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# 'Widening the radius of trust' : ethnographic explorations of trust and Indian business


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# ‘WIDENING THE RADIUS OF TRUST’: ETHNOGRAPHIC EXPLORATIONS OF TRUST AND INDIAN BUSINESS

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*Trust has latterly become an important focus of enquiry across the social sciences, and this paper reflects critically upon the current literature on the basis of ethnographic research into the transactions of small companies in several sectors of Indian industry, and the reorganisation that is taking place in Indian family business groups in the context of economic globalisation. It is concluded that much of the argument about the increasing importance of trust in the context of globalisation is misplaced, and that it serves an ideological function. The problem of business management in India is that of bringing about change in the institutional framework and in business behaviour in a context in which these changes confront a culture of ‘selective trust’ amongst groups of people in specific social networks.*

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. Some of the work that has been done by economists, sociologists and others was drawn upon by the well known American public intellectual Francis Fukuyama in his book *Trust: the social virtues and the creation of prosperity* (1995). This, it is safe to say, has been more influential than any of the more specialist writing upon the subject, and Fukuyama’s core argument that ‘a nation’s well-being, as well as its ability to compete, is conditioned by a single, pervasive cultural characteristic: the level of trust inherent in the society’ (1995, 7) has commanded widespread popular attention[1]. Trust, he argues ‘… is the expectation that arises within a community of regular, honest and cooperative behaviour, based on commonly shared norms, on the part of other members of that community’ (1995, 26). And he finds evidence from a diverse literature, including that of anthropology, to justify the argument that the industrial economies of the United States, Germany and Japan are more dynamic and successful than those of Chinese societies and of Italy and France because of aspects of their cultures – notably having to do with family and kinship organisation - that influence the spread of such norms across society as a whole. In the first group of countries there is extensive sociability outside the family, giving rise to generalised trust across community boundaries and facilitating the coordination of economic activities, whereas the second group is characterised rather by 'familism', and the restriction of trusting behaviour within relatively small groups. Fukuyama argues, for example, that the sense of duty and of obligation to those outside the family was weak in China. His point is not that family based business organisation is always and in all circumstances necessarily inefficient – it clearly is not – but that the development of larger scale enterprises in the 'familistic' societies has involved extensive state intervention. Thus he suggests , for example that 'France shares with the typical Chinese society a weakness in intermediate associations between the family and the state that has constrained the French private sector's ability to produce large, strong and dynamic enterprises', with the result that the larger enterprises are mostly in the state-sector with attendant inefficiencies (1995, 114). The conservative ideological agenda of Fukuyama's work is apparent here.

The idea of 'widening the radius of trust' is taken from Fukuyama's argument, and the phrase was used in an address given by M V Subbiah, the head of one of India's big family business groups, on the occasion of the second Family Business Conclave of the Confederation of Indian Industry (CII), held in Bangalore in 2000. This was attended by about 200 business people from business families, including some of the most famous of them; and the fact of the holding of these conclaves by the CII is in itself one indication of the sense of 'crisis' that exists in these family businesses in India in the changed circumstances of globalisation. The idea of 'crisis' was a major topic in both the formal and the informal discussions that took place at the Bangalore meeting; it was the subject of a paper presentation given there by Gita Piramal, a well known writer on business in India; and it has featured from time to time in the Indian business press. *The Economic Times*, for example, reported on 21 August 2000 under the headline 'Bourses Signal Gloom For Family Biz' that '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 (*sic*) from the Old Economy'

