

**Does Participation in Microfinance really ensure Gender
Empowerment? Exploring implications of lack of exit options for
women in the Indian societal structure**

Debdatta Chakrabarti

M.A. in Economics, Jadavpur University, India.

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Abstract

Participation of women in microfinance programs has spread rapidly, particularly across the developing world, sparking off a lot of research and debate on issues revolving around participation in microfinance and empowerment of women. The most prominent idea in favor of empowerment that has emerged is that participation empowers women by raising their bargaining power within the household. The idea against is that participation does not empower as women lose control of loans. This paper shows, using a game theoretic structure, that due to the severe lack of exit options for women living within the Indian societal structure, participation does not necessarily raise bargaining power, even, when women retain control over their loans. It then ideates a way in which the familial honor code of a classic patriarchal society can be turned around and used to raise bargaining power of and create an exit option for Indian women.

JEL classification: C78, G21, J12.

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1. Introduction

Deepa¹, 42, set up a small shop selling costume/junk jewelry and cheaper varieties of cosmetics using her micro loan. Her children have grown up and are economically independent. Urmila, 38, set up a *jhupri* (small road-side food shop) using her loan and she sells Bengali staple meals of rice, lentils, vegetable, egg and fish curries. Her children, though teenagers, have started earning. Namita, 34, started a home-delivery of food business using her loan. She cooks staple Bengali meals and delivers them to families in the surrounding middle-class neighborhoods. Her children still attend school. Mamata, 48, bought a few *rickshaws* (light cycle-driven vehicles meant to carry up to two people for short distances) using her micro loan which she has rented out to be used to ferry around the people living in the surrounding middle-class neighborhoods across short distances. Her children too have grown up and are independent. Minu, 22, used her loan to pay the fee for a beautician course and has been working at a beauty parlor for the last three years. She is yet unmarried. These women have complete control over their loans. They took the loans on their own initiative and not because their families wanted them to. They independently decided how to use the loan and independently handle its repayment. They even have almost full control over their own incomes, except occasional instances when they are actually forced to submit to the wishes of their families. The first four women live in abusive marriages with intemperate husbands and experience moderate to high levels of domestic violence. The fifth one was diagnosed with a cardiac condition, about two years ago, requiring her to have a pace-maker implanted. Her father had saved up for her wedding and that would have been enough to fund the surgery. But, he flatly refused. Instead, he tried to get the girl married off quickly so as to relieve himself of the burden of a chronically sick girl. He even forbade the girl from visiting

¹ All names have been changed to protect the identities of the women.

the doctor anymore in an attempt to hush up the matter and prevent prospective grooms from getting to know of the girl's illness. Happily, a friend of Minu's came to her rescue, and the two girls, quietly, took out two individual micro loans to finance the surgery. Minu is now repaying her two loans with her own salary, and, plans to repay the third loan, which her friend is now officially repaying, to her friend once her current repayment schedules are over. Her father is quite displeased with her for doing this because ever since word of her cardiac condition has got out, he has been facing particular difficulties in getting her married off.

Interestingly, all these women have almost complete control over their loans and resultant asset creation and/or earnings, that is, they are not really forced all the time to relinquish this control. Their mobility levels have gone up following participation in microfinance programs. Interacting with increasing number of people outside of their households has raised their confidence levels. They are also able to take independent decisions while purchasing small household items and small necessary items for their children. But, for bigger decisions, they still have to depend on their male family members, mostly, husbands or fathers. Despite possessing an independent income, their bargaining power within the household has not risen significantly. Marriage and fertility decisions are still made by fathers and husbands, respectively, and the opinion of the woman in question matters very little. Women are simply expected to obey. Possessing assets and income has neither significantly prevented abuse of the married ones at their in-laws' home, nor prevented the unmarried ones from being viewed as a burden at their natal homes. And, these are the stories of five women who represent a whole sisterhood of women².

² The stories referred to are among the most compelling and/or paradoxical that was encountered while interviewing 167 women for the study.

Now, these phenomena present a paradox with respect to the existing literature on microfinance and empowerment, which is why I introduced the topic a little unconventionally, presenting anecdotal evidence, first up, from the lives of 167 women I interviewed for the study. Existing literature, to the best of my knowledge, generally takes one of two paths - either participation in microfinance programs empowers women or it does not.

