup> Quotations and terminology from Le Grand (1997); see also Glennerster (1995); Mackintosh (1997).

<sup>36</sup> There are numerous studies of individual organizations and also surveys. For illuminating studies see the works of Esman and Uphoff, Ostrom, Korten, and Wade.



have also been successes. Below we focus on the behaviour of successful examples.

#### 4.3.1 *Common resource schemes*

It is well established that self-interested motivation leads to the expectation that the unregulated commons will be over grazed. As Hardin expressed it:

Therein is the tragedy. Each man is locked into a system that compels him to increase his herd without limit in a world that is limited. Ruin is the destination to which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons. (Hardin, 1968: 1244)

The basic assumption of the 'tragedy of the commons' hypothesis is that each person acts in his/her individual short-term interest and co-operative arrangements to restrain overgrazing do not develop.<sup>37</sup> The argument has been used to justify the introduction of private property rights.<sup>38</sup>

Yet co-operative arrangements have been initiated in many parts of the world, often spontaneously through by local people without government intervention, challenging these arguments. For example, Kottapalle Council, described by Wade, was initiated by villagers in South India in a village of some 3,000 people, successfully controlling irrigation and protecting crops against thieves and grazing by other people's animals. According to Wade, the council<sup>39</sup> was highly efficient in devising and enforcing rules in the medium to long-term interest of all the villagers. In a survey of 31 villages in South India, Wade found eight with all the features of the Kottapalle Council, eleven with some and twelve with none.

Another example of local co-operative arrangements for management of common resources is provided by the *zanjera* irrigation communities in the Philippines. These date back to the 16th century at least. They are 'small scale communities of irrigators, who determine their own rules, choose their own

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<sup>37</sup> A similar scepticism was advanced by Olson (1965).

<sup>38</sup> '...the only way to avoid the tragedy of the commons in natural resources is to end the common-property system by creating a system of private property rights', Smith (1981: 467). See also Demsetz (1967). Conversely, some have concluded that strong government action is needed (e.g. Orphuls, 1973). In fact, Smith is wrong in suggesting that the tragedy of the commons arises from a common property system-it arises from the absence of common or individual property rights.

<sup>39</sup> The Council, composed of nine villagers, accountable to an annual village meeting, was autonomous and not part of official government structures.

officials, guard their own systems and maintain their own canals'.<sup>40</sup> Land is distributed so all have some 'good' (near the source of irrigation) and 'bad' (less well irrigated) land. Members supply their own labour to build and repair dams, canals etc., of on average about two months (unpaid) work a year. It has been suggested that the success of the communities arises in part because of the 'strong egalitarian norm, a belief that all persons should contribute to the labour and funds in proportion to the benefit they derive from the irrigation scheme'.<sup>41</sup> When *zanjera* members were asked about problems with the scheme, none complained about the way the water was allocated, indicating that the allocation was felt to be fair.

In Mongolia before the Mongolian People's Revolutionary Party came to power in the 1920s, there were established conventions among pastoralists for the use of pasture and hay, land, water and other natural resources, organized by aristocratic lords and Buddhist monasteries, and resting on a combination of P/C and COOP relations. As with other successful schemes, this depended on the stability of local social organization, while co-ordination and co-operation on a range of activities spread the transactions costs. State socialist policies eliminated first aristocratic and finally monastic pastoral management, and the collective and state farms, introduced in the 1950s, adapted some elements of the older systems, eliminating others. In the post-1989 privatization, local governments have regained some of the responsibility for natural resource management that had been held by the collectives.<sup>42</sup>

Similar successful endogenous schemes have been recorded concerned with management of common lands among reindeer herders in Norway (originating in the sixteenth century), common pastures in Japan, fishing in Turkey, pastures in Peru, and African grazing and forests.<sup>43</sup>

Some critical features of the successful examples that apparently belie the pessimism of Hardin and Olson are: first, that the beneficiaries were not unlimited, but confined to a smallish and stable community, which limited free-riding possibilities while reciprocity and trust had been built up within the community, reinforced by a variety of extra-economic relationships that arise in such communities, including kinship. Secondly, penalties were devised and enforced by the community thereby diminishing the advantages from cheating. Thirdly, interdependence was well recognized and the cost of

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<sup>40</sup> Ostrom (1990: 82).

<sup>41</sup> Esman and Uphoff, (1984), based on Siy (1982).

<sup>42</sup> See Sneath (1997).

<sup>43</sup> Noted by Ostrom (1990); Runge (1986); Björklund (1990).

loss of reputation through cheating was high. In many cases, also, active management was important.