Subbiah, addressing this sense of 'crisis' in his address, used the notion of the need to 'widen the radius of trust' as a kind of a code for arguing that Indian family businesses and business families have to rethink the ways in which they govern themselves (as I explain later in this essay). Subbiah was certainly not the only Indian businessman with whom I talked in 2000 who emphasised the importance of trust. The Chairman of one Chennai-based company that has been globally successful (as a supplier to General Motors) spoke passionately about it: “Trust is the key. You have to get your people behind you”. The chief executive of one multinational company explained the restructuring that he was striving to bring about in an old, once British-owned factory, in terms of a shift from ‘control-compliance organisation’ to ‘trust-based organisation’, reflecting as he did so the argument, or sometimes the rhetoric that appears in a good deal of the current management literature. The distinction is made, for example between ‘competition’ (through the market), ‘coordination’ (through bureaucracy/hierarchy) and ‘cooperation’ or ‘self-organisation’ which is based on trust, as the principal modes of economic organisation (see Bradach and Eccles 1989) – and it is claimed that ‘there is evidence that (the role of cooperation) will become even more important in future’ (Smith, Carroll and Ashford 1995, 9). The implication is that ‘collective life whether in the work place or in the wider society is and should be marked by cooperation and trust rather than conflict and struggle’ (Chandhoke 2000). Fukuyama says so much when he argues that contract and self-interest are important sources of association but that the most effective organisations are based on communities of shared ethical values (and this is certainly what is sought to be achieved in many corporate cultures).

My purpose in this essay is to subject these ideas to critical scrutiny in the light of ethnographic studies conducted in 2000 of small and large firms in two cities of India, Ahmedabad in Gujarat, and Chennai (formerly Madras) in the southern state of Tamil Nadu. I explore the different meanings of ‘trust’ and its ideological uses, showing how it may contribute to a ‘soft’ view of capitalism[2] and frequently obscures power relationships. I am critical of the conservatism that is an explicit aspect of Fukuyama’s analysis and which rests on a static, essentialist view of ‘culture’, whilst developing an analysis of the role and significance of trust that in some ways follows the distinctions that he makes.

***The different meanings of ‘trust’:***

‘ Trust’, in the English language is polysemic[3]. A basic understanding of the idea is that: to trust is to believe despite uncertainty concerning another’s action. 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 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. See also Luhmann 1988). These formal definitional statements do not quite convey the sense of the word that is implied in some other uses of it – like that of the corporate chairman who spoke of ‘trust as the key’. His idea of trust is closer, I believe, to Fukuyama’s notion of ‘the expectation of regular, honest and cooperative behaviour, based on commonly shared norms’, and this to an idea of egalitarian mutuality in relationships. I try to take into account these rather different senses in which the word is used.

Thus far anthropologists have not contributed as much as might perhaps have been expected to the developing academic literature on trust, though Keith Hart contributed effectively from his work on the FraFra in Ghana to the Gambetta volume. Some of the ethnography of Chinese society concerns the relations between structures and cultural referents that sustain and define relationships of trust, as in studies of *guanxi* – meaning, according to Kipnis (1997) ‘relationship formation’ or to Strong (1993) ‘social connections’. Kipnis shows the interplay of common cultural assumptions and practical adaptation to communist social and economic structures in the practices of *guanxi* , and that *guanxi* can be understood as personalised trust that forms the basis for transactions in circumstances where contract law and the courts are unreliable. In regard to India Mattison Mines’ historical and ethnographic studies of merchant castes in Chennai (Madras) document an historical shift away from reliance on such personalised trust. He argues that ‘The high level of trust that went with a community organised and constrained by personalized face-to-face relationships has disappeared. To a considerable extent the need to establish trust through enduring personal ties has been replaced by impersonal contractual relationships, law and governmental bureaucracy’(Mines 1994, 79). In other words Mines distinguishes between ‘personalised trust’ and trust (or perhaps more accurately, ‘confidence’) in institutional sanctions and incentives, and suggests that the former has been increasingly replaced by the latter. Mines’ student Garrett Menning, however, has developed rather different views (discussed below) in his work on ‘Trust, Entrepreneurship and Development in Surat’ (1997).

