

WORKSHOP

THE ROLE OF TRUST IN LOCAL ECONOMIC RELATIONS

Case study

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Abstract: The study presents the characteristics of “trust economy” based on the findings of interviews conducted among countryside small entrepreneurs.

There are three aspects of the issue of trust discussed: The use of written records in entrepreneurial contracts, the interdependency of networks and trust, and the attitude of small entrepreneurs towards banks. Even the written contract does not provide guarantee for the case when the business partner should violate a contract in an economic situation considered as uncertain. They do not trust the administration of justice and/or regard it as low efficiency organizations. The entrepreneurs who know each other very well and belong to the same network are the members of social relations defined by Coleman as closed social structure. Inside that entrepreneurial circle where members are within social sight, giving on credit and money lending is general practice and the agreement on that is often only verbal. The attitude of this group towards banks is negative.

The exploitation of social organizations for different from their original function can turn out to be a success or can be a failure. The example for the success is the business based on the trust relationship within the church. On the other hand the effort to exploitation is a failure when in an organization there are too many members with the primary ambition of exploitation. This will not make possible the spontaneous, “organic” way of production of trust.

Keywords: small entrepreneurs, countryside local economic networks, closure of networks, trust, contractual and trust based economic relationships

The phenomenon of trust has been analysed and researched over the last few decades, increasing interest is shown by recent publications from the field of sociology (Gambetta 1988, Giddens 1990; Sztompka 1999; Misztal 1996; Fukuyama 1997; Lane and Bachmann 2000).

The importance of trust is increased by challenges participants of economic life are facing in the continuously globalizing business environment (Lane and Bachmann 2000). Besides quality demands, variability of products, constant innovation in product development, price competition, the increased costs of new technologies and the

increase in the number of exchange relations and their variety, moreover, an increased complexity of business atmosphere are characteristic of business atmosphere.

To cope with these challenges, companies have introduced organizational innovations within firms and also in their relations with other firms. Close contractual relation, strategic alliance and horizontal co-operation in industrial districts may be highlighted as examples for the latter. Networks within the organizations, semi-autonomous working groups and reciprocity are all forms of organizational decentralization of responsibility. Trust plays the role of an important coordination mechanism in all of the above mentioned forms. Moreover, in the new business environment trust is increasingly regarded as a necessary precondition of excellent performance and success in the competition. Trust is most closely linked to networks, a third coordination form besides market and hierarchy. Intensifying competition and increasing globalization of the market environment make the building and maintenance of trust more and more difficult both within and among organizations, while these factors also make investments into building trust very risky.

The frequent establishment of novel links among companies and constant reorganizations within them tend to interrupt the stabilization of common background assumptions, and therefore to weaken present relations of trust. In case of transborder relations, where common background assumptions are not sure, the issues of risk and uncertainty attain particular emphasis.

THE SOURCE AND ROLE OF TRUST, THE RELATIONSHIP BETWEEN RISK AND TRUST

Concepts related to trust as used in economic, social and organization theories build on the following common assumptions:

1. Interdependency of the agents involved in the relation of trust (*trustor* and *trustee*). Expectations of confidence gain importance only if the individual's act depends on the co-operation with, or the act of another (Luhmann 1979; Dasgupta 1988). Individuals would not need trust outside the scope of social relations.
2. Trust gives a chance to cope with uncertainty and risk that are typical of exchange relations. The concept of risk arises in economic theory because if an actor shows behavior expressing trust, he becomes exposed to his partner who, in turn, may behave in an opportunistic way. Professors in sociological theory shed light on conditions that provide room for opportunism in exchange relations. Uncertainty and risk are inherent characteristic features of social relations due to the problems of time and information. In social exchange relations the answer usually follows a certain action with a certain time lag, which causes a shortage of information, since no information is available on the reaction of the other at the time of the action. This situation requires a risky and previous commitment from one of the doers of the action (Simmel 1978; Luhmann 1979).
3. The other member in the relationship will not take advantage of the vulnerability originating from the acceptance of risk. He will not misuse his partner's vulnerability, or will not behave in an opportunistic way.

According to Gambetta (1988) when one member trusts the other, the subjective probability level this member associates with the future utility of the behavior of the other is high enough to decide in favor of co-operation. Gambetta defines trust by using this subjective probability.

At the same time, the other member is also supposed to have enough freedom not to meet the expectations of the former. If the possibilities of action are strictly limited the function of trust will decrease. Trust, in this approach, becomes the means of coping with the freedom of others (Luhmann 1979 quoted by Gabetta 1988).

In Luhmann's theory trust is a means of decreasing the complexity of the interactional system. Decreasing complexity takes place through restricting the circle of the assumptions related to the other's future behavior. In the cases of those we trust we preclude certain behaviors from the circle of possible and probable alternatives (Luhmann 1979, quoted by Lane and Bachmann 2000).

Throughout their attempt to specify the basis of trust, researchers and theorists of the field have come up with different solutions – the two main lines of thought focusing on rational calculation and/or common values and norms. Realisation of the limits of rational choice theory encouraged Elster (Elster 1989, quoted by Misztal 1996) to make some complements analyzing social norms, adding the statement that motivations behind actions originate from social norms, and these cannot be reduced to rationality. Elster admits that just like most behavior called moral behavior entail more than the mere assertion of self-interest, the norms that help stabilize society cannot be accounted for solely by success-oriented rationality. Both self-interest and the normative commitment (e.g. trust and authenticity) that determine human activity contribute to social stability and co-operation.

Both rationality and social norms take part in the determination of most behavior. Envy, self-interest, the code of honor or the ability to threaten or promise authentically is motivations that make the “cement of society” and without which chaos and anarchy would dominate. Trust, the lubricant of society that stimulates co-operation is in close connection with the concept of authenticity which – by increasing the probability of fulfilling threats and promises – simulates co-operation, though it also stimulates violence. Therefore authenticity is a more ambiguous concept than trust, this latter being more desirable on any level since it does not stir up violence, but only feeds co-operation.

Elster describes two types of trust; he refers to the first sense of the concept as trust being identical with authentic promises, while, in the other sense, he introduces a much wider meaning of the concept which regards trust as part of the code of honor. From this second perspective, trust is a kind of belief which relates to the other member's behaving decently even under unforeseeable circumstances not explicitly stated in a legal contract, agreement or promise. However, under circumstances when long-term self-interest prevails, authenticity and trust may have the same result. Though trust as the code of honour does not occur among strangers as often as authenticity, in repeated games or long lasting relationships they tend to lead to similar consequences.

In the modern world economy social and technological changes have undermined our ability to make authentic threats, in this way our societies have become “safer and more deserted”, compared to societies in the past. Our societies are safer because there

are fewer threats made and fulfilled, but at the same time they are also more deserted because there are fewer promises made and fulfilled. People have become less violent on the one hand, but less helpful or creative on the other. Social and geographical mobility of the modern society is eroding trust and authenticity by undermining links of solidarity and reducing the effect of long-term self-interest, as single, transient interactions are becoming the dominant interaction form under the circumstances of constant change. Elster recommends a trust-saving strategy. According to his reasoning, it is less risky or costly to concentrate on co-operation rather than on trust. Rather than making estimations about the appropriacy of the level of previous trust, the conditions of co-operation should be enhanced, primarily taking pressures and interest into consideration. Elster's trust-saving strategy regards trust as the by-product of a good economic system, a by-product that is too risky to rely on. Gambetta (1988) regards trust as a precondition of co-operation: if the partner is trustworthy co-operation is considered.

Akerlof (1984) raises the issue of trust in connection with the analysis of uncertainty typical of exchange relations. In real situations, available information is never complete and always costly. Individuals do forecasts regarding the whole of the economy and the behavior of individuals. These estimations are based on a limited number of easily observable features (indicators). Akerlof regards the uncertainty in connection with the quality of the products in the marketplace as an inherent feature of business life, similarly to the typically existing asymmetry between the pool of information on the seller's and on the buyer's side. Several institutions exist to reduce uncertainty in connection with quality, such as guarantee, brand names, commercial chains or licensing certain activities. However, informal, unwritten guarantees are also necessary; a lack of verbal guarantees or their uncertainty may undermine business life.