In terms of our concerns, the successful examples all appear to exhibit COOP relationships, backed up by rewards and penalties (M). However, we need to note that some of these arrangements developed in quite unequal societies.

#### *4.3.2 Co-operatives*

In 1975, an UNRISD Report concluded:

'Rural co-operatives in developing areas today bring little benefit to the mass of the poor inhabitants of these areas .... It is the better off rural inhabitants who mainly take advantage of the co-operative services'.<sup>44</sup> Only four out of fourteen co-operatives examined in Asia were judged successful. Similar conclusions were reached by Lele, who identified the causes of failure as lying with 'private interests' which lead to '...the control of local organizations by the rural political elite...it frequently results in the perpetuation, if not worsening, of socio-political differentiation'.<sup>45</sup>

Yet there are many examples of success:

- For example, SANASA, (Sri Lanka's Thrift and Credit Co-operative Movement). In 1991 this had 702,000 members in over 7,000 societies, with substantial savings and disbursements. Decisions were made at regular participatory meetings. Over half the members had incomes below the poverty line. The repayment record was good, administrative costs low, and the society had not been co-opted by the elite. Hulme and Montgomery attribute the success of SANAS partly to the strong historical precedents of 'symmetrical reciprocal transactions and collective action'<sup>46</sup> in rural Sri Lanka, which they associate with Buddhist traditions.
- Taiwan's farmers' associations: these were initiated by the Japanese in 1900 and further developed by the Taiwanese government. They were undoubtedly partly responsible for Taiwan's spectacular agricultural growth. Although outside government formally, they closely followed central government rules. Over two-thirds of farmers were members. They received income from crop and fertiliser sales, and farmers deposited savings with them. They distributed credit, fertiliser, provided extension

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<sup>44</sup> UNRISD (1975: ix).

<sup>45</sup> Lele (1981: 56).

<sup>46</sup> Hulme and Montgomery, 1994, 376.

services, ran experimental farms, controlled marketing and the distribution of new seeds, playing a critical role in the introduction of new crops.<sup>47</sup>

- Small farmers' groups in Nepal, initiated by the Agricultural Development Bank of Nepal. Small and landless farmers formed groups of 15-20 members. Incomes of participating farmers increased significantly. The groups not only had a significant effect on income generation and social infrastructure (e.g. the construction of latrines), but they increased the sense of self-respect and the bargaining power of the farmers: 'Slowly, but surely all this is increasing the strength of the poorest peasants vis-à-vis the big landowners and moneylenders .... As they put it in their own words, "Because we are a group now and we stick to each other, we have suddenly become more powerful. The moneylenders are afraid to exploit us now. The government officials speak to us, they even speak nicely. We are also no more afraid to enter the bank or the office or the co-operative society"'.<sup>48</sup>
- In Santo Domingo, 200 *grupos solidarios* of 5-7 tricycle operators were formed among the 5,000 *tricicleros*, supported by an NGO, to advance loans so that the riders could buy their tricycles. Members of the group guaranteed each other's loans (previously, they had spent one fifth of their earnings from the tricycles on rent). The groups formed an Association of Tricycle Riders which has set up a repair shop, a health insurance scheme, and become a pressure group for improved traffic regulations.<sup>49</sup>

Many reasons have been noted for failure of co-operatives. Among them are resistance by elites to pro-poor groups or co-option by them, the hostility or excessive bureaucratization and intervention of governments, male hostility to pro-female groups, and internal divisions, often caused by ethnic heterogeneity.<sup>50</sup> Some groups succeeded in some objectives-e.g. improving water use-but most still excluded the most disadvantaged and/or women.

Tentative hypotheses derived from these examples suggest that features of successful co-operatives include:

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<sup>47</sup> See Stavis (1974).

<sup>48</sup> Bhasin (1978).

<sup>49</sup> Hirschman (1984).

<sup>50</sup> See e.g. Esman and Uphoff, 1984; Gow et al. (1979); and Attwood and Baviskar, (1988). Baland and Platteau have argued that economic heterogeneity within groups can theoretically enhance the likelihood of success, but cultural heterogeneity or heterogeneity of objectives are likely to increase the chance of failure (Baland and Platteau, 1995).

1. accountability of the leaders and open procedures;
2. supportive governments;
3. a mode of operation of the COOP type, which, on the basis of a very incomplete survey, appears to work best when societal norms are of this type.

#### **4.4 The private sector: mode of operation within and between firms**

Private sector firms are the most pervasive groups in modern economies, some with turnover and employment as large as some governments, some as the whole national income of smaller countries. Their form of organization is then important not only in determining productivity, but also in influencing welfare at work, while the norms adopted in major firms can influence, as well as being influenced by, norms in the society as a whole.

