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ON TRUST, AND TRUST IN INDIAN BUSINESS: ETHNOGRAPHIC EXPLORATIONS

By John Harriss
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'(The) ideal society would be also be honest. Such honesty would be enforced by law, but ideally, the law would not be needed. People would believe that honesty is right (also that it pays) and would live and act accordingly'

David Landes[2]

***Background**:*

To trust is to believe despite uncertainty concerning another's action. Trust is located therefore, in the space between total knowledge and total ignorance. It may be distinguished from 'faith' on the one hand, which does not require secure knowledge, and from 'confidence' on the other, referring to circumstances in which the probabilities of another behaving in a particular way are well known. The general understanding of the concept of trust in the contemporary literature, then, is of circumstances in which an actor chooses to believe in the good will of another whilst having no reliable knowledge that s/he will behave in the way that is expected – which means that the actor exposes herself to the risk of opportunistic behaviour on the part of the other. Another way of putting it is in the formulation that trust refers to "the negotiation of risk occasioned by the freedom of others"(Hart 1988, 191. And see Luhmann 1988).

Trust has become an important focus of enquiry across the social sciences, particularly in the period since the publication of Gambetta's edited book *Trust: the making and breaking of cooperative relations* in 1988. The rise of information-theoretic economics, celebrated by the award of the Nobel Prize in 2001 to three of its leading exponents, has ensured that the question of trust has become of major interest to economists – how do people deal with circumstances in which they do not have good information about the likely behaviour of others? It has been said, following Arrow, that economic backwardness is intrinsically associated with the lack of trust - because in these

circumstances economic activities attract high transactions costs, or do not occur at all - and consequently that "Trust is emerging as the new 'missing factor' that explains why some countries or regions develop rapidly and others lag behind" (Humphrey and Schmitz 1996, 32). Trust is said to be of central importance in the most efficient ways of organising production, involving both intra- and inter-firm relations – so that it is, for example, thought to be at the heart of that kind of 'flexible specialisation' which is shown in successful industrial districts – such as that, paradigmatically, of Emilia-Romagna in Italy (Piore and Sabel 1984). The interests of economists in trust are complemented by economic sociology, in which a significant debate concerns the relations of the trust that may develop within particular social networks ('selective trust') with a generalised morality running through a whole society[3] – a debate that intersects with the interests of sociologists and political scientists in trust and political institutions[4]. Thus far anthropologists have not contributed as much as might perhaps have been expected to this developing literature, though Misztal in her book on *Trust in Modern Societies* (1996) draws extensively on Bourdieu, while Keith Hart contributed effectively to the Gambetta volume, and more recently – in particular relation to India – Garrett Menning has written on 'Trust, Entrepreneurship and Development in Surat' (1997). My purpose in this paper is to offer a critical commentary on some of the ideas about trust that have recently become established, drawing on ethnographic studies both of small and large firms in two parts of India. Specifically, I conclude that the significance of trust has been over-emphasised and that this serves ideological purposes, contributing to a 'soft' view of capitalism[5].

Much of the current thinking on trust suggests an historical movement from circumstances, in pre-modern societies, in which trust is supposed not to be a problem since action is quite predictable - because social roles are closely regulated, for instance by norms of kinship. Seligman, for example, argues that "The 'trust' that is so often seen to bind members of tribal, peasant or other types of pre-modern societies is not trust at all but confidence in a very particular mode of social organisation based on ascriptive categories (1997, 37) . Those changes associated with modernity at first make trust, depending upon networks of friendship ('selective trust'), extremely important as the

norms of ‘status’ are broken down and the rule of ‘contract’ is not yet fully established[6]. But modernity is associated, according to the classical sociologists, with the development of a generalised morality, founded upon legal and other institutions (such as codes for professional conduct) that can be relied upon to regulate people’s actions. In one sense the need to trust others (to believe in them, in other words, or to rely upon their dispositions) is reduced, because it is possible to be fairly certain about their motivations in view of the incentives and the sanctions to which they are subject[7]. Yet now, it is widely argued, in the circumstances of late modernity and of those complex changes associated with the process of ‘globalisation’, the production of trust has become much more problematic because of ever increasing levels of risk inherent in the complexity of contemporary social life. As Tilly has argued in an essay entitled, ironically, ‘Welcome to the Seventeenth Century’, “The historically exceptional overlap of trust networks with economic organisations and governmental institutions could well be diminishing ..” (1999, 17. And see Giddens 1991, and Misztal 1996). At the time of the writing the collapse of America’s seventh largest corporation, Enron, amidst abundant evidence of unchecked malfeasance on the part of its most senior executives, and the subsequent evidence of other such instances in Corporate America has underlined both the importance of trust in contemporary society, and the fact that it is often lacking [8].