According to the theory of costs of transaction the necessity of transactions came with the appearance of the institutions of coordination. These institutions are the market and the organizations. In the case of the market, price is the information carrier; the presence of organizations is justified by the need to solve informational problems. Coase (1937) was the first to put down that it is not only production that is costly, but so are exchanges and transactions taking place during the production process. Costs have two significant components: the cost of obtaining and evaluating information about prices, and the cost of the agreement (entering into a contract) with the partner. Organizations do certain exchange acts outside the market based on long-term framework agreements. These stabilized, hierarchical organizations take over the market's coordinator function as long as the cost of agreements within the organization is smaller than the cost of market agreements. Subsequent economic literature sees the importance of trust in the reduction of the costs of transactions, if partners trust each other there is no need for the costly means of agreement and control (Lane and Bachmann 2000). Coleman (1998) considers those actors whose starting-points are resources which they partly (or completely) dispose of, and in which they have interest. Development and establishment of social relations (relations of power, relations based on trust and norms) can also be considered as resources of individuals, which resources exist only in relations between persons. Besides social capital, the

individual's resources also consist of human capital (skills, abilities, knowledge of the person) and the available financial capital.

As for Coleman, social capital stands for the value of the resource originating from the feature of society that the individual can use in the assertion of his interests.

The system of obligations and expectations constitutes a specific type of social capital, of which two decisive aspects may be observed: the level of reliability of the social environment and the scope of existing obligations. The more reliable the environment and the higher the level of unfulfilled obligations or "unpaid bills" is, the more the usable social capital is.

The second type of social capital is the information potential of social relations, one frequent method of information inquiry is taking advantage of existing social relations that have been established for other reasons. "Capital value" of relations is given by the pieces of information collected through them. Effective norms constitute the third type of social capital in Coleman's theory. The main characteristic of the social structure supporting social capital is its closeness or exclusivity; the community members in contact are able to introduce effective sanctions against norm violators. In case relation networks are not only closed but also multiplex, sanctions may be more effective, norms may be more powerful and social capital may be bigger. Norm violators risk more, endangering their family ties, religious, or other communal bonds. In social structure closeness ensures reliability, reliability is evident in a closed structure.

Appropriable social organizations constitute another type of social capital. The fact that people involved in these organizations are in connection with each other in several contexts makes it possible for them to utilize a resource originating from one relation in another. These resources may be pieces of information, or obligations.

As the source of trust, Fukuyama (1997) denotes common values and norms, based on which the community of doers works in a structured, decent and cooperative way. In this community trust is, in accordance with the meaning of the term borrowed from Coleman, social capital. Using Coleman's approach, Fukuyama showed that the lack of trust "the low level of willingness to co-operate" in a society may be an obstacle to the evolution of large, professional organizations, to economic effectiveness and to development.

Willingness to co-operate (among non-relatives) and the corresponding trust of a higher level are typical of countries such as America, Japan and Germany where the first large, modern, rationally organized and professionally managed enterprises were established. In Latin Catholic and Chinese societies the existence of large, non-family economic units for long depended on the involvement of the state or foreign investors.

Sabel (1992a) also points to the importance of common background in trust relations. In case of regional networks of companies of about the same size trust among organizations comes from the small size of network. The intensity of communication, the shared representational schemes and norms based on local bonds, and the tight operation of the network is a consequence of similar size. According to Sabel (1994) trust is either formed spontaneously, or never. Major beneficial effects of trust between organizations are the reduction of transaction costs, an increase in investment, fast innovation and learning.

Different types of trust and the conditions of their appearance have been analyzed by Zucker (1986). He has defined three types of trust production:

- Process based: in this case trust is linked to the past or the expected exchange just as in case of reputation or gift exchange.
- Feature based: in this case trust is linked to an individual and depends on features like common religious, ethnic, or family background. It is based on social similarity; partners are members of the same social group or community.
- Institution based: in this case trust is linked to a formal social structure. In this case the presence or absence of trust depends on individual or company specific features. For instance, having a certificate in bookkeeping is an influencing factor related to the individual, while the usage of a deposit account is a factor related to the company.

Institutions assisting the production of trust tend to appear after the weakening of previous, process-based and feature-based forms. New formal structures in the evolution of trust are qualified for the production of trust within companies and among them, replacing and completing the operation of weakened or disintegrated forms of trust.

Zucker illustrates the disintegration of process-based trust with the example of the United States in the period of the mid 1800s to the early 1900s. Conditions of process-based trust were weakened and abolished by vast immigration into the country, increased migration inside the country and instability of business enterprises. As a consequence, the former type of trust production was completed or replaced by institution-based trust, which started to develop during this period. The growth of the distance and scope of economic exchanges constitutes a precondition of the appearance of institution-based trust and trust-producing institutions. These are exchange across group borders (social distance), exchange over geographical distances (spatial distance), exchange that is inseparably linked to other exchanges, so the dissolution of one element has an effect on transactions connected to other elements in the line (time distance).

Zucker does not mention the question of trust in connection with trust-producing institutions. If these institutions do not function properly, they may start processes opposing evolutionary tendencies.

Giddens (1990) attributes the establishment of the features of modern society to mechanisms directed to the separation of space and time and to individuals' "outbedding" – separation from local interactive and social relations. One such mechanism analyzed by Giddens is money, another is the system of experts. Importance of trust is increased in both cases. Trust here is not an interpersonal, but rather an abstract phenomenon, related to things and people far away in space and time, not known by the individual. This line of thinking of Giddens relates to Zucker's idea of trust. Growth of distances in any features (social, geographical, time) – comes with the appearance of transmitting mechanisms. Zucker summarized in detail the particular types of institutes established to fill the emergent gap in the production of trust and the social phenomena influencing their evolution.

In an early phase of the industrial development of the United States, the following trust-producing structures played an important role: the spread of rational bureaucratic organizations, the appearance of professional qualifications, the development of the service sector including financial agents and the government, and finally, the growing role of regulation and legislation in general. All these institutions "ensured" the participants that their expectations were to be fulfilled in the transactions. The author

does not mention the fact that the reliability of these institutions may change over time, by region, and is also influenced by traditions or social arrangements. In these cases the question is what actual – legal or not legal – force stands behind the guaranteeing institution, able to sanction effectively those who take unfair advantage of trust (Dasgupta 1988: 49–73).

Trust has been defined by the author as a series of expectations which are shared by those taking part in the same exchange. Trust can be measured with difficulty in a direct way, therefore individuals and companies estimate the existence or lack of trust by indirect methods. What is used as an indicator depends on the way of producing trust; process-based trust is related to exchanges that have already taken place and can be measured through the reputation gained during these exchanges. Trust based on the characteristic features of the exchange partner is based on the family background and ethnic affiliation of the partner. Institution-based guarantees can be measured by the professional qualifications (trust related to the individual) or by the amount on the deposit account (trust related to the company).

With the disintegration of primary trust resources (due to “outbedding”, actors could no longer lean on reputation or on personal characteristics, neither in the course of evoking trust nor in the course of putting trust in others – though the author does not distinguish between these two processes), the lack of trust has created a market where the above institutions have appeared to satisfy the need for trust. Simultaneously with the beginning of trust production, these institutions largely determined the structure of the economy.

Zucker attributes the disintegration of process and feature-based trust to cultural heterogeneity that arose as a result of vast immigration and domestic mobility. Heterogeneous cultural background made primary background assumptions forming trust, the continuation of values and everyday habits impossible, what is more, in some cases even the basic symbols and language were not common. Moreover, frailty and high failure rate of new enterprises further weakened trust. The previous natural, common world ceased to exist and the interpersonal base of trust was undermined.

Zucker reflects to Durkheim’s ideas related to collective consciousness and mechanical solidarity when, based on Garfinkel (1963), he describes common background assumptions shared by the participants of transaction. In case these exist, special institutions of trust production are not required.

In case “natural”-interpersonal (process or feature based) trust is lacking, no institutions replacing trust production exist, or these institutions themselves are unreliable, transactions may not come about, exchange relations may not occur because participants do not take the risk of the relationship. Potential participants of failed transactions usually reduce their cognitive dissonance (that they experience due to the lack of possible profit originated from the relation) by rationalization. The future consequence of this sort of self-justification is the further reduction of trust. The individual is not only a rationalizing, but also a rational creature in some cases. If he calculates and considers the possible costs and profits systematically counting on their probability, then he may behave in a way predictable from the models of game theory, placing confidence in particular relations. If considering real people rather than models, we find that the “whether to place confidence in someone or not”- type dilemmas are often decided by breaking the rules of rational thinking.

Trust typology of Mari Sako (2000) yields an easily operationalizable approach for the description of the behavior in situations of trust. According to Sako's definition, trust is the expectation of one business partner towards the other that he will behave in a predictable and reciprocally acceptable way.

It distinguishes between two types of market coordination relations, the cold (arm's-length) contractual relation and the relation based on commitment. In case of the first type, manufacturers and their customers make and sign a written contract before doing anything, while in case of the second relation "based on mutual confidence relations" manufacturing or servicing is started before entering into a written contract.

