Financial Inclusion: Philosophical and Methodological Underpinnings

Abstract

Purpose: Financial inclusion is broadly described as the ability of individuals and businesses to access useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit, and insurance – delivered in a responsible and sustainable way. It is considered a key driver of economic growth and financial well-being. Given the significance and relevance of this topic, the purpose of this note is to critically evaluate the ontological and epistemological stance of existing research on financial inclusion. Furthermore, it examines the influence on the research design.

Design/Methodology/Approach: Beginning with a brief description of the key concepts, this note presents a conceptual framework and substantiates the recommended philosophical paradigm through a detailed appraisal of its appropriateness, relative strengths, and limitations.

Findings: Drawing from a range of philosophical worldviews, which can at times seem indistinguishable especially in finance and economics, this note proposes that objectivism with a realist approach is foundational to academic research on financial inclusion. Furthermore, this note makes recommendations with regards to research design.

Originality: This note not only presents a comprehensive assessment of the problematics and the underlying metatheoretical assumptions proposed by Anne Cunliffe (2011) but is also, to the best of author's knowledge, the first to highlight its relevance to the formal financial system in general and to financial inclusion in particular.

Keywords: financial inclusion, research philosophy, banking, epistemology, financial access, research design

1. Introduction

Access to financial services and products is an integral part of the society and necessary not only for individuals and households but also for businesses to function. The need for such assistance is increasingly important for those who receive minimal or no social security benefits and are thus expected to make their own provision in order to manage risk. Therefore, this incapability to effectively use or even gain access to basic financial services, which can enable them to improve their social life and profitability, explains the idea of financial exclusion (Leyshon and Thrift 1995; Kempson and Whyley 1999). When people have access to and are able to effectively use financial services, they can better manage their cash flow, smooth the irregular income and are able to build financial assets (Brunh and Love 2014; Allen, Demirguc-Kunt, Klapper and Peria 2016). Although, mere provision of access to the financial system may not necessarily ensure adequate financial inclusion, but the products and services should be customised to people's needs. Therefore, having a bank account may be an inadequate measure of financial inclusion, but transactional ease, insurance, and access to short- and long-term credit are equally vital. Even if disadvantaged sections of the society can access basic financial products, they are costly, hence diminishing the intended benefit (Jalilian and Kirkpatrick 2005; Mohan 2006; Demirguc-Kunt and Levine 2008; Lin et al 2016). Therefore, financial inclusion is considered a multidimensional issue that is formally defined as beneficial usage of and smooth access to the formal financial system for all households and firms in an efficient market environment (Sapre 2021).

Over the past decade or so, financial inclusion has received attention from academicians, development institutions, governments, and the private sector. The abstract and citation database, SCOPUS, shows that the number of journal articles with 'financial inclusion' mentioned in the abstract have increased from 77 in 2015 to 356 in 2020. Recently, research has highlighted the advantages of financial inclusion, providing both economic and political validation. Majority of the existing academic research on financial inclusion can be broadly divided into two groups with respective research objectives; one*,* to identify the key determinants of financial inclusion and two, to examine whether expansion of the financial sector results in financial inclusion that drives economic growth[1].

The validity or legitimacy of a research study is a function of its contribution to the subject area that answers the question, what to research i.e., research questions; and the suitability of the mode chosen to achieve the intended outcome that answers the question, how to research i.e., research methods (Remenyi and Williams 1998). However, the solutions to both of the above questions necessitate situating the broad research aim in a paradigm that answers the question, why research i.e., research philosophy. This "*choice*" of a philosophical position critically influences the research focus, approach, and methods (Cunliffe 2011:649). This note critically evaluates the philosophy of existing research on financial inclusion. Furthermore, it proposes a suitable philosophical paradigm within which to situate future research that seeks to fulfil the two above mentioned research objectives. Section 2 is a discussion on the proposed ontological and epistemological stance. Section 3 briefly describes the relevant research design. Section 4 presents the concluding remarks.

[1] See for e.g.: Ozili (2020) for a detailed literature review

2. Ontology, Epistemology and Underlying Assumptions

In academic research, theorists aim to provide a rational explanation of human activity, while empiricists seek to generate consistent results to make predictions. Considering rationality and uniformity entail viewing the society as cohesive, based on the Burrell and Morgan (1979:22) framework, mainstream research is positioned in the 'functionalist' philosophical paradigm of the regulatory sociological dimension. Largely, financial inclusion studies either, aims to identify the factors causing exclusion of individuals and businesses from the formal financial system; or, investigates whether financial development translates into inclusive growth. Based on financial economics theories, relationships between multiple socio-economic factors are assessed in such studies. It is therefore explanatory and intends to elucidate aspects of policymaking with measurable, positive impact on the society, and is thus rooted in the 'objectivism problematic' (Cunliffe 2011).