This historical narrative is predicated upon critical arguments about the social bases of trust, on which there is now some convergence of views. Zucker’s argument that trust may be based (i) on the social *characteristics* of others; or (ii) on *process* (in other words experiment, or the experience arising from repeated transactions); or (iii) on *institutions* (the existence of rules, norms and conventions that regulate the behaviour of others), has been particularly influential. Reflection upon it suggests that we may distinguish between 'character assessment' (A trusts B because of *who* s/he is) and ‘incentive assessment’ (A trusts B because of her assessment of the incentives acting upon the other). Character assessment may be ‘specific’, relying on experience of the other or on third-party assessment of her, or ‘generic’, relying on the general reputation of those with her characteristics, or on characteristics that are shared by A and B (for example, they are of the same ethnicity). Incentive assessment may take account of *institutionalised sanctions*

acting upon B; of the *reputational jeopardy* to which she may be subject in the event of her failing to behave appropriately; of the possibilities of *direct retaliation* against her, or of *non-cooperation*, or of the fact of *inter-dependence*[9].

In the context of these general arguments India poses particular questions. First, Indian business suffers from "an endemic lack of credibility" (Banaji 2001, 5), often thought to have to do with the existence of a business culture characterised by 'selective trust'[10] because of the dominance of private, family control and resistance to management accountability. Why has this been so? How far is it explained by the nature of Indian modernity and the lack, precisely, of the development of that generalised morality which is thought, notably by Platteau, to be necessary for the establishment of an effective and tolerably efficient market economy[11]? In so far as Platteau's argument is justified with regard to India, is the absence of such a generalised morality a matter of culture, as he suggests, or has it rather to do with weaknesses of the institutional framework[12]? This question is of some particular interest given Fukuyama's assertions about the influence of cultural differences, located especially in family and kinship organisation, in explaining variations in economic organisation and performance between a number of countries (Fukuyama 1995). The second focus of the research on which this essay is based concerns the response of Indian business to the new conditions associated with economic reforms and economic globalisation. If there is a problem of trust in Indian business how is this being dealt with in the new context in which, it is held, there is a need for a greater reliance than before on trust[13]?

Objectives and Methods

The broad hypotheses that I set out to explore, therefore, were these: (i) that failures of trust, or limitations on the extent to which it is possible to place trust in persons or institutions, do constrain business performance, and make it difficult for Indian businesses to develop new organisational forms in the context of economic globalisation; and (ii) that these limitations arise in the context of an ethical pluralism (or 'cellularity') which characterises Indian society. I sought to answer these questions by means of

studies in Ahmedabad in Gujarat (where I had the advantage of a base in India's premier business school), and in Chennai in Tamil Nadu, of: (i) the transactional relationships of small and medium firms in selected industries (garments, basic engineering and metal products, and pharmaceuticals, in Ahmedabad, and the software industry in Chennai), requiring extended interviews with company owners; (ii) the changes taking place in family business groups in the context of globalisation, requiring in some cases several interviews, on different occasions, with senior family members; and (iii) the process of corporate restructuring in four selected large firms, which involved interviews with managers at different levels, and with workers, in the course of repeated visits to factories, as well as meetings with the CEOs of the firms. Precise measurement of variations in trust was not attempted. I believed that studies of formal and informal terms and conditions attaching to different contracts would provide a guide as to differences in the extent of transactions costs; and that these studies, together with qualitative information about the ways in which contracts are formed, would provide a reasonable indication of the existence or not of differences in trust, which could then be related to constraints on business development, and to variations in performance as measured by conventional productivity criteria.

As I explain, the results of my investigations in Ahmedabad (covering step (i)), together with study of the results of other research in Gujarat on industrial districts, convinced me of two things – first that the study of contracts and contracting that I had planned was not as fruitful as I had expected, and also practically impossible to pursue in as much depth as I had hoped, and second that in explaining industrial growth it is not 'trust' that is the problem so much as the formal institutional framework. I concluded (with some of my informants indeed) that the emphasis that has been placed on trust in some of the recent literature is misplaced. I consequently shifted the focus of my subsequent research rather to the questions of whether big companies are constrained in the context of economic liberalisation and globalisation by a business culture dominated by private, family control, and (secondly) of how bigger companies are changing in this new context. I was able to pursue this investigation most effectively in Chennai (Madras), the centre of big business in South India, where I enjoyed the advantage of having good contacts, and

where I was also able to use earlier research by Milton Singer in 1964 as a kind of a benchmark (Singer 1972, chapter 8). There I conducted interviews with 40 business leaders, and made case studies of 'restructuring' in four big companies.

Results

Part 1: Inter-firm relationships

Case studies conducted in Ahmedabad of eight firms in the garments industry, eleven firms in engineering and metal industries, and of six pharmaceutical companies, showed up the specificity associated with different industries and with different market segments.

The garments industry serves mainly local and regional markets, and the majority of company owners come from joint families, from particular caste communities, with a history of involvement in the cloth trade. Depending as it does on low margins and high turnover the industry might be described as a 'trading industry'. There is extensive job-working (the putting-out of particular operations to other firms). The crucial problem faced by most companies is that of finding outlets in highly competitive markets, and then of securing regular payments from dealers. As Menning also found in his study of the textile industry in Surat "For sellers there is the ever-present problem of evaluating the financial reliability of buyers, who are usually small entrepreneurs requiring informal, extended credit" (1997, 67). Contract enforcement in this industry, with suppliers and dealers, depends heavily on personal trust (as Menning also found), based on experience of collaboration ('process trust'), and third-party monitored reputation (or 'specific character assessment') – where the 'third-parties' are manufacturers or traders in a different line from the one in which the principal is operating - in a context in which 'reputational jeopardy' is significant[14]. 'Danda' – physical violence - may also be resorted to. There was no evidence at all of the existence of the kind of 'extended trust', reflected in the development of cooperative relationships between firms, that is supposed to be characteristic of successful industrial districts. This was not surprising in an industry supplying mainly the lower end of the market, with an emphasis on low price

rather than on high quality and depending more on opportunism than on steady business. The one firm which had a ‘brand name’ and supplied higher income markets, relying on high quality of design and manufacture, was able to depend to a greater extent on institutionalised sanctions (formal contracts and bank regulation) rather than on personalised trust[15].