The two ideal types of relations are primarily defined by the type of trust supposed to exist, or the rate of the different types of trust existing in a relation. The model takes three types of trust into consideration:

Contractual trust is based on the mutual norm of honesty and keeping promises. One of the parties expects that the other keeps his promises.

Competence trust is the expectation of the business partner that the other party has the necessary technical and managing competence to fulfill the accepted task.

The above two types of trust are equally necessary for the smooth operation of any business relation.

The third type of trust is *goodwill trust* – open commitments: the mutual expectation of non-specific obligations from both parties. Goodwill trust develops if the parties agree on the principles of "fair" attitude.

Cold contractual and commitment-based relations may be distinguished on the basis of goodwill trust. Both contractual and goodwill trust implicate the lack of opportunistic behavior. The two types of trust are distinguished from each other by what opportunism means in certain cases. For instance the retention of technological information is opportunism in case of goodwill trust, but it is not regarded as such in case of contractual trust if the parties have not agreed otherwise preliminarily.

Table 1. Summary of the above theory

	Cold contractual relation	Commitment-based relation
Contractual trust	Yes	Yes
Competence trust	Yes	Yes
Goodwill trust	No	Yes
Before entering in contract	Does not work	Works
Period	Shorter	Longer
Function of written contract in the relation	Bigger	Smaller
Sharing of information, know-how and risk between partners	Does not exist	Exists
Transactional dependence	Smaller	Bigger

SYMPTOMS OF THE ABSENCE OF TRUST IN THE ECONOMY

Features of the economic environment having a significant effect on the behavior of the entrepreneurs examined will be introduced in the following section.

The increasing number of deviant phenomena in the economy is partly indicators, partly further sources of decreasing trust. One phenomenon – having a lot of reverberating effects – is the absence of payment guarantee and corruption. All the enterprises have to face these problems nowadays.

Transparency International index indicates the transparency of the economies of different countries and the publicity of business life. Out of three groups of countries, the annual report placed Hungary in the third most gravely affected by corruption in the mid-nineties. According to the report the situation has become somewhat better since then, but in case of corruption this improvement has little practical significance because the interest of all participants involved is to prevent the revelation of the corrupt activity. No wonder if in criminal statistics the number of these activities has always been small and is showing a decreasing tendency (Gombár et al. 1998).

This phenomenon constitutes a real problem for the entrepreneurs, namely that they have to manage in this economic environment and they have to learn, if they have not learnt previously – taking the target rational economic activity – how to deal with this means. In spite of the fact that corruption is very difficult to be researched methodologically and answers are mostly available only to questions exploring opinions (Vásárhelyi 1998), if we examine the same field and build good relations, we can at least infer local corruptions. By examining corruption in the environment of small and middle size enterprises, we can expect the revelation of small and middle-scale cases of corruption. Neither favorable credits nor privatization played a role in the increase of the number of small and middle-size enterprises – equally at the time of the foundation of the enterprise and later, individuals could count only on themselves (Kuczi and Lengyel 1996). “Intertwinings” may be found in the cases of small enterprises as well; they pursue activity searching for political relations, they are aware of the law of the minimum ten per cent: the one who takes them to a customer gets this rate of the commission price. They are aware of a rich repertoire of ways of avoiding cash transactions (of bribery): they undertake painting, building, delivery jobs, pay the representative of the customer, the officials, or employ their relatives. The year of the parliamentary elections means an economic catastrophe for a particular circle of entrepreneurs of small enterprises. Their “people”, contacts to investments of the state or local governments change at this time, the new officials have their own “ten per cent people”, it is very difficult to refer only to quality or the meeting of deadlines and thus keep the institution as customer if the official in charge of investments has been changed.

The four rules of financial discipline – i.e. the customer should pay for the product; the debtor should pay his debt, the taxpayer should pay tax and the company should cover its costs from its incomes – do not come entirely across. Legislation generally records these rules but they are not put into effect. Unpaid creditors must wait long years for the decision of the court and even if they get their money back sometime in the distant future, it will be worth just a portion of the original amount (Kornai 1993).

The following symptoms related to the absence of trust were identified in a study in 1995 (Kuczi and Lengyel 1996):

1. Hungarian entrepreneurs trust banks to a smaller extent than the average Hungarian – only 13% of entrepreneurs took out a loan during the period of two years preceding the survey.
2. 60% of collective enterprises and 38% of individual entrepreneurs did not meet their liability to pay.
3. More than half of the entrepreneurs think it is problematic to employ workers they do not know personally; nearly half of them deem growth and business expansion risky.

Small enterprises typically do not take out a loan from the bank. This is because they are not given a loan, they do not want it because they do not need it, they think the future of their enterprises is unsure and their manners do not let them either. As a result, even if they have a debt, small enterprises tend to owe money to each other and/or to private individuals. One part of the credits is forced credit, when the primary contractor can not pay the subcontractor because he has not been paid by the investor, who, in turn, explains that he also has outstanding debts. It is always the small enterprises that are at the end of this long chain of forced credits, they can only count on their relatives, friends or each other. Another part of the credits coming from closed networks are actually taking and sharing common risks: such as, for example, when one entrepreneur agrees preliminary with the other that he will be paid later, only after the other one has been paid by his client. Thus, the rule related to paying back a debt does not prevail, but the rule that the company should cover its costs from its incomes does – at least in medium and long run – since there is no other source.

The first of the rules listed above, i.e. that the customer should pay for the product, operates in those small enterprises that sell services and products to private individuals. The smaller the geographical area belonging to the operation of the enterprise, the more closed the social structure is in the particular area, the higher the probability that the customer will pay for the product and smaller the chance that the taxpayer will pay tax. Enterprises serving the public do not pay tax after a considerable part (about the third, or the half) of their income. In many cases this is their declared and rational reason behind not extending their enterprises: if they step out of the circle of private customers they may have a larger income, but they have to give an invoice and thus lose what they would have gained by avoiding taxpaying. Moreover, they take the risk of not being paid.

It might seem naïve now, but there used to be an expectation in connection with the appearance of multinational companies that they will behave in an exemplary way regarding the above rules of conduct, and will largely promote the establishment of a new culture and the creation of clearer conditions. These hopes were soon dashed, however, since a lot of enterprises have had unpleasant experiences with multinational clients. One such experience is that the foreign or Hungarian representative of the large company can be corrupt just like the official of the local authority of housing, or the clerk at a Hungarian bank. Moreover, contracts tend to always favor the large companies unilaterally, e.g. fees are paid in installments and with a long time lag, and it is also general that the last installment is never paid on a protest against the quality of work delivered. Hungarian entrepreneurs are aware of this experience and calculate prices preliminary assuming that they will never receive the last installment. If they

have “their person” working at the client, their situation is a bit easier because the silent contract implies that, in exchange for ten per cent bribe, the representative of the customer will not assert certain quality demands. Entrepreneurs not only make efforts to employ people they know personally (or, if not him, at least his family), but they also attempt to know their customers, clients, or in case of a lack of personal acquaintance the customer should be “recommended” by someone. Recommendation partly guarantees that the work will be paid. This kind of phenomenon is not unknown to Hungarian entrepreneurs in construction industry; it was common knowledge already in the eighties that in case of private capital construction entrepreneurs, contractors were recommended only through the network of acquaintances (Kunszabó 1983).

In the summer of 2003, in the course of a field research initiated over ten years before to focus on entrepreneurs, I interviewed twenty-seven entrepreneurs. During these conversations I tried to reveal the connection between trust and entrepreneurial behavior and economic importance of trust relations, among other issues. The respondents are owners of small and micro enterprises from the same settlement; the features of their “trust management” are illustrated by the quoted interview extracts. Three aspects of the activity of entrepreneurs and their social environment will be discussed: the role of written records in entrepreneurial contracts, the relationship between networks and trust, and thirdly, the attitude of entrepreneurs towards banks.

LOCATION

The research was conducted in a settlement that was declared a town not long ago, in the region of South-Pest County, fifty kilometers from Budapest. The population has been increasing continuously in the last ten years, now it exceeds eleven thousand.

An important feature of the settlement is that after 1945 it was left out – probably because of its closeness to Budapest – of rural locations of industrial investments. The absence of local employment opportunities, the settlement’s proximity to the capital and its labor market, and a main railway line crossing the middle of the village made commuting the usual way of life.

According to the data of the Employment Office of Pest County the rate of unemployment decreased continuously from 6 per cent in 1998 to 1.8 per cent in December 2002.