Notable studies finding in favor of empowerment include Hashemi, Schuler and Riley (1996) that find that participation increases mobility, decision making, political awareness and activism and reduce incidence of domestic violence against women thus empowering women. Kabeer (2001) too supports this idea by showing that participation raises confidence and courage in women, and helps raise their voice in household decision making. Further, it promotes increased social inclusion, helps the women create secret savings and asset accumulation and reduces incidence of domestic violence. Although, some studies, like Jewkes (2002) and Koenig et al (2003) have asserted that participation actually increases domestic violence as that causes women to challenge conventional gender roles. Participation raising courage and confidence is also seen in the study in Osmani (2007). The study in Mahmud (2003) concludes that participation in microfinance programs causes increased participation of women in household decisions which leads to their empowerment. Baylugen (2008) conclude that being a member of a Self Help Group (SHG) that is necessary to participate in a microcredit program provide women with the opportunity to band together and fight for a cause or challenge authority and even engage with local politics, thereby, empowering them politically. Pitt and Khandkar (2006) studied villages in Bangladesh and developed an empowerment model consisting of ten factors, including women's mobility, decisions on fertility, purchasing decisions, resources and husbands' attitudes. From this, they

concluded that presence of a microfinance group in a village has a significant effect of eight out of ten factors, implying, participation in microfinance empowers women.

Conversely, studies that find against empowerment have mostly centered around control of loans. Studies like Goetz and Sengupta (1996) and Karim (2008) have shown that mere participation does not empower as most women are forced to yield control of their loans over to the male members in the household. However, Aslanbeigui, Oakes and Uddin (2010) have questioned this line of thought suggesting that control over assets resulting from loans is more important than control over the actual loan. And, Rahman (1999) and Cons and Paprocki (2010) have additionally asserted that women's positional vulnerability makes them easy targets for loans for reasons of profit of the Microfinance Institutions (MFIs).

Studies like Braunstein and Folbre (2001), Strassman (1993) and Appaiah (2010) have talked about the existence of familial and societal honor codes, albeit not in the context of microfinance beneficiaries, but they have not accounted expressly for the fact that it might limit exit options for women. In a different context, Cheung (1972) has explained the practice of foot-binding as a deliberate restriction of exit options for women to protect familial honor, a view commonly shared among experts on ancient Chinese society and the practice of foot-binding.

Therefore, most studies finding in favor of empowerment asserts that bargaining power of participating women rise and it is proved by the presence of various indicating factors. But, the reality encountered while conducting this study was that bargaining power did not rise significantly even when many of the indicators were found to be present simultaneously, thus, contradicting existing literature. And, most studies finding against empowerment attribute that to the lack of control of loans by women. But, in this study, it was seen that most of the women interviewed did retain almost full control over their loans.

Further, contrary to ancient Chinese society, no practices that physically restrict women were apparent among not only the women who participated in this study, but also among the others who did not participate. Yet, they are not really empowered, again contrary to the literature.

In this paper, I attempt to elucidate this double contradiction by accounting for one factor, the concept of familial and societal honor that, to my knowledge, has hardly been included in formal analyses.

2. Bargaining within the Household

The study was conducted in 2012 by interviewing 167 women residing in the two largest stretches of underprivileged areas on the immediate outskirts of Kolkata, a metropolitan city in India. Underprivileged areas were chosen because an overwhelming majority of urban participants in microfinance programs hail from these areas. Being in the state of West Bengal, most of the women belong to the Bengali community. And, this very fact adds a new dimension to the implications of the study. The Bengali community is not only a subset of the Indian societal structure, but is also considered to be among the more liberal communities in India. Thus, it helps estimate that the situation faced by women of the more orthodox Indian communities and/or religious groups is graver. Further, this study may also serve as a point of reference for studying the case of female microfinance beneficiaries in other nations having patriarchal societies with similar or stronger codes of familial honor.