The engineering industry in Ahmedabad is also distinctly segmented with many small firms, often owned by members of artisan castes, engaged as job-workers or sub-contractors under informal contracts that are secured (as in the garments industry) by ‘specific character assessment’, and some larger firms, more commonly owned by members of higher castes[16] whose transactions are secured to a great extent by institutionalised sanctions. Even in these larger firms producing finished products (pump-sets, textile machinery, transmission towers, specialised castings), personalising relationships (attempting to ensure reciprocal obligations) both with suppliers and with customers, particularly with regard to securing payments, remains important. Where there is a perceived lack of rigorous property rights there is likely to be a striving to personalise transactions (see note 15). The same is true in the ‘clusters’ of firms manufacturing diesel engines or their parts in Rajkot (c10 000 units involved), and of brass components manufacturers in Jamnagar (c5000 units), where it has been found that the social networks between firms and with suppliers and dealers help to account for the success of the industries (they give rise to a kind of ‘static efficiency’), yet without their having given rise to extended trust and cooperation between firms (the source of ‘dynamic efficiency’ in the ‘industrial districts’ model)[17]. Caste does influence these social networks and owners of firms from the lower, artisanal castes, may be excluded from them[18].

The pharmaceutical industry is in general much more highly regulated than the other two. There is extensive job-working in the industry which is necessarily very closely supervised, and distributors, too, are subject to strict controls. Here there is little or no reliance on trust and job-workers are really subject to the power of the major producers of drugs. Where trust does enter in to this industry is when there are strategic alliances

between firms and confidential knowledge is necessarily shared. In these cases trust is backed by incentives – the interdependence of the firms concerned and the reputational jeopardy to which they would be subject in the event of their behaving opportunistically.

The new and rapidly developing software industry of South India, the main vehicle of the hopes in India for the success of the 'New Economy', also depends significantly on personalised transactions. In interviews with the owners or CEOs of 16 Chennai-based companies, I found that – in the words of one of those whom I interviewed – "In this business it's all contacts and connections". This was confirmed most strongly by the local director of a joint-venture set up by a major European company, who complained of the sparseness of their 'contacts and connections'. There is a conscious effort to develop relationships of trust with clients, partly through personalised transactions, while at the same time they are secured by very detailed formal agreements. This is often necessary because much of the work that is undertaken by Indian companies involves the supply of consultancy services requiring access to confidential information. Firms in this industry, then, as in the pharmaceuticals industry in Gujarat, enter into something like 'strategic alliances', where the necessary trust is backed by sanctions and incentives.

It is commonly the case, when a new firm starts up in the software industry, that it relies for business on contacts established by the owner(s) whilst they were themselves working as consultants – often for Tata Consultancy Services, which is a major employer of the highly trained graduates of the various Indian Institutes of Technology In other cases the owners of software companies have had to build up their clientele by 'wearing out shoe leather' (as one of them put it), visiting potential customers. Then it is usually the case that business is built up gradually ('process trust' again), sometimes with only one client. Even some of the most successful companies of all still rely heavily for their business on a small number of customers, with whom they have built up strong reciprocal relations of trust over time. In these circumstances it is not surprising that Indian firms are evidently more dedicated to securing formal recognition of their ability to achieve high quality standards than are firms in the US or elsewhere, since this is a way of securing business *without* having to have recourse to so much investment in personalising transactions and

in ‘process trust’. In the year 2000 there were about 30 companies internationally that had secured Level 4 of the CMM (validated by the Software Engineering Institute of the Carnegie-Mellon University), the highest standard of quality certification. Of these 15 companies were Indian; and the first company in the world to secure CMM5 was Wipro, the top Indian software company. In sum, in the software industry there is a striking combination of formal contract, and of institutionally-backed sanctions and incentives, with trust built through personal connections.