The three modes of operation identified above also apply to operations within the firm, although in the business literature 'clans' take the place of COOP. Clans operate by 'socialising the parties to the exchange in such a way that, though self-interested, they see their objectives in the exchange as being congruent' (Wilkins and Ouchi, 1983: 471). This socialization, typical of large Japanese firms, economizes on monitoring and enforcement which may be needed to avoid work shirking in both P/C and M modes.<sup>51</sup> Williamson argues that hierarchies will be the dominant mode because 'peer groups', which he sees as the main alternative, tend to be loose associations subject to free-rider problems. Bowles and Gintis have argued that P/C type hierarchies will be present when power is unequally distributed and will reflect the relative power of different agents; i.e. occurring when capital or management is powerful relative to labour and enforcing poor terms on labour, as is likely to be the case in labour surplus developing countries. According to Wilkins and Ouchi clan (or COOP) relations may emerge where power is more equally distributed. The socialization associated with the clan mode can only take place when the parties involved see their position in the firm as being reasonably fair.<sup>52</sup> Although there might be a presumption that this would occur where distribution of benefits within the group or firm is relatively equal, we have found no hard evidence on this. Clan or COOP operations require that short-term self-interest is not the dominant motive among members. Societal norms as well as firm socialization are important in this respect.

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<sup>51</sup> Alchian and Demsetz (1973) argue that 'team spirit and loyalty' may be helpful to reduce shirking.

<sup>52</sup> Wilkins and Ouchi, (1983); Hansen and Wernefelt (1989).

Some rather partial empirical evidence suggests that 'a shared system of beliefs, values, and symbols ... has a positive impact on the members' ability to reach consensus and carry out co-ordinated action' (Denison, 1991: 264) and is more efficient than hierarchical organizations, 'participation, communication, creativity and decentralization' within the firm being positively correlated with growth in sales and profits.<sup>53</sup> Similarly, it has been suggested that some cross-country evidence shows a positive correlation between 'communitarian' values at the country level and growth in GNP and exports. In this exercise Japan, Taiwan and Germany are given high scores for 'communitarian values', while the US, UK and Brazil score low.<sup>54</sup>

Kay has also argued that more altruistic, COOP-type firm behaviour is more efficient: 'Business which is selfish in motivation, narrow in outlook, and instrumental in behaviour is rarely successful'. (Kay, 1998: 1). Good businesses, he characterizes as those with: 'satisfied customers, motivated employees, well rewarded investors and high reputations within their communities' (p.10). He illustrates the point with a fishing example, where success depends on the workers having 'genuine commitment', who 'have acquired from the rest of the crew an understanding of and devotion to excellence in fishing' (p.13).

## V CONCLUSIONS

This rapid overview of the role of some types of groups suggests a number of hypotheses for future research. The overview makes it clear that there is considerable variation in performance of groups that are apparently similar. Our review did not extend to central governments, but had it done so a similar variation would have been revealed, with some 'good' governments effectively promoting the well-being of their citizens and others failing even to maintain minimum order. This variation itself indicates that rudimentary explanations of the behaviour of groups are likely to be wrong. There are too many community groups effectively fulfilling efficiency functions for the views that emerge from the REM view of motivation to be universally applicable. Successful co-operative arrangements, involving strong elements of COOP emerge, often spontaneously, sometimes with government support.

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<sup>53</sup> Denison (1991: 266).

<sup>54</sup> Lodge and Vogel (1987). Of course this sort of exercise is difficult to carry out objectively, since so much depends on ranking of the degree of R values within firms and nations.

From this evidence it is not possible to ascertain whether such motivation is a matter of long-term self-interest or altruism or something else altogether.

It is clear that 'institutions', as defined by North, are very important in determining the behaviour of groups; norms, culture, informal rules, all play a role in influencing individual behaviour to bring it in line with groups objectives. Prevailing morality is part of that culture: hence altruism, when in evidence, may itself be instrumental in securing appropriate individual behaviour. While each group has its own culture, the institutions prevalent in the society as a whole are an important influence on group norms.

Group behaviour almost never falls completely into one mode of operation or another, but shows a combination of modes. A completely REM-type behaviour would involve enormous transaction costs if there were no co-operation unless it were in the immediate short-term interests of the parties. A similar problem would arise with exclusively P/C mode. Hence there is always some COOP in every group. But it does seem that it is possible to differentiate among them according to the balance of behaviour. There does not appear to be any tendency for COOP modes of behaviour to be less successful than P/C modes from the perspective of efficiency, while it may be hypothesized that COOP modes tend to be more equitable than P/C modes.<sup>55</sup> There were no examples of dominant market modes within the groups examined-except perhaps the recent British health service, although some groups did use financial penalties as a mechanism of enforcement.