The biggest employer of the settlement is a cold storage, established in 1981 by the neighboring agricultural co-operatives and farms in order to store the fruit harvested. Since 1997 the company had been owned by several multinational companies until a couple of years ago a former manager of the cold storage bought it and is operating it currently as a family venture. The number of employees is more than two hundred; the number of those officially registered as entrepreneurs but working only for the plant can only be estimated. Another company with the second biggest number of employees was established as a result of the privatization of a former agricultural co-operative. It is now Europe’s biggest stone fruit farm. Another company belongs to this category (between fifty and one hundred employees); they deal with assembling surgical instruments for a German factory. There are seven ventures in the settlement –

with one exception they all operate legally as Ltd.'s – where the number of employees is between ten and fifty. The number of people employed in construction is probably altogether between one hundred and fifty and two hundred, but this datum cannot be regarded reliable for several reasons. Firstly, the rate of fluctuation of the employees is very high, secondly, many of them are registered entrepreneurs and, third, many others work illegally but can produce an invoice through their contacts.

The intensity of enterprises, i.e. the number of enterprises per thousand inhabitants was 66 in 2001, the same year the highest value was 122, measured in Budapest, and the lowest was 53 in Nógrád County.

The number of enterprises, and especially that of private enterprises, has decreased to a small extent after 2000. The number of deposit companies has shown a definite increase, while that of Ltd.'s stagnated.

Table 2. Number of enterprises operating in the settlement according to enterprise types, 1996–2001

	1996	1997	1998	1999	2000	2001
Active enterprises	683	683	692	705	719	723
– Ltd.	67	77	80	72	72	78
– co-operative	–	1	1	1	1	1
– limited partnership	67	69	77	86	100	107
– self-employed entrepreneur	539	526	523	536	568	530

The number of retail shops has increased eightfold between 1990 and 1994 (from thirty to two hundred and fifty!), since then this number is between one hundred and fifty and one hundred and eighty. Small shops fighting to survive can be also found here. A new Tesco store will be opened in the near future in the vicinity, which will presumably advance the process that began after stores of Metro and Penny Market had opened. For many “big fish eat small fish” is not a metaphor known from history, but it is the exact description of what is happening to them.

The inhabitants of the settlement are mainly descendants of Lutheran Slovaks from an area of Slovakia that had traditionally belonged to Hungary, and were settled in the town in the beginning of the 18th century. Inhabitants were either born or married here. They mostly know each other in person, but even if they do not, they take it for granted that their parents know each other. If necessary, they can contact each other with the help of one or two people. Commuting, especially at the time they travelled by train and not by car made it easier to create and strengthen personal contacts. All the relatives, parents, brothers and sisters and cousins live here. The newspaper issued by the local municipality always publishes the marriages, obituaries, and names and parents of children born in the given month. Other important information such as divorces, businesses unreliability and any other moral slips are spread by continuous gossip.

Weddings are still big, expensive and crowded. Church ceremonies, for instance confirmation of children have attracted more and more people since the change of regime and they make common past possible to reveal and discover.

The cable television always broadcasts the meetings of members of the municipality. The members are known personally by inhabitants. Local politics does not follow marks of events happening in the country's parliament and does not reflect the big parliamentary parties. Naturally, there are local interests, likes and dislikes, but these appear in a particular way defined by local power relations.

Group cohesion and the solidarity of members were typical of the local community of craftsmen and entrepreneurs until the end of the eighties. Today there is a wide distinction between incomes and lifestyles of different entrepreneurs, "craftsmen" is not a homogeneous layer at all, they have diverse interests; their performance is strictly individual (or, family at the most).

METHOD

The dominant method of the study is structured in-depth interview. In case of each respondent, however, I tried to make use of information originating from other sources as well. In some cases alternative sources meant that as an observer (partly as a participant observer) I joined events – wedding parties, the foundation of a local association, ceremonies and programmes of the local Craftsmen's Association – where I could become acquainted with the scenes and participants, the legendary of the settlement and other important stories. I could map out how individuals and groups relate to one another. I used the questionnaires of 1990 even if I was now interviewing the children, husband or wife of the original respondent. I became acquainted with the documents ordered or compiled by the local government – several documents of this kind have been prepared in recent years, e.g. application for grants in the Sapard Programme, application for the town status, or volumes introducing local history all proved to be useful sources, together with the local newspaper. I have had informal conversations with several people over the past few years – I could not disregard the information originating from this source, even if I wanted to. Due to all the above, in this case taking the applied method into consideration it is reasonable to use the phrase *restructured* interview introduced by Pahl (1995: 196–201).

In his above mentioned work, Pahl makes further methodological notes. The first one refers to the introduction of the so-called MARSBARS (=Methods Are Resembling Saloon Bar Sociology). MARSBARS stems from the phenomenon that the financial means are often lacking for large-scale empirical researches which do not bring a clear profit for those who ensure sources; therefore more and more researchers tend to work from home without the help of staff or colleagues. His second note relates to the sample selection employed in his research. He calls this selection mechanism purposeful selection, and makes a distinction between this and an arbitrary or capricious selection of the sample. He sympathizes with ethnographers who spend a lot of time with "incredibly boring and confused" people answering questions. He suggests finding productive and cost-effective respondents. This method has turned out to be effective for him (Pahl 1995: 198).

SAMPLE

The sample was recruited by snowball method. I asked each interviewee to recommend other people to be interviewed and to recommend me to other entrepreneurs. As it was the fourth occasion since 1990 for me to survey the entrepreneurs of this settlement, I used my already existing contacts as a starting point.

I made an effort to have all types of enterprise and activity (except agricultural activity) represented in the sample. I aimed at finding interviewees representing each enterprising category based on growth orientation – growing, stagnating, and shrinking/closed ones – to be interviewed.

Table 3. The composition of the sample according to the number of employees and the type of activity

Number of employees in enterprises	Category of enterprise and type of activity, and if known the annual turnover in HUF million, in brackets (enterprises having grown in the last few years are printed in italic)			
	Public Utility Company	Ltd.	Limited partnership	Self-employed
100 and more	– <i>Old and handicapped welfare centre (400)</i>	– <i>Precision instrument fitting</i>		
between 10 and 20		Construction a) 100 b) 36 <i>Forestry – wood-processing (250)</i>	– <i>Construction (70-80)</i> – <i>Property protection (10)</i>	
Ltd. between 1 and 10	– Carpenter** – <i>Photographer (16)</i>			
Self-employed between 1 and 10	– <i>Bookkeeping (20-70) *</i> Construction: a) surface construction (8) b) general c) building carpenter(16) – Smith (6), – Retail: a) clothing (36) b) ironmonger's (50) c) <i>paint (100)</i> – Transportation (27), – Cable television operation (32), – <i>Catering (15)</i> , – <i>Car mechanic (15)</i>			
Limited partnership without employees	<i>Construction (2-3) ***</i>			
Self-employed without employees	Glazier – carpenter (5) – <i>Forestry</i> , – Food processing quality insurance (4), – Insurance advisor (0)			

* The accountant's family has interest in further enterprises: the husband is an entrepreneur and plumber but he also deals with real estate trading and retail, the two children own a limited partnership and issue an advertising paper. The yearly profit shows summed extreme values of all the listed enterprises in the recent years.

** The entrepreneur has a carpenter's workshop. In addition, he rents estates and speculates on the stock exchange. He could not estimate the profit from these activities.

*** The increase has been done in a way that they do the profitable work as private individuals (reconstruction of old houses) and use the enterprise only for the payment of overhead.

In case of enterprises in construction, the number of people actually employed does not in general correspond to the data in the chart – the actual number shows high seasonal fluctuation, and fluctuation relative to orders. This is the type of activity characterized by the highest number of subcontractors (rather than employees) and, in some cases, illegal workers.

The official number is increased by registered employees who are husbands or wives but do not actually work in the enterprise. One entrepreneur defines this form as “pseudo-employees”. The venture that officially employs four people (two of which are wives) and one subcontractor, has never had incomes without an invoice – it is difficult for these ventures to pay illegally due to their bookkeeping. Enterprises often do not register those employees who work exclusively for the enterprise and fill a specific post. On the other hand, due to other reasons – such as the optimization of the family’s lifestyle – people who actually do not work in the enterprise at all are still registered as pseudo-employees.