What may be concluded from these studies is that the extent to which transactions depend upon trust varies according to the nature of the product and of the markets that are supplied, and these with the scale and the sophistication of the enterprise. Larger firms, supplying finished products in higher income markets, are able to rely, to an important extent, on the one hand on institutionalised sanctions backed by law[19], and on the other on the dependence of smaller firms upon them[20]. In both cases there is little need for trust: the larger firms have confidence in the institutionalised sanctions to which their trading partners are subject, or in some cases in the incentives which inhere in their interdependence. Though transactions may still be embedded in a personalised relationship (as in the case of the software companies), the transactions between larger and smaller firms reflect power differences rather than trust, if this is understood to imply egalitarian mutuality. This is true – *a fortiori* – in the relationships of Arvind Mills, one of India’s top 100 companies and a very large manufacturer of denim cloth, with the Levi-Strauss Corporation. As a supplier of denim Arvind Mills is subject to a formidable array of strictly implemented controls, and the CEO of the firm scoffs at the notion that ‘trust’ is in any way involved in the relationship with Levi-Strauss – or, on the other hand, in Arvind Mills’ relationships with its own suppliers, in which his company, in turn, can rely on its market power[21]. Thus it is that, in the view of the Regional Director of the Confederation of Indian Industry, “We rely less on trust now than in the past”. But there clearly is an important sector of small and medium firms whose transactions still are secured by personal trust, dependent (most importantly) upon what I have referred to as ‘specific character assessment’ (through the experience of repeat transactions/collaboration and through third-party assessment) and to a lesser extent on

‘generic character assessment’ (when caste identity enters in). Even larger firms, however, seek to personalise transactions especially in order to smooth difficulties over delivery times and payments schedules. Delayed payments is a characteristic problem of Indian industry[22]. Extended credit terms are very general and create particular difficulties for smaller firms whilst often benefiting larger ones[23]; and personalising relationships is an important means of managing credit transactions.

We see, therefore, a hierarchy of relationships in which ‘juniors’ are more or less compelled to trust ‘highers’, while their positions of power secure the latter against the possibility of malfeasance on the part of the former. This also emerges from my own and other studies of supply chains[24], which are moving - as firms strive to meet more stringent quality requirements in the context of economic liberalisation - from the ‘arms-length’ relationships which used to obtain almost without exception in Indian industry, to Japanese-style ‘obligational contractual relationships’ that are desirable in ‘just-in-time’ production systems. Buyer-firms are seeking to win supplier confidence through such means as setting up systems of prompt payment, and emphasising ‘solution-finding’ rather than ‘fault-finding’ in quality control, as well as through visits by top management – but in spite of much closer relationships with vendors the bigger firms retain control through the systems they have established[25].

Key findings then, are these:

(i) The significance of trust is over-estimated in some of the literature, not least because many inter-firm relationships involve power as well as or more than trust, or (in other words) ‘hierarchy’ rather than ‘partnership/collaboration’. Power is ‘double-faced’, as Bachman puts it, in the sense that there are cases where it is incompatible with trust, but others where it can be taken as supportive of the production of trust: “Power in the form of hierarchy and structural domination can in fact enable social actors to trust each other at the impersonal level” (Bachman 1998, 313). But much of the literature on trust counterposes it to hierarchy, as a mode of organisation, and to power, and implies that trust relations

are essentially egalitarian, involving shared norms and various forms of reciprocity. In it the metaphor of ‘embeddedness’ comes to sound “soft and comforting …(when) what it describes can be harsh and oppressive on occasion” (Sayer 2001, 698). Sayer continues: “The social and cultural embedding of relations between firms usually depends, not so much on trust per se, but on overlaps in their self-interest …(while)…. Networks do not necessarily fuse the self-interest of different actors into a harmonious and egalitarian whole; they may be characterised by inequalities of power …” (2001, 699).

(ii) In a context of what are perceived as being weak property rights and confidence in institutionalised sanctions is correspondingly weak, there is in India extensive dependence on ‘specific character assessment’ and particularly on experience of collaboration (‘process trust’)[26]. Institutional context is the key determinant of the establishment of ‘high’ or ‘low trust’ systems of exchange (the latter being those in which there is extensive reliance on ‘specific character assessment’).

(iii) There is a great deal of specificity according to industry and market sectors, and organisational inertia (because economic agents and institutions develop characteristics that are mutually supportive).

(iv) The influence of cultural factors on economic organisation is mediated through institutions [27]. The ‘cellularity’ that is characteristic of Indian society does affect economic organisation, notably when caste differentiation and antagonism creates distrust that hinders collaboration; but this factor is much less significant amongst agents operating in higher value markets than it is amongst small units operating in fiercely competitive ‘bottom-end’ markets.

Part 2: Intra-Firm Relationships and Restructuring in the Context of Economic Globalisation

(a) <u>The’ Crisis’ of Family Business</u>

Key characteristics of the Indian corporate sector, apart from its domination by very large public sector units, are the high concentration of ownership in the private sector, and the fact that the great majority of the most valuable companies are family businesses [28]. The bench-mark study of industrial ownership by R K Hazari showed that 18 families controlled a high proportion of Indian business in the 1950s, and 12 of them remained among the top 50 businesses in 1997. Of the 31 companies in the top 500 that are based in Chennai only five are *not* family businesses, while seven belong to a single (Brahman) family group, and altogether 18 of them belong to seven families[29]. Six of these seven family groups have dominated the private sector in Chennai since Independence. But now these big family-controlled business groups, in Chennai as elsewhere, are in 'crisis' - in their own estimation as well as in that of the financial press. The crisis is reflected in the declining market capitalization of family businesses, in contrast with multinational corporations and professionally-run Indian companies[30]. It has been in response to the sense of crisis that three Chennai-based family business houses have sponsored an annual 'Family Business Conclave' for the Confederation of Indian Industry, facilitated by a professor from one of the top US business schools who has also been advising the Chennai families. The theme of the Conclave in 2000, set by the CEO of one of the great Chennai business houses, was that of 'the need to expand the radius of trust' by distinguishing more clearly than has historically been the case, between family interest and business interests[31]. It has come to be recognised, though clearly the argument is resisted in many family businesses, that in addition to the generic problems of family business that have to do with the problems of coordination and collective action between siblings in successor generations[32], as well as the so-called 'Buddenbrooks Phenomenon' (referring to the declining commitment to business observed in the second and third generations in many business families), Indian family business now confronts new and specific problems in the context of economic globalisation. In the highly protected industrial economy of the period up to 1991 the big business houses rarely faced much competition, they did not need to be customer-oriented[33], they were not much subject to shareholder scrutiny[34], and they invested very little either in product development or in their employees. Joint-ventures with foreign companies enabled the big houses to reap monopoly profits[35]. With these features of Indian business there went highly centralised