It is imperative to recognize the underlying assumptions associated with the broad philosophical worldview in which the research is situated. Primarily because, researcher's understanding of social reality and knowledge is crucial, as Fleetwood (2005:97) explains; "*way we think world is (ontology) influences: what we think can be known about it (epistemology); how we think it can be investigated (methodology)*".

Usually in financial inclusion studies, the core ontological assumption is 'Realism', wherein, existence of the world predates that of human beings (Gill and Johnson 1997). An intuitive reason for this claim is that certain tangible aspects of the world we live in are independent of human thought and behaviour. Also, humans and society share a deterministic relationship, and social phenomena can be explained by trends or correlation. Overall, reality is concrete, observable, can be measured and subject to causal laws (Easterby-Smith, Thorpe and Lowe 1991). Although we concur with the general idea, we acknowledge that realism, in the most simplistic form, may not be an appropriate basis for academic research on a multi-dimensional socio-economic topic i.e., financial inclusion. Over the years, this approach of 'Naive Realism' has metamorphosed into 'Transcendental Realism' (Bhaskar 1989) or 'Critical Realism' (Lawson 1997). Cunliffe (2011:653) depicts the objectivism problematic (and the respective assumptions therein) as a cloud "*to emphasise its shifting, fluid nature*". Thus, in pursuit of both unbiased and meaningful results, academic research should not be restricted by subscribing to one particular version of realism. While the broader view on nature of reality may remain consistent with objectivism, specific choices about methodology and design should reflect both 'Critical Realism' and 'Empirical Realism' (Slaney 2001).

Objectivism and realist ontology are usually associated with positivist epistemology that rejects the usefulness of human perception (Henn, Weinstein and Foard 2006). Effectively, this implies, empirical characteristics of the world are in fact the extent of knowledge that researchers can gain about it. Whereas critical realists propose, what people perceive about the world as real, can differ from the description of the world itself. They deem the positivists' form of knowledge as "*epistemic fallacy*" (Bhaskar 1989:133). Critical realists believe social trends are driven by intangible ideas that need interpretation before proceeding to the assessment of material consequences. Although reality is objectively existent, knowledge can be concept-dependent but not entirely concept-determined (Sayer 2000). Moreover, act of gathering knowledge may be influenced by concepts, making the resultant observations vulnerable to the subjective premise of the researcher (Layder 1990:53). Thus, critical realists accept certain degree of weakness in knowledge, provided there is scope to enhance reliability.

In financial inclusion studies, it is crucial to examine the aspect of financial literacy i.e., people's awareness of available financial services or their general knowledge about the formal financial system. Although the data on financial literacy is usually gathered through close-ended surveys, this subjective element may be time-variant and inconsistent across samples. Moreover, incorporating it leads to investigation of factors possibly influencing the awareness levels, such as technological advancements (mobile/internet access), infrastructure development (road/rail network) and culture (risk aversion to credit or tendency to save). Therefore, it is important to acknowledge that people's inherent beliefs and their general level of understanding may impact their financial needs. However, the epistemological stance of the financial inclusion studies restricts the role of the researcher to mere observation. Here academic research subscribes to the positivist view of being value-neutral where the researcher is detached from the subject of research (Collis and Hussey 2003); mainly because the researchers themselves are not financially excluded. Therefore, the researcher's opinions or experiences are irrelevant to the research objective. Also, any interaction with people actually deprived of accessing the financial system may cause manifestation of the researcher's personal preferences and pre-conceived notions. '*Mediation*' can lead to collection of unreliable data, thus being counterproductive to the analysis and research validity. The objectivist's choice of no-intervention or "*single hermeneutic*", as explained by Cunliffe (2011:654-655), is in line with the overarching aim of financial inclusion studies i.e., to "*observe, discover facts and* *develop theories*"; so that, "*knowledge can be replicated and applied back to the world to improve it*".