Much of the current thinking on trust does suggest 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. 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. 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. Charles Tilly has argued in an essay entitled, ironically, ‘Welcome to the Seventeenth Century’, that ‘The historically exceptional overlap of trust networks with economic organisations and governmental institutions could well be diminishing ..’ – or, in other words, that personalised trust is becoming more important again (1999, 17. See also Giddens 1991, and Misztal 1996). Latterly 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 [4]. It has been found that in these circumstances, on the basis of research for example on venture capitalists in California, that business people ‘judge the person, not just the business plan. It’s a perfectly rational attitude …in a world in which technologies and economic circumstances change rapidly, personal virtues may be the most stable things around’ (MacKenzie 2003, 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*[5].

## *Trust and Indian Business*

In the context of these general arguments India poses particular questions. First, Indian business is commonly described in terms that suggest it 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’[6] 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 Jean-Phillippe Platteau, to be necessary for the establishment of an effective and tolerably efficient market economy? Platteau draws from the literature to argue that there is in Indian society a ‘persisting lack of (such) a common code of generalised morality’(1994, 797) – such as that which Fukuyama sees as depending upon extensive sociability that crosses ‘community’ boundaries. The Indian anthropologist Satish Saberwal argues in a very similar vein 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).

In so far as Platteau’s argument is justified with regard to India – as it seems to be by Saberwal - is the absence of such a generalised morality a matter of culture, as he (like Fukuyama) suggests, or has it rather to do with weaknesses of the formal institutional framework? 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[7]?

I sought to answer these questions (in the year 2000) by means of studies in Ahmedabad in Gujarat, 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. I was able to pursue the second and third parts of my investigations most effectively in Chennai , 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.

***Networks between firms: ‘trust’ or power?***

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, based in the bazaar of the old city, where there are warren-like buildings housing retail cloth shops, wholesalers, haberdashers, tailors, cutters – all the trades associated with the industry save only for dying, which is done outside - serves mainly local and regional markets. The majority of company owners come from joint families, from particular caste communities—Jains, Vaishnavas (‘Banias’), Sindhis and some Patels - commonly 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 sometimes on caste connections, or 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. ‘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[8]. 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

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).

The engineering industry in Ahmedabad is also distinctly segmented with many small firms, often owned by members of artisan castes, such as Mistris and Panchals, who are 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, mostly Patels (the historically dominant land-owning community of central Gujarat) with some Banias and Jains, 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), however, 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 , as Whitley has argued (see quotation above).

The same is true in the 'clusters' of firms manufacturing diesel engines or their parts in Rajkot ( about 10 000 units involved), and of brass components manufacturers in Jamnagar ( about 5000 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)[9]. Caste does influence these social networks. The major firms in both towns are owned by Patels (who make about two-thirds of factory owners in Rajkot, and 40 per cent of them in Jamnagar), and owners of firms from the lower, artisanal castes, are generally excluded from their social networks. Personal distrust, arising from caste differences, may block collaboration, therefore, exactly as Knorringa describes as being the case in the footwear industry of Agra, where there is frank antagonism between the 'untouchable' Jatav producers and dealers from higher castes (Knorringa 1996).

The pharmaceutical industry of Ahmedabad is in general much more highly regulated. 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, precisely, 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, and on the other on the dependence of smaller firms upon them. 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[10]. 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. Extended credit terms are very general and create particular difficulties for smaller firms whilst often benefiting larger ones[11]; 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[12], 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[13]. 'Obligational contractual relations' are just that: they are contractual relationships which establish strong obligations on the part of both parties, and may therefore build 'trust'. They do not come about as a result of the prior existence of trust.

One important conclusion from this study, therefore, is that 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, as we saw, counterposes it to hierarchy, as a mode of organisation, and to power, and implies (as does the way in which the idea of trust is used in the everyday language of businessmen) that trust relations are essentially egalitarian, involving shared norms and various forms of reciprocity[14]. 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).