decision-making by senior family members, organisational informality, and reliance on personal loyalty and on seniority (or personal connections) rather than on competence. Low trust on the part of family members in professional executives became a self-fulfilling prophecy[36]. As companies attempt to meet the demands of a newly competitive business environment[37] so these organisational characteristics are having to be changed – and it is often proving to be very painful process. At last many family businesses are replacing family members with professional managers, and a clearer separation is being made between family and business interest[38]. So far, however, amongst the Chennai firms only in the Murugappa Group have all family members withdrawn from operational charge of group companies in an organisational set-up in which there is a clear distinction between corporate boards and the family board[39]. Part of the context of these changes is not only the changed business environment but also the loosening of family and kinship organisation amongst these elite families, with an increasing incidence of cross-caste marriage amongst children who have very often lived for long periods in the United States. What is involved in these organisational moves is a shift away from a heavy reliance upon 'selective trust' deriving from networks centred in close kin groups to a greater reliance on formal institutions of corporate governance. This is what was meant by the theme of 'expanding the radius of trust' at the Family Business Conclave[40]. A similar shift is shown in the ways in which companies are being restructured.

(b) Company Restructuring: from 'Control-Compliance' to 'Trust-based Organisations'

This rhetoric, deriving from ideas about Japanese management practice, and subscribed to enthusiastically by some of those who run companies in Chennai, shows up, in fact, the antinomies of trust, because the common theme in the restructuring of the three family-owned companies amongst my case studies was that of the replacement of personalised family management with 'systems', rules and procedures, under the direction of professional managers[41]. One of the three, which has achieved success as a supplier to General Motors globally, has experienced a tremendous amount of organisational change as 'Total Productive Maintenance' (TPM) has been introduced. This has been made possible, it is said by both managers and workers, because of the very high level of trust

that obtains between employees and ‘the Chairman’. But now the company, according to managers, is becoming ‘systems-based’ (the system being that established with TPM, which involves strict measurement and regulation of operations) rather than ‘relationships-based’ . Part of the ‘system’ is the establishment of procedures to ensure that competence, not connections, determines staff selection and promotion. Exactly the same shift, associated with industrial re-engineering, and the introduction of ‘Japanese’ methods, is taking place in the other companies, as well, under the direction of professional managers. But the ‘systems’, involving devolution of responsibility, and ‘participation’, partly accomplished through team-working, are supposed to establish ‘trust-based organisations’. The shift from hierarchical control-compliance systems, embedded in personalised relationships that are intended to secure system legitimacy, to ones which are characterised rather by confidence (not ‘trust’) in ‘expert systems’ is real enough. But such management approaches as TPM exemplify the kind of disciplinary power that works not from the outside but from within. A common feature in industrial re-engineering is the establishment of ‘cellular’ production in which small teams carry out the entire production process in relatively small batches, the process being symbolised in the ‘route card’ which follows each batch. Operators seem to like the route cards – I found in interviews with them - because these make their work more meaningful, helping to build a sense of ownership of the product. But at the same time operators discipline each other, especially in those cases in which payments are partially determined by team performance. Industrial re-engineering and management approaches like TPM represent, therefore, finely developed ‘disciplines’ in the Foucauldian sense. These “work within local domains and institutions, entering into particular social processes, breaking them down into separate functions, rearranging their parts, increasing their efficiency and precision, and reassembling them into more productive and powerful combinations” (Mitchell 1991, 93). This description of what Foucault means by ‘discipline’ is an almost perfect description of what goes in the establishment of TPM.

In summary, this part of the research too, has shown up that there is a shift taking place, depending upon institutional innovation, from a reliance on personalised relationships or

‘specific trust’ to a reliance upon abstract principles and professional codes, and that the language of ‘trust’ frequently conceals, or seeks to conceal, relationships of power.