Objectivists aim to establish regularities in human behaviour through identifying causal explanations and fundamental laws (Easterby-Smith, Thorpe and Lowe 1991). This acutely polarised stance in the continuum of philosophical paradigms, mostly aligned with natural sciences, has been criticised and thus transformed by social scientists to suit the more nuanced research of humans and society. While positivists consider the predictive power of data, theories, and models to be of paramount importance, empirical realists derive greater '*Meaning*' from causal explanations which may or may not be foretelling (Keat and Urry 1975). Empirical realists believe that explanations should not only recognize the trends in behaviour and relationships within society, but also discover the underlying mechanism that drives the causal process (Salmon 1984). They argue that mere identification of an empirical irregularity is insufficient to reject an explanatory model, unless the hypothetical, causal mechanism is acknowledged. This implies hypothesising and theorising cannot be based solely on current observations or past evidence. It should include entities that albeit unobservable do exist and may have a causal effect (Slaney 2001:137-139).

Critical realists too depart from purely positivist standpoint, although agree partially with empirical realism. They theorise social phenomena in terms of structure (societal and human associations) and agency (humans as constituents of the society), since it is these inter-relationships that objectivist social scientists seek to explain. Furthermore, such social contexts influence the choices and actions of agents, as structures precede agents (Archer 2000:1). For instance, humans adapt to or accept the structures such as racial diversity, economic inequality and linguistics that already exist. An interpretivist considers agency of prime importance as human thoughts lead to social structures, hence failing to independently investigate the structural complexity of society (Carter and New 2004). Contrarily, critical realists believe in a 'real' society comprising events, hypothetical phenomena, objects, and structures recognised by their causal effects (both observed and unobserved) on agents and mechanisms that trigger the effects (Bhaskar 1989:40). Also, multiple mechanisms can affect the object concurrently, thus creating uncertainty and weakening the outcome of inferential analysis. Therefore, causal 'laws' as defined by positivists are in fact causal 'tendencies', wherein the object 'may be likely to but may not always' follow a certain pattern (Danermark et al. 2002:56).

As opposed to empiricists who conduct experiments in controlled environment, critical realists believe in a stratified, open society. As social relationships change with human interactions, it is unfeasible to identify the exact set of variables that can help predict future behaviour (Carter and New 2004:16). Therefore, although precise forecast may be impractical, a robust analysis of the potential causal associations between humans, structures, and mechanisms, in a varied social setup, is viable (Danermark et al. 2002:1). A stratified world of a critical realist suggests that agency's experience is layered, making it difficult to be completely captured through either an interactive exercise or by being an independent observer. Such complexity introduces the concept of vertical causality. It necessitates change in linear '*Historicity*' which typically studies surface level data. The thesis is, all social practices of agents "*presuppose an ideological stratum that they did not create*" (Archer et al. 2013:196-197). Therefore, deeper analysis of causal interconnectedness is required in a society wherein, a believer is the agent, church is the mechanism that triggers the belief and religion is the antecedent structure. For instance, financial inclusion studies that investigate the impact on demand for financial services (choice behaviour) generated by the observable (e.g.: banking sector expansion leading to higher inclusion) or the unobservable (e.g.: cultural biases and reservations causing self-exclusion).

Whereas vertical explanations restrict the length of period for analysis as relations continually emerge over time and hence the effects may be short-lived; horizontal causality adopted by empirical realists allows the researcher to conduct examination of historical events (Collier 1989:56). Corresponding to empiricists' view that "*relationship between behaviours, parties, and actions are sequential*" (Cunliffe 2011:660), majority of financial inclusion studies scrutinize chronological progression of events i.e. the time factor is considered crucial. Overall, we understand, both structures and mechanisms as per critical and empirical realists should be embedded in the theoretical specifications for conclusive investigation. While critical realists grant separate status to both agency and structure, they contend structures have relatively greater endurance that can generate both negative and positive influence on agents. As in the case of research on financial inclusion, financial system's (structure) provision of risk-free banking i.e., savings and deposits, can be beneficial to small businesses (agents). However, the high-risk credit products may be unaffordable thus restricting future growth, leading to possible exclusion.