Now, economies of Asia and Africa have been classified as classic patriarchies by Kandiyoti³. Thus, India being an Asian economy, Johnson's definition of patriarchy⁴ holds

³ Kandiyoti, Deniz. 1988. "Bargaining with Patriarchy". *Gender and Society* 2(3): 274-290.

true here. This definition mainly stresses on four characteristics of patriarchal societies. First, such societies are male dominated, that is, the most powerful roles in most sectors of society are held by men and least powerful roles are typically held by women. Secondly, they display an obsession with control and presume that men have an ability to exert control while women need men's supervision and protection. Thirdly, they are male identified, meaning, highly valued personal and societal attributes are associated with men and devalued attributes are typically associated with women. Finally, such societies are male centered where men occupying the center and women being pushed to the margins are the norms.

Based on these backgrounds, we try to illustrate how bargaining may happen in such a societal structure. We develop a simple bargaining game for the purpose since it deftly captures the subjective considerations that aid decision making here. Since, in a patriarchy, the restrictive honor codes are imposed collectively by the society on women, this game has two players, the representative woman participating in a microfinance program, and, rest of the society collectively considered as one player. All payoffs from the game are expressed in utility or disutility terms to avoid directly quantifying subjective considerations. Utility gives a positive payoff and disutility gives a negative payoff. Woman has two options (strategies in the game), exit an undesirable marriage (if married) or unfavorable household (if unmarried), or stay on. She may or may not exit her household. And, if she decides to exit, she might or might not get access to legal recourse. It is implicitly assumed that if she does get access, she will not forego or give it up. (Please refer to Appendix for a formal depiction of the bargaining game.).

⁴ Johnson, Allan. 2005. *The Gender Knot: Unraveling our Patriarchal Society*. Philadelphia: Temple University Press.

If woman chooses to stay on, then society gets utility payoffs from being able to maintain control over the woman and maintaining family honor. Here, society's gains are quite high because this choice helps maintain the subordinate position as assigned to women in patriarchies. And, if woman decides to exit her household, society gets disutility payoffs from losing control over the woman and losing family honor due to woman leaving. In this case, the family of the representative woman specifically, and society at large loses heavily as the woman leaving signals her independent assertion of her decision and refusal to accept the subordinate position quintessentially assigned to her. As a result of the latter choice, there arises a high probability that the family/society chooses to violently retaliate against her, and, derive high utility payoffs from this action.

Now, it might seem incredulous that a family might want to use violent methods and cause bodily harm to their own family member just because she has exited the household, but, traditional societies are called so simply due to the fact that traditions are considered to be of paramount importance, over and above everything and everyone. Here, one woman's assertion, if left 'unpunished', threatens to trigger off a chain reaction that has the power to make the basic social fabric collapse and disintegrate. Thus, the harshest kind of 'punishment' possible is meted out to punish the 'errant' woman and to intimidate other women and prevent any chain reaction. In fact, examples of such 'punishment' are abound, as pointed out by Appiah⁵ as he refers to the practice of honor killings in Pakistan. Now, honor killings may not be very common in the Bengali community, as also represented by the interviewed group here, but non-fatal violent backlashes are quite common. And, honor killings do happen in Indian communities as well, the Punjabi, Haryanvi and Rajasthani

⁵Appiah, Kwame Anthony. 2010. *The Honor Code: How Moral Revolutions Happen*. New York: W.W. Norton and Company.

communities being poster children for this practice. But, if woman has legal access, such violent retaliation entails a disutility payoff due to punishment meted out by the legal system. But, even then, in many cases, this disutility fails to outweigh the utility derived from preventing a chain reaction. This is aided by society's tendency to attach a hero's status, explicitly in some communities and implicitly in others, to the perpetrator of the violent act.

Next, turning to the representative woman, whatever option she might choose, she derives utility from the fact that she is a microfinance beneficiary and has an income from the venture she started with that loan. If she opts to stay on, she may lose control over her loan/income/assets which gives her disutility. This factor is included here because there is a substantial literature that opines that microfinance does not lead to empowerment because women lose control over their loans/income/assets. In this study, it was actually seen that most women retain control over their loans. Therefore, in this model, we put a very low probability value to this phenomenon. Next, she derives significant disutility from incidence of domestic violence and resultant loss of self esteem. A very high probability value is attached to this as not just this study, but a large literature confirms the all-pervading nature of domestic violence. And, self esteem is included separately instead of being clubbed with domestic violence because loss of self esteem is an important psychological factor that contributes heavily to economic behavior. It has even been cited as an important factor in personal and collective empowerment by Jo Rowlands⁶.