One of the owners of a local monopoly said the following story about the number of employees from the beginning until now:

“... and I hired her as a cleaning lady with a minimum pay. This way she has a contractual relationship but of course she does not in reality get money. She has social insurance, so she has everything, that way she lives her life. She is a pseudo-employee. This concept exists, if there is pseudo-entrepreneur there must be pseudo-employee as well.
... And I.’s wife is in the same situation, they have two children and they have reached that point step by step that she did not get a job with her qualification and then she became, you know, a collector. And there is one more, my subcontractor...” (He’s 41, has been self-employed since 1995, the owner of the local cable TV, the annual turnover of the enterprise is 32 million forints.)

Two of the four employees became officially registered “by right of” the wife.

Growing tendencies were observable to a varying degree in seventeen cases regarding the number of employees, area of office, workshop or factory, and/or turnover and profit in the last few years. Stagnation or shrinkage is rarely connected to market problems, and more often to the age of the entrepreneur, the uncertainty of succession in the enterprise due to the absence of interest of the owner’s children in the activity, and the emergence of other, alternative sources of income.

Five of the people interviewed are women, the rest are men. Three women have a university or college degree, and two are matriculates. Six of the men interviewees have a university or college degree, six are matriculates and eleven received their education in vocational schools or as apprentices. The average age of the sample is 46, the youngest respondent being 33, the oldest 70 years old.

Table 4. The distribution of the sample according to age

Age	33–40	41–45	46–50	51–55	56–61	61–
Number of cases	10	2	5	5	5	1

The general tendency that the younger somebody is, the more probable he starts his business early applies here as well. People under forty started their business at the age

of 25 on average, while people above forty became self-employed at the age of 35 on average. The twenty-eight self-employed people of the sample altogether represent 408 years in business, they have been in business for fourteen and a half years on average (the end values: seven and thirty-two years).

Those self-employed people who work together with their husbands or wives answered the questions of the interview together. Those respondents whose close relatives have their own business generally incorporated their experiences as well in the interview. This way, I managed to collect information on the major events in the management and life of eleven more businesses, which are mostly run by the child, husband or wife of the respondent and so he can absolutely see their affairs and even take part in those enterprises, either permanently or temporarily.

PRACTICE OF CONTRACTING, CREDITING WITHOUT WRITTEN AGREEMENT

While interviewing I tried to get information about how typical written agreements are in case of micro- and small businesses. According to law, verbal agreements are as effective as written ones – though it is clearly more difficult to prove later that they have taken place.

What are written contracts based on? What makes a self-employed sign a written contract, and who does he sign contracts with, or, in other words, what feature helps the entrepreneurial practice distinguish between those obliged to make a written contract and those welcome to make a verbal contract only?

The following assumptions were made:

- They sign written contracts because their relationship is not “embedded in a relation of trust”, they do not trust each other (enough) and they want to make sure that a breach of contract will result in a sanction.
- They sign written contracts, because they have to, that is the law. It is possible that the client’s company specifies that a contract is to be signed, and there are other obligations – for example the tax law states that in case of bills amounting to more than two hundred thousand forints a written contract has to be made and presented to the board if required. The law demands a written contract if each individual invoice belonging to the same client is small, but the invoices in sum exceed two hundred thousand forints in the given year.
- They sign the agreement because it is customary, entrepreneurs were previously socialized this way, and now it goes without saying. Or, if they were not socialized to do so, they think a written agreement represents a standard and it is harmful for their reputation if they do not sign one.
- The need originates from the personality of the entrepreneur, his general attitude, habitual behavior: he feels it is necessary to have a guarantee in business transactions.
- The intention to sign a written contract is probably selective; it is realized only in case of orders exceeding a certain amount, and only with certain clients – new, unknown clients or unreliable old ones, who are important for the business.

As to why written contracts are lacking in most cases, I supposed the following:

- The flow of the business does not make it reasonable (in public services, a lot of small items, for instance in case of a knife sharpener or a shoe repairer making a contract is unreasonable – especially not when the parties disregard official invoicing).
- The written contract poses a serious intellectual challenge for the entrepreneur and /or it is alien from his personality.
- Verbality is the traditional mode of action. It is not common to “write a paper”, they have never made a contract and they do not even know how to do that, they say a contract is “gentlemen’s villainy”, etc.
- Entrepreneurs in an unfavorable situation may disregard contracts because they cannot risk discouraging their future client or partner by expressing distrust through insisting on a preliminary written agreement. Furthermore, making a written agreement is read as a sign of complete mistrust in closer relations (e.g. relative, neighbor).

Emotional reactions to this are the milder versions of those experienced by persons whose spouse initiates that the division of their common property be put down by a lawyer, in the meantime emphasizing his emotional commitment to the partner and the firmness of his trust in the relationship. The feeling of trust is most convincing for the subjective perception until it is taken for granted, does not need to be talked about in an explicit way. In relationships based on trust all explicit attempts and open quests for justifying the basis of trust such as “Do you think your mother loves you? Justify it, at least from two sources!” (Griffin 2001: 35) undermine the basis of trust. PR, the industry of image-building, everything that is not clearly spontaneous results in suspicion instead of trust.

- It is also possible that, although the parties do not consider a written agreement unnecessary, they still decide against putting the conditions of agreement down because of a general disbelief in the institutions of law enforcement and jurisdiction; they consider it hopeless to get any compensation in case the contract is breached.
- I assumed that the preparation of a written contract requires the assistance of a legal expert, which, besides the financial costs, takes considerable time. Comparison of the costs of signing a contract and the profit originating from the present contract would suggest that verbal agreement is satisfactory in the following general cases:
 - If parties trust each other, but they do not trust jurisdiction – this may give enough reason for not signing a written contract. This behavior is rational until the mutual trust is bigger than trust in the jurisdiction. In case they place more confidence in jurisdiction than in their partner, making a written contract is the rational action.
 - The parties place no trust either in jurisdiction or their business partner, (in other words, the parties trust jurisdiction to the same extent as their business partner).
 - One or both parties think that he himself is able and willing to “do” justice. In closed relations a third party may be involved to sanction a certain attitude, or, the unfair partner may be threatened by sending over one’s “security guards”.

The above cases may serve as the background to what, on the level of behavior, seems to be a relation based on absolute commitment in Sako's typology. When evaluating the actors' behavior in the above examples we used a measure stricter than that of Sako, because the parties not only start manufacturing, servicing before signing a contract but there is no written agreement at all. According to the above, assumed cases, it seems that not only the absolute degree of trust matters, but also its distribution between trust evolved from interpersonal, personal experience and experience in abstract institutions.

We do know from the social psychology of persuasion that the attitudes and decisions of an individual are much more influenced by personal experience than by any systematic research result or statistics. I presupposed that one's personal previous experience with the institution of jurisdiction can be related to the attitude they show towards written contracts. If the entrepreneur had/has a recallable and influential personal experience, and/or prejudicial attitude to jurisdiction, this may give an alternative explanation for not favoring a written contract.

According to the experience of the interviews, the occurrence and form of contracts are influenced primarily by the type of activity and the perceived risk of a business per transaction, closely related to its financial value. Constructors make a written contract if they do not work for private individuals because the value of these works exceeds two hundred thousand forints. They also contract if they work for certain clients such as the municipality, the state institutions, or other enterprises that require documentation.

If the client is an old one, or if the entrepreneur is personally acquainted with its representative, they may start working before signing the contract. Half of the clients had problems with payment in construction. Clients in construction do not abstain from paying in the end, but they tend to do it with a considerable time lag.

In this industry it is general to have written contracts signed both with subcontractors and clients. When talked about previously, a lot of details of the construction work can be interpreted in several different ways, which always causes problems and triggers conflicts at the time of the final accounting. The fast spread of PC usage was due to the fact that several programmes are available for preparing construction contracts. However, contracts do not replace information gained from personal interactions or through informal networks. Conduct of fairness and honesty, and such reputation is always a good investment.

Thanks to his good reputation, one of the people interviewed, the owner of a construction Ltd. can pay his subcontractors with a time lag in half of the cases – because he is also paid later by the clients. Only those can become “forced creditors” who have proved their straightness several times already, are known to pay all bills at the end of the day by subcontractors, and the lag is no fault of their own. According to my interviewee, about half of the clients prove to be problematic when it comes to paying the bill – these pay later and/or argue about the amount of the invoice at the time of payment. Considering this vicious circle of delay of payments is characteristic for a third of the works, this may be regarded as normative – but delays can be reduced by the strict usage of written contracts. After several problematic cases the respondent thinks written documentation is very important:

“The last two years made me put it down on a piece of checked paper and insist on a signature and that he really orders the job which costs this and that. Now everything has to be put down. Everything.

– Do you usually check your clients, whether they are reliable or not? So, is there anyone you would avoid no matter how?