A further conclusion is that in a context of what are perceived as being weak property rights and confidence in institutionalised sanctions is correspondingly weak, where legal processes are protracted and unreliable, there is in India extensive dependence on 'specific character assessment' and particularly on experience of collaboration ('process trust'). 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 may be constrained when agents have to rely on personalised trust because they do not have confidence in institutionalised sanctions. 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); and the influence of cultural factors on economic organisation is mediated through institutions. The 'cellularity' that is characteristic of Indian society does affect economic organization, notably when caste differentiation (which in some circumstances gives rise to outright 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.

***Rebuilding Family Businesses in the Context of Globalisation***

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[15]. The bench-mark study of industrial ownership by R K Hazari (cited by Bardhan, 1998) 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 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[16]. 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. *The Economic Times*, for example, reported that between the end of 1997 and the end of 1998 the market capitalisation of the nine leading Indian family business houses fell by 23 per cent, while that of the biggest MNC groups increased by the same percentage (*Economic Times* 1 January 1999).

It has been in response to the sense of crisis that three Chennai-based family business houses have sponsored the annual ‘Family Business Conclaves’ that I described in the introduction to this essay, and the one held in Bangalore was 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 indeed, 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[17].

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[18], as well as the so-called ‘Buddenbrooks Phenomenon’ (from the title of the novel by Thomas Mann, 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 (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), they were not much subject to shareholder scrutiny[19]; 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 since they usually faced no competition in the product lines that were the object of collaboration.

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[20]. As companies attempt to meet the demands of a newly competitive business environment - the CEO of one of the great families said to me “In my thirty years in business I never knew what competition is till now” - so these organisational characteristics are having to be changed. 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[21]. 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[22]. This clear separation of business management and of family management is the line strongly advocated by the Kellogg School professor who has assisted the Murugappa Group and who now facilitates the CII's Family Business Conclaves. There should be a move, he argues, from 'being a family business' to becoming 'a business owning family', where the family is 'managed' as much as the business is, but quite separately from it. This 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).

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 organizational 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.  It was said by the speaker who introduced this idea, M V Subbiah , to be a matter of the utmost urgency to 'Build trust with all stakeholders and resolve conflicts through explicitly stated principles and ethical norms' – or, in other words, to move away from a reliance upon selective, personalised trust to a reliance rather on institutionalised sanctions and incentives. 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'. A similar shift – to greater reliance on formal institutions - is shown in the ways in which companies are being restructured.

***Company Restructuring: from 'Control-Compliance' to 'Trust-based Organisations'***

'Restructuring' in the corporate sector is intended to realise the objectives of increasing productivity, minimising costs, and of establishing a much stronger 'customer orientation', all of which are understood to be necessary for the achievement of greater competitiveness. The rhetoric surrounding restructuring, 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. This is the shift that Whitley describes in terms of a move from 'reciprocal paternalism' to a 'formal' institutional culture (1999, 52).

One of the three companies that I studied, which has achieved success as a supplier to General Motors globally, has experienced a tremendous amount of organizational change as 'Total Productive Maintenance' (TPM), an approach to industrial organization and management developed in Japan, 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' who has always seen himself as 'the father' of company 'family'. In this case, clearly, the idea of trust that is being referred to is that of a solidaristic community based on shared norms and values. Now, however, the company according to managers, is becoming 'systems-based' (the system being that established with TPM, of which it is said, by those involved in setting it up, that 'the basic premise is that you have to measure to improve') rather than 'relationships-based' . Part of the 'system' is the establishment of procedures to ensure that competence, not connections, determines staff selection and promotion. This certainly marks an important change in a company that has been characterised by paternalist welfarism that extended (as has commonly been the case in the old family groups) to a preference for the employment of the 'second generation' from within employees' families.

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 ‘employee participation’, partly accomplished through team-working, are supposed to establish ‘trust-based organisations’ (of the kind that Fukuyama extols). TPM, indeed, involves the premise of ‘trust’ in the workers’ willingness to accept responsibility for their own performance. 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  like the route cards – I found in interviews with them - because these seem to 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 in the new context created by globalisation there is a shift taking place, depending upon institutional innovation, from a reliance on personalised relationships or ‘selective 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.