Staying on in an unequal household where men always assume the superior position, she derives disutility from the inability to participate in and take important household decisions. But, staying in the family ensures that she stays with her children (if she has any)

⁶ Rowlands, Jo. 1998. "A Word of the Times, but What Does It Mean? Empowerment in the Discourse and Practice of Development", in Haleh Afshar, ed. *Women and Empowerment: Illustrations from the Third World*, pp. 11-34. Great Britain: Macmillan Press Ltd.

which expectedly gives a very high level of utility. If she decides to exit the household, there remains no chance anymore that she may lose control over her loan/income/assets. She is also spared incidence of domestic violence which raises her self esteem. And, not being in an unequal household anymore, she is able to take all her decisions independently. All these impart significant utility to her. But, she is very likely to lose custody of her children, especially her male children, and get disowned by her natal family, concerns almost unanimously voiced by the interviewees. Societal ostracization is almost a certainty for her as she has dared to break its norms. She also becomes a target for violent backlash by family/community as they attempt to 'punish' her and set an example for other women. All these phenomena cause her much disutility. The nature of payoff she gets from the legal system depends on whether she has access to legal recourse or not.

A seemingly insignificant, but actually important source of trouble for women opting to exit is the lack of a place for her to stay. It might seem like a strange problem, but, in societies where women are typically looked upon as appendages to men, a woman wanting to carve out her own identity sans a man's support is not looked upon kindly. In fact, people even get suspicious of her which creates an added source of ostracization. This was a concern voiced by most interviewees who said that they wanted to exit an unfavorable household. In fact, it was observed that all of the very few interviewees who had actually left an unfavorable household had been forced to marry / remarry. Many had even married men who were already married and were not living with their wives for any reason. These women observed that they preferred to live even in an illegal marriage because the level of social sanction they face even after such an illegal marriage is much less than what they had to face when they had tried to live alone.

Finally, the concept of honor is a very important one in the Indian context, as it is in any traditional society. The idea that maintaining family honor is of paramount importance is typically drilled into the minds of young children, who also get implicitly trained in patriarchal norms. Further, the idea that women being the sole bearers of this honor are required to zealously guard intra-household relations, irrespective of whether they are correct or not, is inculcated into the minds of young girls. Thus, if a typical woman stays on, in spite of every source of disutility, she derives much satisfaction from the belief that she has helped maintain familial honor, and if she exits, she suffers considerable guilt due to the idea that she has brought dishonor to the family. This phenomenon has been illustrated by Purna Sen⁷ in her study conducted in Kolkata.

Therefore, in the bargaining game, the woman will play the exit strategy only if that makes her overall expected gain positive. But, weighing her utility and disutility considerations, it is found that she actually loses in the bargaining game if she leaves. (Please refer to Appendix for the mathematical solution of the bargaining game). From here, it can be concluded that she has no real exit option and is forced to stay on in an unequal household even against her desire. This illustrates that even when women have their own income and almost full control over their loans, bargaining power within the household really does not rise significantly, and women are not really empowered simply by participation in microfinance programs. The severe lack of exit options prevents effecting of true empowerment.

⁷ Sen, Purna. 1998. "Violence in Intimate Relationships: A Research Project in India", in Haleh Afshar, ed. *Women and Empowerment: Illustrations from the Third World*, pp. 134-154. Great Britain: Macmillan Press Ltd.

3. Identifying a Bargaining Variable

As illustrated in the previous section, creation of a bargaining variable, that also creates an exit avenue, is necessary to significantly raise bargaining power of women within the household, thereby effecting true empowerment.

Now, as seen earlier, the woman will exit her household only if her overall expected gain is more if she leaves than her gain if she stays back in an undesirable household. After weighing her considerations, it turns out that out of all the utilities and disutilities she receives, the ones that finally influence her choice are her ability to retain control over her loans/income/assets, get custody of children and make independent decisions, whether she faces social ostracization and violent retaliation from family/community and whether she has access to legal recourse, whether she gets disowned by natal family and faces trouble with getting a place to stay, whether she faces domestic violence and its effect on her self esteem and what her beliefs are on the issue of familial honor.

Conversely, if she exits, the factors that would govern the society's reactions are based on the level of disutility received by it over losing control over the woman and subsequent loss of honor, and, considerations of whether the woman has access to legal recourse which would decide whether it should indulge in violent retaliation.