– Yes, there are some, few but in the field where I work, since one client tells the other and those I have worked with I know and he wouldn't recommend me to another client if he wasn't like that. I usually nose about strangers, about their reputation. Those complete strangers to me are rather the main contractor and the entrepreneur for whom I work as a subcontractor. Checking the end-clients, the public is very difficult but in ninety per cent of the cases someone always recommends me and through that person I get a feel.

– Does the recommender ensure you that the client will pay you correctly?

– I had one not long ago...He is very conscious of his reputation as a man of his wordYes, any time with this client even if I have to unscrew a light bulb, I will do so. Because a client like him deserves this.

– By the way, how safe do you think is the business environment you work in?

– Well, not so bad, as it is said, manageable.

– So, you can't become a beggar?

– No, no. You do it properly and then survive.”

(37 year old economist, male, owner of a construction Ltd. with an annual turnover of HUF100 million)

It was characteristic for this entrepreneurial circle to emphasize having a permanent clientele. Clients return, or recommend particular entrepreneurs to each other. If the relationship is generally satisfactory for both parties, they do not wish to change and in order to preserve permanency they accept an attitude from the old client that would not be tolerated in case of a new one. Changing is risky and costly; what is more, there is often no chance to do it. The readiness to break up existing ties is often not influenced by the quality of available alternatives either.

In the terminology of Sako, it seems that convinced by experiences over a long period of time and a series of transactions, entrepreneurs reckon the other party is worthy of “goodwill” trust because he knows what “fair” attitude is, he is able to and willing to behave in the expected way. Smaller, temporary distractions in the permanent relationship regarding competence or contractual discipline – like one did not keep a deadline, or did not manage to produce the required quality – are not enough to provoke the end of the relationship. With the help of business relations of a long history, some entrepreneurs are able to overcome temporary financial problems, as another respondent notes:

“– Has the circle of clients changed?

– Basically not. There are always one or two new clients and we have one or two rounds with these, I could say that we only have one or two more clients compared to 1995-96, since basically I am a loyal type both to suppliers and clients until someone becomes unworthy. We live in hard times now and it happened that one of my clients did not pay for three or four months and we still delivered to them on time because they had paid sharp on time during the previous four or five years and I felt sympathy for them. We have had a good relationship since then. So, I think in a way that it is worth working with those who have already proved themselves. But we don't count on those who deal with enterprises always on the top that take advantage of their situation at the given moment; I don't let the business count on these because they upset our operation. Let our profit be the fifth of the amount than would be with these kinds, these fortune hunters...”

(49 year-old forestry engineer, owner of a Ltd. with an annual turnover of HUF 250 million)

Safety efforts are also observable when choosing a business partner. They initiate business relations with those already known, do intend not to take the risk of doing business with a complete stranger. Over time, strangers become trustful acquaintances. This makes particular transactions possible which would not happen if, using Zucker's terminology, social distance was big between parties and the institution of the deposit account had to be used to substitute process-based trust. For entrepreneurs that, based on their past behaviour, are trusted by their business partners even in a financial sense, this means that when struggling with temporary liquidity problems they have a credit.

The entrepreneur who selects his clients according to process-based trust has more profit than he would if he used the criteria of institution-based trust only. It seems that in small size enterprises being trustworthy makes delayed payments possible and functionally replaces deposit and promissory note. The importance of personal experiences exceeds that of a written contract, as pointed out by an entrepreneur in the following extract:

- “... I have been paid in the last thirteen years that's why I still have those partners, that is the basis of selection, and that's why they are the ones who buy from us.
 – And what is it due to?
 – To the philosophy that I don't do business with anybody. I give products only to those clients allowing delayed payment, our biggest customer pays six months later, so I allow it to anybody, I'm even ready to allow eighty days delay, I just want to be sure that I'll be paid. So I'm not willing to give discount to those coming from the street. They should pay in cash. Now, he's paying after sixty days, compared to two weeks, I know, I am financing him production costs, the VAT, there's no problem with that, but he is paying correctly.
 – Is it usual that before signing the written contract, by the way, do you sign a written contract with everyone?
 – Only with the big one, because the big one needs it because of the ISO. I think that I shake hands with the others or pat each other on the back and this is worth thousand times more in my value system than a paper because the paper is patient, you can write anything on it and if you have to take out pieces of paper and go to the court, then it is worth nothing.
 – How safe is business environment? It is for you because you made it to be.
 – That's right. We aren't bad, our sector isn't worse than the country so we have the same problems. In case of others, because I meet others at professional forums, the way we work is not typical, they are much more miserable, unpaid bills, delays of the deadline, collectors, everything.”
 (49 years old, forestry engineer, owner of an Ltd. with an annual turnover of HUF 250 million)

The general principle in accordance with trust is the principle of gradualism: “Always risk little, if lose, draw back.” If the person we place our confidence in really proves to be trustworthy, we can make the next step. The entrepreneur employing the second biggest number of workers describes the practice he follows based on “entrepreneurial common sense”:

- “First of all, no business and no society, nothing works without trust. So trust is very important. But should we still trust everyone, or shouldn't we trust anybody? There's a very good method for this, you risk little in the beginning of a relation; this is life, anyhow, even in private relations. So, it takes a little time to look around. It works in a way that if someone orders, it's cash for the first time. We go there, he pays, gets the goods, we look around and check out the place, then he pays two or three times more in cash, we can see that it's a real, reliable, operating company and then we allow a smaller transfer. If we receive the money we allow more, if we don't receive the money we stop it. So that's it.
 – Do you have written contracts in any cases?
 ...– We have contracts with our suppliers, but we don't have one in many cases with those for

whom we deliver. We make a verbal agreement, I must tell you, and it has never happened that they did not pay. There were cases when we had to struggle to get it.

– Wait?

– Wait, but it has never happened that they didn't pay. A municipality can't do that.

– Does it mean that practically you don't have written contracts with them?

– We do have one, but the contract is not the basis of our work.”

(38 year-old agricultural engineer, owner of two Ltd.'s, the Ltd. talked about deals with commerce of foodstuff and chemicals, delivering mainly to public institutions, yearly turnover is HUF 250 million)

Written record of the agreement is often missing even if the transaction is not an order, but a loan.

Banks are functionally replaced by the crediting practice between traders and their customers, which is an example for the dependence of economic relations on social capital. There are a lot of small enterprises in construction and some retailers dealing with building material in the settlement. Retailers have been giving credit to certain entrepreneurs for more than one decade without any official, written documentation, solely based on verbal agreement. It takes time to get into this circle of beneficiaries, after a long series of interactions through fine regulation.

I have interviewed two entrepreneurs trading with building materials who give credit to a particular circle of their customers in a way that they only receive the exchange value for the raw materials after the entrepreneurs in constructions have been paid by the main contractor or the end-client. Small enterprises – especially in this field – are continuously struggling with financial problems, if they belong to the circle the trader considers trustworthy they may do business with advantageous conditions. One of the respondents concluded as part of the myth creation of small businesses that they, the small ones have to join forces in order to defeat the large (evil) multinational companies. This activity increases the entrepreneurial scope of small retailers. Construction entrepreneurs tend to do business with local retailers near the place of their residence even if the place of commission is in the other end of the country, because it works out for them financially – since the trust capital accumulated at the local retailer making credit possible is not available for them elsewhere. Retailers comply with this situation flexibly; they transport goods where the customer requires them to. There are no written agreements documenting these kinds of credits, these assets amount approximately to ten per cent of the turnover, and cannot exceed four or five hundred thousand forints per person. In the case of the paint shop, fifteen or twenty entrepreneurs belong to the beneficiary circle. The biggest paint shop of the settlement supplies to local construction entrepreneurs. According to the owners (who are husband and wife), the first entrepreneur customers requiring credit for the goods appeared during the years of the change of the regime. This time they started to undertake such big jobs that they were not able to pre-finance until the arrival of the first installment of the end customer, and asked the retailers to allow postponed payment. The entrepreneurial clientele, who constitute the best customers for the paint shop, could be kept by sharing the financial risk.