Concluding reflections: The problem of trust in India, ironically, is that norms of trust are so strong. As Garrett Menning also argues on the basis of his research there “In some respects it appears that the very strength of personalised trust in Surat may have actually inhibited the development of other types” (1997, 63). The kind of trust that is strong is what I have called ‘selective trust’, amongst groups of people within specific social networks. Such selective trust has made possible the development of great business enterprises, as Rudner has shown so well, with regard to the Nattukottai Chettiars. Selective trust has to be relied upon when institutionalised sanctions and incentives are weak, as they are in India. But the weakness of the latter – the fact that the enforcement of laws is so poor in India – also has to do with the strength of selective trust. This is reflected now in the problems of corporate governance. At the centre of these is ‘the culture of compliance’, a boardroom culture shaped by traditions of deference and promoter/management control of boards – a culture which is very resistant to external scrutiny. Business families have not liked to trust outsiders, but have always sought to retain control within a tight circle of kin. They have resisted the claims of what M V Subbiah referred to at the CII Conclave as ‘explicitly stated principles and ethical norms’; but then the lack of consistently applied principles in the external environment justifies or leads to reliance on selective trust. There is a kind of a vicious circle in operation. Institutionalised sanctions and incentives are weak because of the absence, or the weakness, of generalised morality in Indian society. The problem of business management in India in the context of economic globalisation is that of bringing about a change in the institutional framework and in business behaviour, but in a context in which these changes confront the culture of ‘selective trust’. Change is taking place now, but only against the resistance that derives from the strength of ‘selective trust’[42]

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[2] From Landes 1998, 218.

[3] This debate is contained, in particular, in the work of Granovetter (1985) set against that of Platteau (1994). Also see Moore's response to Platteau (1994).

[4] Important sources are Misztal 1996, and Warren, ed., 1999. Levi's critique of Putnam's celebrated *Making Democracy Work* (1993) shows that there is no good logical reason for supposing that the selective trust that develops within particular social networks translates into generalised societal trust, in the way that Putnam's argument seems to suggest that it can (Levi 1996).

[5] There is valuable discussion of 'soft capitalism' in Sayer's essay 'For A Critical Cultural Political Economy' (2001)

[6] See Hart 1988, and Seligman 1997. Note Bachman's statement that it is possible "that those forms of trust which are predominantly based on individual calculation and social norms are systematically linked to an environment which lacks a strong institutional base, while the existence of reliable institutions provides large stocks of shared background beliefs, allowing for a form of trust which is largely generated beyond individuals' consciousness, that is through common habits and practices" (1998, 306). He suggests Germany as an example of the latter and China and India as examples of the former.

[7] In the context of modern societies with secure property rights it will often be the case, then, that cooperation is enforced, because it is possible to write a contract so that the other has no choice but to comply. The notion of trust is then left to those contracts/transactions in which there is no enforceable sanction or other compelling reason for individuals to cooperate. Then, whether or not the transaction will take place is likely to depend – as I go on to argue in the main text – on generic or specific character assessment. I am grateful to my colleague Markus Goldstein for discussion on this as on other points in this paper.

[8] See Wolf 2002. There is another possible interpretation of the Enron affair, which is that it has been found so enormously challenging because it shows up the need for much stronger regulation of corporate activity, in a liberal ideological context in which heavy emphasis is placed on the desirability of the freedom of action of business people.

[9] This follows Moore 1999, building in part on Zucker 1986. But see also distinctions made by Gambetta (1988) between 'belief' and 'motive' as sources of trust; and by Dasgupta (1988) between 'dispositions' and 'circumstances'. Note that one of the implications of the distinction between 'character assessment' and 'incentive assessment' is that those surveys in which the attempt is made to measure 'the amount of trust around here' probably confuse and muddle together two rather different ideas.

[10] It is the existence of high levels of 'selective trust' which is shown in existing anthropological research on Indian businessmen: see especially Rudner (1994)

[11] Platteau draws from the literature to argue that there is in Indian society a 'persisting lack of a common code of generalised morality' – of the kind which he believes to be necessary for the efficient and effective working of a market economy (1994: 797). The Indian anthropologist Satish Saberwal supports this view when he argues that 'Notable so often about our conduct is our lack of awareness of, or at least the weakness of our commitment to, the variety of impersonal rules which have to be accepted implicitly, as second nature, if a complex society is to avoid losing itself in an endless mass of contentiousness' (1996: 34). He relates this 'weakness' to 'The cellularity characterising Indian society [reflected in the primacy of caste, community and regional identities]..' (1996: 39).

[12] Stated in this way the distinction is simplistic, since the two categories are not clearly distinct. A commonly used definition of 'institutions', deriving from Douglass North, is that they are 'rules, norms and conventions'. Many understandings of the polysemic idea of 'culture' associate it essentially with norms and values. Yet this simple opposition of 'culture' and 'institutions' serves an heuristic purpose, as is clear in the exchange between Platteau (1994) and Moore (1994).

[13] There are many sources in the business literature on the increased importance of trust in contemporary business organisation. See for example Ring and Van den Van 1994; Smith, Carroll and Ashford 1995; and Wolf 2002.

[14] Compare Menning, again, on the textile industry in Surat: "The success of a local business depends upon networks of contacts who are personally known to the firm's principal members" (1997, 69).