Thus, we find that the concept of familial and societal honor is the only common factor featuring in the woman's and society's overall expected gains/reactions. This implies that the concept of honor code is the key factor that can be used as a tool for intra-household bargaining, and, it is this factor that has the potential for creating a genuine exit option for women, eventually effecting true empowerment.

4. Implications

The bargaining game suggests that concept of family honor may be used as the bargaining variable to create an exit option for women. That is, if women can be taught that honor does not lie in zealously guarding intra-household relations, no matter what, and that it is actually not honorable to not speak out against wrongful activities within the household on the plea of maintaining honor, then some real bargaining power can be created. This is obviously a very difficult feat to accomplish, given that such skewed honor concepts are drilled into women from a very early age making them consider it to be correct, even if they do not like it.

Here, the MFI framework can be used effectively. Most genuine MFIs offer a number of allied services and training to women, for example, health and family planning facilities, education programs, leadership training programs and paralegal programs. So, MFIs can include training specifically targeted at breaking traditional skewed ideas of honor and teaching them that protesting against and / or reporting wrongful activities within a household or exiting an undesirable household is much more honorable than accepting unequal relations within the household. But, such training cannot be initiated simply by including a new allied program. Elements of programs designed to break such skewed ideas should be included implicitly within other existing training programs. This is because, explicit inclusion of an honor targeted program may potentially cause trouble at home for many beneficiaries causing them to be forced to drop out of the microfinance scheme altogether. Also, there exists a sizable population of women in patriarchal societies who believe in the correctness of the skewed concepts. Explicit honor programs would cause them to voluntarily drop out.

The fact that MFIs are built on SHG structures can also be used to induce a sense of collective empowerment and create an exit option for women. Providing this kind of targeted

training would ultimately result in all the women in a SHG binding together and fighting not only for themselves but also for the rest of the women in that SHG, SHG structures can actually be used to create a group identity and a collective sense of agency, making them willing to fight collectively against social ostracization.

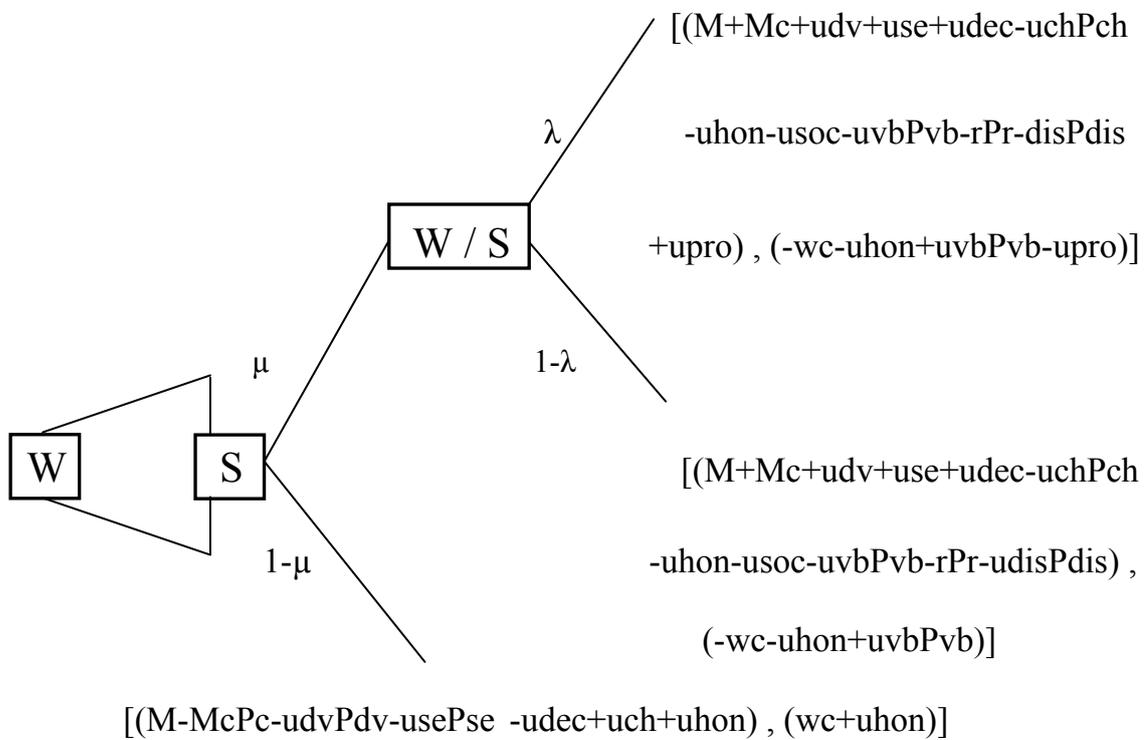
Honor specific programs would most importantly make women realize that there is no dishonor in leaving an abusive relationship and the guilt factor would be cancelled out. It would encourage women to report incidence of domestic violence and also to seek legal protection if they fear a violent backlash. These would effectively intimidate the perpetrators of such wrongful activities and significantly raise their self esteem and confidence. Cancelling out of the guilt factor would encourage them to actively seek custody of children and legally challenge disownment by natal family in case they exit, and not shy away thinking that they have done wrong by bringing dishonor to the family. Therefore, true empowerment can only be effected by transforming traditional honor concepts and creating a real exit option for women.