The issues of '*Relationality*' and '*Durability*' should be dealt with from the empirical and critical realist perspectives respectively, when the research objective is to examine cause-effect "*relationships*" between "*structures, mechanisms*" (multiple strands of explanatory causes) and human "*behavioural elements*" (use/preference/aversion) (Cunliffe 2011:564). Usually in financial inclusion studies, factors like language and discourse are not considered as that would entail the participation of the researchers in order to gain knowledge, negating the positivist epistemology. Having said that, unlike pure empiricists who mainly seek predictive outcomes, research on financial inclusion aims to identify and explain causality. Moreover, it necessitates the postulation of a pre-existing yet transformational society from the critical realist perspective (Fleetwood 2005), as opposed to a fixed societal framework of an empirical realist. Therefore, structures exist, are more dominant and enduring, and have varying effect on agents over time. Such a society should form the basis of the principal hypothesis i.e., changes in social, developmental and economic factors can possibly affect the availability, range and usage of financial products and services, consequently impacting the level of financial inclusion. The inter-relational characteristic of societal elements is foundational to the subordinate hypothesis: higher financial inclusion can possibly lead to economic growth.

3. Research Design

Critical and empirical realists agree on the general research process. Beginning from theoretical description, they segregate the individual properties, develop abstractions to explain causal patterns and determine the object's (financial inclusion) nature. Although, critical realists, coupled with an inductive mode of inference to explain causality, exercise a retroductive approach (Sayer 1992) wherein "*knowledge of an existing, real social phenomenon, leads to deeper ontological meaning of diverse structures, which create the phenomenon*" (Lawson 1997:25-26). Induction and retroduction typically involve interaction and interpretation with subjective implications. Also, these approaches are more suitable for exploratory studies (Hakim 2000). Though existing research on financial inclusion accords significance to behavioural traits, it does not aim to capture precise humanistic intricacies, but mostly attempts to explain whether they affect financial inclusion, and to what extent. Therefore, a deductive approach is employed as it facilitates objective appraisal of concepts and allows generalisations sought by objectivists (Cunliffe 2011:655). Realist social scientists are known to design both extensive and intensive research. Extensive research usually seeks to formalise causal tendencies and patterns for the whole population through macro-level analysis of amply large samples. Conversely, intensive research identifies significant subtleties possible only through micro-sampling (Sayer 1992:244). However, the crucial difference is that an all-encompassing, extensive investigation can be replicated for application in diverse social environment with fairly consistent outcomes. It is hoped that the results enable government policy recommendations for enhancing the level of financial inclusion. Therefore, time invariant, country-specific factors such as political economy, culture, religion, and dominant race also need to be examined and incorporated in the analysis where appropriate. Research in financial inclusion, both large-scale and focused studies, may suffer from the problem of measurement due to limited availability of data. However, in practice, geographically comprehensive, multi-country investigations are preferred for relatively more generalisable results (Grindle 2007:555).

Critical realists typically adopt qualitative research methods. They believe statistical association or correlation can provide vital insights but fails to comprehensively explain the characteristics of social objects or the cause-effect relationships they share. Although, quantitative methodology can support the analysis for better results, it can seldom be an exhaustive technique (Byrne 1998). Conversely, qualitative methods are relatively costlier, more time consuming and better suited for relatively small-scale analysis. As empirical realists seek to operationalise ideas through formulating testable hypotheses deduced from the theory, they use methods that facilitate measurement and estimation. Although, often criticised for reductionist outlook that may misinterpret the stratified society (Sayer 1992:120-121), empirical realists believe reductionism is in fact simplification to facilitate straightforward research process and enhanced applicability of results (Holden and Lynch 2004). More specifically, financial inclusion and economic development studies have found that statistical regression analysis has "*greatly enriched the understanding of processes*" driving social objects (Honohan 2004:30). Therefore, quantitative methods present both a philosophical and practical thesis considering apposite application by social scientists engaged in deterministic studies. Most studies are primarily empirical, using multi-variate time-series and panel data methods, with data collected through survey questionnaires and other supply-side secondary data sources (e.g.: regulatory bodies or banks).

4. Conclusion

Overall, social science has wide-ranging scope wherein qualitative research facilitates exploration of broad themes. However, finance and economics as subsets, examine specific theories through quantitative techniques to get findings that can ultimately have a broader application. Majority empirical research on financial inclusion has monetary consequence, that can be measurable and definite which highlights the significance of an ontologically realist and epistemologically positivist stance. Such studies are typically data-driven which restrict the liberty of subjective inferences as the researcher is independent from the data collection. Also, large datasets present multiple opportunities for extensions to the main questions triggering further research. The research map in Figure 1 summarises the recommendations made in this note, to achieve the three key elements of research: contribution, consistency, and validity (Cunliffe 2011).

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Figure 1. Research map for financial inclusion studies