It is clear from the conversation with the couple that, though they do not believe in enforcing their right in court, they are still considering changing the current practice of making verbal agreements to signing written documents. However, they are afraid that

the pressure to have the client sign a written contract may stir up mutual trust relations. Therefore they are postponing the introduction of formal documentation. They said the following about their earlier experiences with the court and written contracts (the husband's words are printed in italics):

- “– Do you ever put down contracts?
 – Not yet. Because we haven't had any problems so far. It's not about one person. That's why we don't go too far with one person. It means about fifteen or twenty people.
 – So, do you go as far as four or five hundred thousand forints?
 – Not farther than that, but they pay that amount.
 – So, do you get it sooner or later?
 – We had one person so far who hasn't paid twenty thousand forints. Unfortunately, last year there were two more who owe one hundred.
 – *One person owing one hundred and sixty and another owing one hundred thousand forints.*
 – It seems like we will never get it ...Whatever we do, even if we strain every nerve, we won't get it.
 – Haven't you gone to court?
 – No, we haven't.
 – *There's no point in it?*
 – Unfortunately, we have given that up. Neither to the police, nor to the court. We are not giving our money to the lawyers.
 – *Here in Hungary, be it the police or the court, one pays more to the lawyer than the one hundred thousand forints that they owe me.*
 – Unfortunately we were totally disappointed with the police. In connection with the robbery, because it happened in two minutes.
 – By the way, do you know these entrepreneurs?
 – Yes, yes we do. They are mainly locals. We know them and their families. That's why we think we should have some contract. I mean if something happens to him, (we get it back) from his family...
 – *Unfortunately, in this world.*
 – Entering into a contract is becoming more and more urgent. We were planning it two years ago and last year as well that we should write something from January on, because they can't be angry with us for that if we now finance them this much, can they?”
 (36 year-old entrepreneur and her husband, owners of a business with a turnover of HUF100 million per year)

The other building material retailer is also considering the possibility of introducing written agreements, but he has not made the first move in this direction. His business is based exclusively on relations; it is a business that does not have premises but he transports goods from the manufacturer or wholesaler straight to the client. His decision on independence is mostly a result of his unbearable ex-boss at ÁFÉSZ (General Co-operative of Consumption and Trade). He brought his contacts with wholesalers, manufacturers and clients from his previous workplace into his own business. At first, the enterprise was run under his wife's name. When it started to become successful, he became the first and the last employee of the enterprise. Having a lot of negative experiences they do without risky customers even if the transaction promises big profit. During our conversation it turned out that patience, low risk and trustworthy and competent business partners play a significant role in their business philosophy. (Words of the wife are in italics):

- “– How was the turnover?
 – It was a bit fluctuating; in the first period it was very good. Then there were more and more problematic payments.
 – *Big client.*

- Big client. And then I decided not to run after my money, not to sue, not to beg and stuff, so we laid him off, by the way, a very big client.... obviously we have to work more because we have several smaller ones, until then in one round we transported materials for one million, it was more convenient but anyway. It's better, it's better now. This is for sure, they call me, I go and unload the materials, and they pay.
- How is your turnover compared to the original?
- It's all right now. It's OK, apart from...
- *The inflation.*
- And the different price rises. But we are eighty per cent. Considering this, I tell you we can manage, but we can't do big things ...
- Let's see, the customers, clients, who are they? Entrepreneurs, private persons?
- Most of them are construction entrepreneurs who undertake directly, such as B...
- Yes, they come to their "ironmonger's to do the shopping".
- And A. calls, that he needs this, deliver it, by that time. Right, OK, that's all.
- Don't you contract?
- We have contracted once or twice, the man was a complete stranger. He asked for a proposal, I sent him one by fax, he called me at nine p.m. that he liked it and would like to order it, what should he do? I told him to write on the same sheet that he orders the products, sign it, and send it back. So that's it. In general, I know that it's a custom that when I have been in contact with someone for long, it's good manners to enter into a delivery contract. Those people I know, I have known them for so long, they have known me for so long, so there is no point in contracts, no use of increasing paperwork. We can handle it. One phone call and I definitely deliver him what he has ordered.
- About how many entrepreneurs belong to this permanent clientele?
- Over ten. They come regularly, every week, continuously.
- Just like somebody goes to the hairdresser, he gets the service at the same place, whenever he needs it?
- Yes. And there are Ltd.'s, no, there's only one now... I used to deliver all the materials to him a couple of years ago, but not now, not as much, but we deliver whatever.
- What caused that "not now"?
- Because one of them pays, the other one became a bum, gambling on the Stock Exchange. Using our money, too. There's not only me, there are many of us, those who delivered to him. We have had enough, I don't know where he buys now, from whom, but I guess the liquidation procedure is over now, a couple of ten million forints loss."
(46 year-old man, entrepreneur, employed at his wife's enterprise, an ironmonger with a yearly turnover of HUF 50 million forints, 80 per cent of the sales originate from entrepreneurs, 20 per cent from private individuals)

As illustrated by the last quoted paragraph, the members in the entrepreneur's circle of customers are within "social sight". It is known what lifestyle they live, who else they owe. The closed nature of relations makes uniting forces possible. All transporters simultaneously stop delivering to customers with unfair attitude once they are "fed up with him".

One of the two most important restaurant owners had his restaurant built by local construction entrepreneurs at the end of the eighties. They did not contract either, but he verbally agreed to pay when he can afford it. Years went by in such a way that whenever a construction worker entered the restaurant, the owner did not know if the worker came to eat or to collect money, but everyone waited patiently and the creditors finally were paid back the amount according to the agreement. Everyone kept an eye on the restaurant owner, his creditors were his customers, and social structure in this case was completely closed. The construction workers, although paid later, had a commission and a reliable client, the restaurant owner had a business from which he could produce the income and pay the builders. This type of closeness is harder to find

in case of relatives. Wealthy entrepreneurs are frequently approached for loans of a considerable amount by distant relations. If the relationship is not close enough, as often determined by distant geographical locations – they live far from each other, do not have a common history or past, the entrepreneurs consider lending risky and refuse to do so. At the same time, a close friend living in the same settlement, and having everyday contact with the entrepreneur can generally count on this kind of help. In these cases, parties may control through natural, daily interactions whether their background assumptions are still common. Those who do not have this kind of locally embedded relations are easily tempted by advertisements where financial assistance is offered by sleeping partners who offer to buy part of ownerships of companies in difficult situations – but in reality the essence of the deal is usury.

Lending and borrowing credits to friends and relatives are mainly based on verbal agreement. People asking for credit pay interest in case they do not want to take advantage of creditors' goodwill and/or do not want to be obliged to them. It is possible that the debtor writes a contract and pays interest to one family member, while he agrees verbally with another member from the same family. Lending in circles of friends and families is usually not one-way. Those people get a loan who are assumed to sooner or later to become financially capable of lending money.

“... we find the resources ourselves, one part of these is a bank loan, the other one is a loan from the family, a lot from my father. I pay interest, too.

– Do you write a paper?

– We do, and stuff like that. So, business is business.

– When can you count on each other?

– You mean relatives?

– Yes.

– Well, I can count on those I keep regularly in touch with in many ways. We have regularly had financial problems in the last ten years back and forth. We have always helped each other out. Without a paper.”

(38 year-old agricultural engineer, owner of two Ltd.'s)

Though not included in the scope of the current study, the question of how and to what degree the dynamics of family relations determine those things (resources) the exchange of which is defined in everyday life as “things in which they can count on each other” is an interesting issue. Do people keep in touch with relatives who have the required resources to exchange, or is the relationship independent from owned resources? According to the interviews, it seems that those relatives they do not keep in touch with belong neither to the circle of reasonable risk-taking, nor to the circle where they have obligations of solidarity and mercy. One entrepreneur relates about the events following a big family meeting where he met some distant relatives for the first time in his life:

“We cousins and grandsons and granddaughters don't know each other, I have just seen some of them for the first time there. Interesting, they learnt about our lifestyle and environment and where I lived. Even though we had parked the cars behind the community centre and farther than that. And since then two relatives have called me asking for a loan of one million or five hundred thousand, or so. I dumped these.”

(37 year-old economist, owner of a construction Ltd. with a yearly turnover of HUF 100 million)

Regarding loans to friends, as we can see from the following interview extract, they do not lend money to those they do not trust, and they do not ask to sign a contract those

they trust. Participants of the loan transactions besides solving their financial problems continuously contribute to maintain the circles of being “worthy of trust”. By not entering into written agreements they maintain and strengthen a view of a safe world where participants are on the one hand trustworthy, reliable, and on the other parties are able to trust others and repose their confidence in others. Breaking written contracts can be sanctioned more easily in principle. In this case, however, the true inner qualities and personality traits of participants cannot be judged with certainty, because the fulfillment of the contract may follow from a fear of jurisdiction and sanction, rather than from a straight personality and inclination to keep promises. If there is no external sanction or other external reasons (apart from the refusal of the local community and circle of acquaintances) motivating the behavior, people tend to attribute the motivator of the action as originating from the personality of the individual. Placing confidence in others – it is the greatest without any written agreement – works as a self-fulfilling prophecy; it forces the individual to show himself trustworthy supporting the above-described ethos and maintaining the general level of trust.