An India specific policy prescription might be that the Reserve Bank of India mandates that MFIs would be required to provide legal assistance compulsorily to women who have taken the option of exiting an unfavorable household. This may also be included as a condition for issuance of license. This measure may be made applicable to other countries as well since all countries do have a Central Bank.

This study is focused on microfinance beneficiaries living just on the outskirts of the city of Kolkata which is the capital of the state of West Bengal in India. Therefore, the interviewees constitute the urban poor and belong mostly to the Bengali community which is a subset of the Indian societal fabric. This study can thus be extended to the other communities in India. Further, since there are still a lot of nations, particularly among the

developing and underdeveloped economies, that have a patriarchal societal structure with a similar kind of strong codes of familial honor, where microfinance programs are widespread, this study has relevance beyond the immediate scope described in this paper. In fact, studying the situation of female microfinance beneficiaries in other such countries may be possible extensions and avenues for further research.

5. Appendix



It is assumed that the woman decides to stay on with probability μ and decides to exit with probability $(1-\mu)$. If she decides to exit, she might or might not get access to legal recourse. She gets access to legal recourse with probability λ and does not get access with probability $(1-\lambda)$. The payoff structures for the two players are detailed below.

If representative woman (W) decides to stay on, her payoffs are:

- i. M = utility from income generated from the venture started with the loan.
- ii. M_c = disutility from losing control over loan/income/assets. \Rightarrow Probability = $P_c \approx 0$.
- iii. u_{dv} = disutility from domestic violence. \Rightarrow Probability = $P_{dv} \approx 1$.
- iv. u_{se} = disutility from losing self esteem. \Rightarrow Probability = $P_{se} \approx 1$.
- v. u_{dec} = disutility from inability to take household decisions. \Rightarrow Probability ≈ 1
- vi. u_{ch} = utility from being with children.
- vii. u_{hon} = utility from being able to maintain family honor.

In this case, payoffs for society (S) are:

- i. w_c = utility from being able to maintain control over the woman.
- ii. u_{hon} = utility from being able to maintain family honor.

If representative woman (W) decides to exit an unfavorable marriage/household, her payoffs are:

- i. M = utility from income generated from the venture started with the loan.
- ii. M_c = utility from retaining complete control over loan/assets/income.
- iii. u_{dv} = utility from no more incidence of domestic violence.
- iv. u_{se} = utility from increased self esteem due to no domestic violence.
- v. u_{dec} = utility from being able to take important decisions independently.
- vi. u_{ch} = disutility from losing custody of children. \Rightarrow Probability = $P_{ch} \approx 1$.

- vii. uhon = disutility from sense of guilt from bringing dishonor to family.
- viii. usoc = disutility from social ostracization.
- ix. uvb = disutility from violent backlash. => Probability = Pvb ≈ 1.
- x. r = disutility from lack of availability of residence. => Probability = Pr ≈ 1.
- xi. udis = disutility from getting disowned by natal family. => Probability = Pdis ≈ 1.
- xii. upro = utility from legal protection/disutility from lack of legal protection.