There appear to be complex and varying relationships between modes of operation, equity within the group, and equity in the wider community and society. There are several questions to be examined here:

1. how benefits are distributed within the group, or intra-group distribution;
2. how group activities affect distribution outside (within the community or society).
3. how societal income distribution affects group behaviour.

With respect to 1. above, our review does suggest that groups can be effective in meeting efficiency objectives (overcoming common resource problems, for example) without helping the poor or vulnerable significantly-as in the case of Kotappalle Council. But a sense of fairness of the distribution of resources within the group may be needed for COOP to be a dominant mode. This may be consistent with relatively unequal distribution.

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<sup>55</sup> Tang (1991); Tang and Ostrom (1993).

With respect to 3. above, it appears that in some cases it is difficult for an equitable group to prosper in the context of a highly inequitable community. For example, in the case of local government, it was suggested that socioeconomic equity within the community as a whole was an important influence favouring the good functioning of Karnataka government. Hence, there appears to be some connection between the prevalent socioeconomic structure and group behaviour which seems to operate at each level, that of the central government, where good governments are rarely associated with very large inequities in society, among local governments and at community levels. (The business literature suggests a similar connection between mode of operation and equity within firms.<sup>56</sup>) However, in other cases highly unequal socioeconomic conditions have produced successful groups, for example, in Bangladesh the Grameen Bank and BRAC, and in Kenya urban informal sector groups.<sup>57</sup>

In addition to institutions within society, the behaviour of the government is clearly of importance in influencing mode of operation and outcomes. Most dramatically, collectivization in Mongolia did much to destroy the customary co-operative arrangements; but capitalism does not necessarily do better-in Kenya, introducing private property rights helped destroy successful co-operative arrangements among the Masai, while in Mongolia itself the privatization undermined arrangements that had developed during the collective era.<sup>58</sup>

Where less dramatic changes were occurring, at minimum, passive government support seemed to be a feature of the successes, with active government initiation in a number of cases. From this it would seem that groups cannot generally be expected to compensate for failed governments-as expected by the donor community which relies heavily on NGOs where governments are weak-as they usually require some support from them. Indeed, weak governments are perhaps more likely to provide a breeding ground for conflictual groups, than for socially useful ones. But excessive government intervention can also be harmful, either by weakening or destroying groups where they appear threatening to government power (for example, the Congress Party abolished the Karnataka local governments), or by pushing them into positions of dependence<sup>59</sup>.

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<sup>56</sup> Wilkins and Ouchi (1983); Hansen and Wernefelt (1989).

<sup>57</sup> Baland and Platteau (1995).

<sup>58</sup> Blewett (1995); Mearns (1996); Sneath (1997).

<sup>59</sup> See Attwood and Baviskar (1988).



The general conclusion is that the existence and behaviour of groups cannot be looked at in isolation, but are strongly influenced by the society in which they are embedded, in particular by the prevalent norms and the socioeconomic structure which they face and also influence.

All this is important because groups are crucial for individual and collective well-being. Not only can collective action overcome externalities and help empower the weak, but the dominant mode of behaviour within and between groups expresses how we relate to one another as human beings. When large changes sweep across society, they inevitably influence group behaviour. Over the past century, modernization and socialism have tended to displace or change customary institutions. Today, globalization and the advance of the market is already being felt in changed group behaviour, and more changes can be expected as the pace speeds up.

We should not assume that such changes are necessarily purely destructive of groups, or that they will invariably shift their mode of operation from COOP to M and P/C. This is likely for some groups, but it is also certain that new groups will be formed to react to the new circumstances, just as in developed countries over time traditional and customary groups have been weakened but citizen's associations have developed in abundance.<sup>60</sup> Or in Kenya today, while customary co-operation among pastoralists have been weakened, a rich variety of solidarity groups have developed in the urban informal sector.<sup>61</sup>

It is planned to provide more systematic evidence from our ongoing research project to shed light on the tentative ideas presented in this study. The fact that the present era is one of major economic and social change-towards a greater role for markets and quasi-markets in developing economies-makes it particularly important to explore the implications for group behaviour and the policies which might help to improve the efficiency and equity of group functioning.

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<sup>60</sup> Indeed, it was the more advanced north Italy which showed a rich civic society relative to the more traditional south in Putnam's work.

<sup>61</sup> These are documented by Baland and Platteau (1998).

## APPENDIX

### *UNU/WIDER Project on Institutions and Development: Motivation, Group Behaviour and Development*

12-13 June 1998, Queen Elizabeth House, Oxford

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