***Conclusions***

The problem of trust in India, ironically, is that certain 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 (and in China, as Kipnis has argued: 1997). 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 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'.

This conclusion bears out a part of Fukuyama's argument. The account that I have given of the problems of trust in Indian business confirms that heavy reliance on 'specific' or 'selective trust' developed within personal networks, often groups of family and kin or caste, has become a constraint on industrial growth, much as Fukuyama suggests that it has in Chinese societies, or in France and Italy. His argument, however, relies on a essentialist view of culture and his analysis of trust is in terms of the moral dispositions of a community. My account rather shows up the interplay of habits of thought and practice (which is what the idea of 'culture' entails) with formal institutions (defined, conventionally, as 'rules, norms and conventions' – in this case those that regulate economic activity). This is comparable with Kipnis's argument (1997) that *guanxi*, in contemporary China, is to be understood neither as some kind of Confucian cultural essence, nor as simply a practical adaptation to communist socio-economic structures, but rather as cultural *practice* – or peoples' responses to changing situations, which are underlain by common 'habits' of thought. These arguments represent 'culture' as, in a sense, an arena of contention where different groups of actors bring different definitions and understandings to bear. In common with Moore (1994), in his exchanges with Platteau (1994), and *contra* Fukuyama, I suggest not that culture is unimportant, but that the establishment of formal institutional frameworks can bring about – and have historically brought about, quite clearly - changes in 'habits of thought and practice'. Further, I have shown that confidence in institutions can reduce, though never perhaps entirely eliminate, the need to 'trust' in others' dispositions – which leads to the conclusion that Fukuyama's emphasis on 'the moral dispositions of the community' is misplaced.

My analysis has shown very clearly that the language of 'trust' frequently conceals relationships of power like those that obtain both within and between firms. As Neera Chandhoke (2000) has put it 'in Fukyama's thesis there is absolutely no mention of a commodity called power'. We may compare, for example, Clegg , Higgins and Spybey's views on Japanese industrial organization with those of Fukuyama. They concentrate 'rather more on the institutional frame and rather less on the allegedly causal role of a unique culture' (1990, 36); and they show that there is very little historical justification for the view that Japan has a consensual national culture. The kind of consensus which has sometimes been claimed as characterising industrial relations depends upon power relationships established in the post-war period. It is clear, I think, that much of the current emphasis on the importance of trust in the organization of economic activity serves ideological purposes, whether this be to argue, implicitly or explicitly, against the need for state intervention and regulation, or to represent a 'soft' view of capitalism in which class divisions are air-brushed away.

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NOTES

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[1] This statement is clearly not the same as but has seemed to reinforce Kenneth Arrow's view 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).

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

[3] I am grateful to Dr Tony Good in Edinburgh for pushing me on this.

[4] 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.

[5] 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.

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

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

[8] The 'industrial district model' is discussed, for example, by Hubert Schmitz (1995)

[9] 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. .

[10] 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).

[11] 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.

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

[13] This point is confirmed in Humphrey, Kaplinsky and Saraph's detailed studies (1997) of the new vendor relationships established by Crompton Greaves Limited ; and in S. Mustafi's study of buyer-supplier relationships in the tractor industry (dissertation, Indian Institute of Management Ahmedabad: 1998)

[14] This meaning of 'trust' in the everyday language of businessmen was confirmed by one of the Edinburgh businessmen who took part in a seminar on 'Corporate Governance in India' held in the University of Edinburgh in May 2003.

[15] 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.

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

[17] These attempts on the part of some family businessmen to set their own house in order represent 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)

[18] 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.

[19] 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 may discourage foreign investors – though it is curious, to say the least, that it has not apparently done so in China.

[20] 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.

[21] 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. The head of one failing company (though it is still [just] in the top 500) was ready to admit, however, that the weaknesses of the company had to do with his inability, for emotional reasons, to distance family interest from business interests.

[22] See *Business India* February 21-March 5 2000 for an account of the Murugappas' organisation.