In this case, payoffs for society (S) are:

- i. wc = disutility from losing control over the woman.
- ii. uhon = disutility from losing family honor.
- iii. uvb = utility from violent retaliation against the woman. => Probability = Pvb ≈ 1.
- iv. upro = disutility from legal protection/utility from lack of legal protection.

Here, the woman will play exit strategy only if that makes her expected gain positive.

That is, W's expected gain = Exit payoff – Stay payoff > 0 has to hold.

Thus, W's expected gain = $\mu [\lambda (M+Mc+udv+use+udec-uchPch-uhon-usoc-uvbPvb-rPr-udisPdis+upro) + (1-\lambda) (M+Mc+udv+use+udec-uchPch-uhon-usoc-uvbPvb-rPr-udisPdis)] - (1-\mu) [M-McPc-udvPdv-usePse-udec+uch+uhon] > 0$ should hold.

Substituting probability values in the expected gain expression and simplifying, W's expected gain = $\mu M + \mu Mc - \mu soc - \mu uvb - \mu r - \mu udis + \mu \lambda upro > M - udv - use - udec + uch + uhon - \mu M$ should hold.

Thus, $\mu[(M+Mc+\lambdaupro) - (usoc+uvb+r+udis)] > [M+uch+uhon] - [udv+use+udec-\mu M]$ should hold.

But, in a patriarchy, levels of social ostracization of women who have left their homes is typically very high, and it is very difficult for such women to find a place to stay. Backlash can also take from moderate to severe forms. All this and the very high possibility of ‘errant’ daughters getting disowned by their natal families impart a very high level of disutility to women. This results in, $M+Mc+\lambdaupro < usoc+uvb+r+udis$. Also, $\mu \in [0,1]$ making it a fraction.

Conversely, being able to be with their children and being able to uphold family’s honor give women very high levels of utility. This results in, $M+uch+uhon > udv+use+udec-\mu M$.

And, putting these two results together, it is seen that actually,

$$\mu[(M+Mc+\lambdaupro) - (usoc+uvb+r+udis)] < [M+uch+uhon] - [udv+use+udec-\mu M].$$

Elucidating this, Woman actually loses in the bargaining game if she leaves, implying that she has no real exit option which contributes to prevention of true empowerment.

As seen earlier, W’s expected gain = $\mu [\lambda (M+Mc+udv+use+udec-uchPch-uhon-usoc-uvbPvb-rPr-udisPdis+upro) + (1-\lambda) (M+Mc+udv+use+udec-uchPch-uhon-usoc-uvbPvb-rPr-udisPdis)] - (1-\mu) [M-McPc-udvPdv-usePse-udec+uch+uhon] > 0$ should hold for W to play exit strategy, implying creation of exit option.

$$\Rightarrow M(2\mu-1)+\mu Mc-\mu usoc-\mu uvb-\mu r-\mu udis+\mu \lambda upro+udv+use+udec-uch-uhon > 0.$$

$$\Rightarrow M(2\mu-1)+\mu Mc-\mu usoc-\mu uvb-\mu r-\mu udis+\mu \lambda upro+udv+use+udec-uch > uhon.$$

In this case, S's expected gain = $\mu [\lambda(-w_c - u_{hon} + u_{vb}P_{vb} - u_{pro}) + (1-\lambda)(-w_c - u_{hon} + u_{vb}P_{vb})] - (1-\mu)(w_c + u_{hon}) > 0$.

$$\Rightarrow (w_c + u_{hon})(1-2\mu) + \mu u_{vb} - \mu \lambda u_{pro} > 0.$$

$$\Rightarrow u_{hon} > [\mu \lambda u_{pro} - \mu u_{vb} - w_c(1-2\mu)] / (1-2\mu).$$

Therefore, necessary and sufficient conditions for creation of exit option is:

$$M(2\mu-1) + \mu M_c - \mu u_{soc} - \mu u_{vb} - \mu r - \mu u_{dis} + \mu \lambda u_{pro} + u_{dv} + u_{se} + u_{dec} - u_{ch} > u_{hon} > [\mu \lambda u_{pro} - \mu u_{vb} - w_c(1-2\mu)] / (1-2\mu).$$

This is the Nash Bargaining solution and u_{hon} is the bargaining variable.

Disclaimer: All personal information that would allow the identification of any person or person(s) described in the article has been removed.

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