[15] There are strong parallels between my observations of the garments industry in Ahmedabad and those of Knorringa (1996) on the leather footwear industry in Agra, and of Banerjee and Nihila (1999) on business organisation in the leather industries of Calcutta and Tamil Nadu. These authors, too, analyse inter-firm relationships in segmented markets, in which there is, however, a tendency towards polarisation between relatively expensive branded goods of high quality on the one hand, and very cheap ones on the other. Amongst agents in the latter markets, characterised by fierce competition, 'opportunism is a way of life'. Outside this bottom -end segment, in the garments industry of Ahmedabad, as in the shoe industry in Agra, as Knorringa puts it "rational entrepreneurs of small-scale manufacturing units strive for relations with buyers … characterised by close collaboration and [in consequence] build-up of trust" (1997, 67). The general point is that made by Whitley: "the extent to which property rights' owners and the economic actors they control, feel able to rely on impersonal institutionalized procedures when making business commitments is a crucial factor in the establishment of collaborative relations within and between firms. Where such procedures are weak or judged unreliable, personal and particularistic connections become especially important in organizing exchange relationships" (1999, 52).

[16] The owners of the larger firms in the engineering industry are mostly Patels, or Patidars, from the historically dominant land-owning caste community of central Gujarat, or sometimes Jains or Banias, the principal trading castes.

[17] These observations taken from unpublished research by Basant (1995) and Awasthi (1997). Awasthi remarks: "despite networks, proximity and shared issues, the overall interaction among factory owners is rather low". This was exactly what was said at meetings which I attended, convened by UNIDO, for owners of pharmaceutical companies in Ahmedabad. The 'industrial districts' model has been discussed, amongst others, by Schmitz (e.g 1995).

[18] Personal distrust, arising from caste antagonisms, may block collaboration, therefore, exactly as Knorringa describes as being the case in the footwear industry of Agra, where there is atagonism between the 'untouchable' Jatav producers and dealers from higher castes (Knorringa 1996).

[19] The extent to which is is possible for even these larger and more powerful firms to rely on institutionalised sanctions is limited by the problem that the enforcement of laws in India is so poorly developed.

[20] This is a point that is well put by Sydow (in Lane and Bachman, eds: 1998) who argues that it is, in a sense, easier for the more powerful party in a relationship to be trusting (because of the dependence of the smaller party). Smaller firms have to rely much more on trust in the good will of the more powerful party. An important question, therefore, is that of how far the risks of small firms are contained by regulation. In this regard Humphrey, Kaplinksy and Saraph note that "The Indian situation, where large firms have a relatively free hand in their dealings with smaller suppliers, appears to be akin to the situation in the United Kingdom, and Lane and Bachman compare the United Kingdom very unfavourably with Germany" (1997: 206).

[21] Compare Banerjee and Nihila on inter-firm relations in the leather industries that they studied. The networks between large and smaller firms are effective, they conclude "only because between the two sets of firms there are relations of hierarchy" (1999, 168).

[22] It relates, of course, to the point made above, in note 19, concerning the problem of the weak enforcement of laws in India.

[23] H P Nanda, the founder of Escorts – a major Indian engineering company – writes in his autobiography (*The Days Of My Years*. Delhi: Penguin) about how in the early days the company was able drastically to reduce its needs of working capital because of 45 days credit it was given by its smaller suppliers.

[24] My studies were of electrical engineering companies - a Tata group plant in Gandhinagar, Gujarat; and a now multinational-owned plant in Chennai.

[25] This point is confirmed in Humphrey, Kaplinsky and Saraph's detailed studies of the new vendor relationships established by Crompton Greaves Limited (see footnote 27 above); and in S. Mustafi's study of buyer-supplier relationships in the tractor industry (dissertation, Indian Institute of Management Ahmedabad: 1998)

[26] This is also Menning's argument in his work on the Surat textile industry (1997) though he does not recognise the possibility that industrial development is constrained when agents have to rely on personalised trust.

[27] Arguments like that, notably of Fukuyama (1995) on the cultural determination of economic organisation and performance, rely on an essentialist view of culture, rather than seeing cultures as being always in process and subject to influence by power relations in society. Though Fukuyama presents interesting propositions especially about the ways in which differences in family norms and values – for example, as between China and Japan - influence business organisation, his account is full of sweeping generalisations and unsubstantiated assertions, and he neglects altogether those contrary accounts which show how differences in business organisation are influenced by structures of power and authority. Compare, for example, Clegg , Higgins and Spybey on Japanese industrial organisation, who concentrate "rather more on the institutional frame and rather less on the allegedly causal role of a unique culture" (1990, 36), with Fukuyama's account. They show, for instance, that there is very little historical justification for the view that Japan has a consensual national culture, and that the kind of consensus which has sometimes been claimed as characterising industrial relations depends upon power relationships established in the post-war period.

[28] Data given in Bardhan 1998, Table VIII, show that the public sector still accounted for 60 per cent of corporate assets in 1996, and that the top 50 Indian business houses controlled 44 per cent of private sector assets. Comparative data on the concentration of assets in different economies is hard to obtain, but it seems likely that the private sector of Indian business is rather highly concentrated when the links between distinct firms within the major business 'houses' are taken into account.

[29] These data are taken from *The Economic Times* list of the Top 500 Indian Companies (by market capitalisation) for 1999.

[30] *The Economic Times*, for example, reported in August 2000 that 'Bourses signal gloom for family biz': "The harsh truth emerging from the floor of the bourses is blowing away the last bit of hope for India's family owned businesses. The New Economy is steadily taking over the mettle from the Old Economy is a reality (*sic*) …The family-owned businesses have performed poorly in the bourses, but worse they are failing to steer investors' interest. In contrast, the multinational corporations and the professionally-run Indian companies not only have succeeded in raising their market capitalisation through price accretion, but have added to their investors' base too … The average market cap [on the other hand] of the Tatas [the biggest family group] declined by 43.5 per cent [between January and August 2000]. A V Birla group witnessed a decline of over 28 per cent and the Thapars 36 per cent " (21 August 2000). Earlier the same business newspaper reported that between the end of 1997 and the end of 1998 the market capitalisation of the nine leading Indian businss houses fell by 23 per cent, while that of the biggest MNC groups increased by the same percentage (*Economic Times* 1 January 1999).

[31] It seems likely that these attempts on the part of some family businessmen to set their own house in order represents one particular continuation of the debates about corporate governance in the country that were stimulated by the Cadbury Report – the report on corporate governance in the UK by Sir Adrian Cadbury – which has been addressed in meetings and conferences by the CII from 1996. As Jairus Banaji has said "corporate governance is at the heart of the drama of liberalisation" (2001, 5)

[32] Even the biggest and most successful Indian business houses have experienced major problems because of tensions especially between siblings. It is a public secret that the TVS Group, the biggest based in Chennai, was divided between two factions, the members of which scarcely spoke to each other for twenty years, until a recent rapprochement occasioned by a shared concern about the abilities of TVS firms to be globally competitive.

[33] As one senior businessman said to me it was the time of the 'handkerchief-on-the-seat' culture as customers queued up to wait to be supplied.

[34] One of the great Chennai business houses, Amalgamations, remains largely private. In 1999-2000 the group as a whole, which includes 37 companies, only three of them listed on the stock exchange, had a turnover of Rs3000 crores (around 7000M dollars). The companies are owned through an elaborate set of cross-holdings, by a holding company in which there are only five shares, belonging to the wife (now deceased) and the four children of the founder of the group. In circumstances like these there is little pressure for transparency. See *Business World* for 28 February 2000 for an account of the Amalgamations Group. The structure of cross-holdings, and their effects, closely resembles what is described as 'the pyramids' in East Asian family business holdings (see *The Economist* 7 April 2001). The complex chains

of control that still exist in many big family business groups in India, as well, make for a lack of transparency. This is one of the aspects of corporate governance which discourages foreign investors.

[35] In these circumstances Indian companies became locked into a 'golden cage', as Suresh Krishna of Sundram Fasteners Ltd, puts it, meaning that they were powerfully discouraged from developing globally competitive businesses, whilst enjoying monopoly profits in the Indian market.

[36] See Cohen 1974, for an analysis of this nexus of factors in Indian big business in the 1960s. In many ways family and kinship organisation, and the organisation of businesses in India, resemble those of China and Korea, rather than those of Japan, as these are described by Fukuyama (1995, chapters 8,9,12 and 15). China and Korea, he says, are "low trust, family-oriented societies with weak intermediate organizations [between family and state]" whereas family ties are weaker in Japan and there is a much stronger emphasis on loyalty to those in authority rather than on family obligations.

[37] The CEO of one the great families said to me "In my thirty years in business I never knew what competition is till now"

[38] The Chennai-based English-language daily The Hindu reported on 29 August 2000 of one of the big Chennai-based family groups: "In what is seen as a logical move to align itself with the emerging competitive environment, the Chennai-based Rs1100 crore Sanmar Group has de-linked the ownership from the operational management …Mr Sankar [CMD] rationalized 'There is a tendency to centralize decision-making around me and Kumar [his YB] as long we are involved in the operations, no matter how much we resist it. The current step is, therefore, to clearly distance ourselves with operational management and put the authority and the responsibility in the hands of managing directors'". In one way or another a willingness to distinguish between family interest and business was expressed in most of my interviews with heads of the great family groups of Chennai. And the head of one failing company (though it is still [just] in the top 500) was ready to admit that the weaknesses of the company had to do with his inability, for emotional reasons, to distance family interest from business interests.

[39] See *Business India* February 21-March 5 2000 for an account of the Murugappas' organisation. The clear separation of business management and of family management is the line strongly advocated by John Ward, the Kellogg School professor who has assisted the Murugappa Group and who now facilitates the CII's Family Business Conclaves. It corresponds, too, with the emphasis that is being placed in recommendations concerning the reform of corporate governance in India, on securing the independence of company boards (see Banaji 2001).

[40] It was said by the speaker, M V Subbiah of the Murugappa Group, to be a matter of the utmost urgency to 'Build trust with all stakeholders and resolve conflicts through explicitly stated principles and ethical norms', and he recognised, he said, that this will often mean 'Sacrificing the short term gains for the family for the long term welfare of the business'.

[41] A shift indeed from what Whitley describes as 'reciprocal paternalism' to a 'formal' institutional culture (1999, 52)

[42] See Rudner 1994, on the Nattukottai Chettiars. My points here about boardroom culture are supported in the work of Jairus Banaji (2001). My argument may seem to be broadly supportive of that concerning generalised morality advanced by Platteau (1994), but I think that his approach is too one-sided and misses the inter-relationships of institutions and societal systems of values that I have drawn attention to here.