Offering and accepting interest may signal that someone is not a close friend or that the person borrowing money does not want to be obliged. The end of the extract illustrates clearly how the action of lending is used in networks to oblige others in order to dispose over bills (and favors) to capitalize on later:

“... That’s why a friend is a friend and a business partner as well, because at a time I was in need when the business was doing badly. Now it’s the opposite, now he owes me, in theory.

– Could you borrow from someone else?

– Yes, I could.

– From how many people?

– Well, my two friends. But now I’m lending to a lot of people who take me as a friend but I don’t take them as friends, but we have reached a level to be about friends and I have already lent them.

– Do you put down these loans in writing?

– No, I don’t. There was an important question of human trust, how much I trust people. There are people who you trust so much that you don’t need any written contracts. The other thing is how much it is. I am the bank for one person, it’s because of our common circle of acquaintances, he asks for five or ten thousand forints for one or two months. He neatly gives the money back to me. Now, you don’t write a paper with him. The question is, how much is the amount you don’t lend without a paper, and the other question is who you are lending it to. Those I lend money to, I know they are the kind who give it back. I am not sure this is good, because it’s only from acquaintance that I know him. The other thing is that it happens sometimes that you lend from interest, it’s rare, but sometimes you have a partner who you lend now, and you know that any time later he will help you out when you are in need, and not necessarily in business. When I’m hard up I can count on him even in another thing not only in business. You must have experienced that, I can’t say anything else, that’s how it is. I’ve lent a lot, about one million forints, but it seems I’ll get it back. I also owe one. Well, A.B. has built my house and I still owe him four hundred thousand forints. It happens; these are kind of small, interior financial affairs. There is someone I lend with an interest although he’s a good friend of mine; he told me that he wants money only if he pays me an interest the rate of three per cent, all right, here’s the loan at three per cent interest, monthly. There’s another one who was in need, I gave him three hundred thousand forints and he pays five per cent interest. He suggested, knowing that I also needed money; I should extend the cable television, I’m in a continuous development process. He asked to borrow three thousand, but knowing that I needed it too he told me he was willing to pay even five per cent interest. It seems nasty, but he’s not my friend.”

(41 year-old IT professional, self-employed entrepreneur, owner of a cable TV network with HUF 32 million turnover a year)

NETWORKS OF ENTREPRENEURS AND TRUST

Trust management of the people interviewed is influenced by the closed nature of entrepreneurial relations (in the sense Coleman uses the term of closeness), due to the size of the settlement (Coleman 1998). Multiplex relations are typical in the community, there are several monopolisable social organizations and within a particular circle the level of obligations and expectations is high and more or less effective norms and sanctions belong to these.

An association was founded in the settlement seven years ago, with the declared purpose of representing the interest of the settlement, promoting the establishment of a clearer public life and a more livable settlement. The non-declared aim was to outvote the mayor of that time. They reached the undeclared aim; the new mayor was supported by the association throughout his present and previous period in office. Economic goals appeared quite soon to complement political aims. Most of the members took advantage of the opportunities ensured by the association in order to achieve their economic purposes. A study entitled "Entrepreneurial relations in a community, and the view of entrepreneurs in public opinion" (Tóth 1999) was published about the foundation and the events of the following period. There was only one person at that time who converted his relation capital into economic advantages. In the next chapter of the story he moved towards bigger networks outside the local ones. The interview extract below is the history of the association according to one of the founders:

- What is your impression of local politicians?
- All the politicians here have to make ends meet. Live from direct royalties. Politics is their source of income, because they don't work elsewhere.
- You were a member of the association, weren't you?
- I founded it, I had the original idea with Sz. in a pub, I named it... in ninety-eight, before the elections, in the autumn of ninety-seven we founded it in order to outvote the mayor.
- Down with him?
- We didn't say that but we were fooling about it, we founded it to outvote him. A local meeting was held to win the support of entrepreneurs and thought we could collect the money and make F. to be the next mayor and then try to do something because the IPOSZ (National Alliance of Craftsmen) had been dissolved. We wanted to unite and do something for the public. We did so. ...And we established a couple of things. In the beginning I devoted a lot of energy and money into building the playground and the police station; it demanded a lot of organization.
- G. moved into the police station.
- That is when the problematical period started, we built that, G. asked us to do it up, and he pinched it.
- He says he got it from the police because they had a good relationship.
- Then appeared Mrs. B. that she puts her royalty into the association and it should lay down viacolor (pavement blocks) in front of her shop as an improvement of the town centre... Then came D. that we should place safety cameras in the centre, we applied for grants, and the association got the grants, and some of the money was transferred to D.
- Did the association apply? Where did it get the money from?
- From the Soros Foundation. D. did it, G. operates it. It started to work quite well and this was what it started to be all about."
- (37 year-old owner of a construction Ltd., former member of the municipality)

The circle of local entrepreneurs put pressure on local politics through the association and received the results through it. The association enables its members to

access resources that would not be available for them outside the network. The association could apply for a grant, could acquire premises in the building of the police station, huge orders, or the improvement of the environs of members' own shops. According to the interviewee, the association currently operates to continuously redistribute resources obtained, while they have lost sight of the originally declared purpose, the united action for the settlement. Through the foundation of the local organization of a parliamentary party, one member of the association gained an opportunity to take part in the party's county meeting and become the member of a new, appropriable social organization. Outsiders tell us how they see this affair:

“– And when did Sz. get out?

– He didn't leave the association officially. But he parallel joined x party, so we distanced ourselves from him.

– But there wasn't an x party organization, I mean there was one, but not here, locally. What did he join?

– There is a party organization; he established it with his wife and the employees.

– Did he have the employees join?

– This is x party here. He did it in order to be able to take part in county general assemblies... and they chummed up and >Listen, let it be.<, this is how x party grabbed commissions and relations through Sz., you know, that's what it is for, to launder money. This is about x party's interest, when he had wanted to join y party two months before that.

– I heard that he had had a recommender and had been searching for another one as well.

– It was important that the plot behind his house was owned by y party. He wanted to join in order to buy the plot at a ridiculous price through y party. He's that much of a man of interest. That moment when he sees his interests in a political group he wants to join there. Now he's starting to talk about values, now he believes he is x party line and scolds y party whatever they do. But I know him; I know what kind he is.”

(37 year-old owner of a construction Ltd., former member of the municipality)

Efforts to actively search for relations or using existing ones are shown when after the elections the entrepreneurs visit the mayor, asking for board membership. Information is important, though board membership of the requested kind does not give one the right to vote it ensures a position of being well-informed and a chance to influence, persuade others. Sessions of the municipality are broadcast on cable television in the settlement, but failed to affect public opinion and did not modify their opinion of local board members in a positive way. Local organizations of political parties are desperately trying to win honest, trustworthy, credible local residents before each election regardless their political inclinations. One entrepreneur had been visited by all the local organizations and parties on the electoral list before election period.

The second biggest employer of the settlement is an Ltd. working for German orders. This Ltd. might have never been established here, had the local Lutheran congregation not cultivated active international relations with their sister congregation in Germany. For its members the church mean an appropriate organization that ensures common background assumptions, a high level of goodwill trust, and little risk in transactions of its members. Information about the future business partner and about the common organization, values, norms are particularly valuable if an enterprise is willing to expand abroad in a different culture. The Lutheran priest's son-in-law, he himself being an active member of the congregation too, recalls the way to the business:

“– I was very lucky because I speak German fluently, it turned out here in the farmer’s co-operative that there are not many people who speak German in the neighborhood but we have a number of German connections, after all Hungary is closely connected to German language area through history and culture, and I was asked to interpret several times and by this means I made acquaintances. ...and then through other, not co-operative relations, but through German church relations one of our German acquaintances visited me in ninety-six, who knew we made our living by doing business. They were looking for a Hungarian partner for precision-engineering assembly works. And, as I could speak German and made a living by doing business, they wanted me to co-operate with them. I went to Germany and checked the work and saw that it was a job easy to train. Why shouldn’t we do that here? Actually, this is how the I. Ltd was established in September in 1994. We started this Ltd with four employees. It was a test for us, both for the Germans and for me. When we saw that it was working, we started to expand, the parent company lent us credit. We built this nice building and now we have one hundred and ten employees.”

(38 year-old agricultural engineer, owner of two Ltd.’s)

TRUST AND THE ATTITUDE OF ENTREPRENEURS TOWARDS BANKS

In the above description of the present economic environment, I already mentioned that small enterprises do not often take a loan. They do not, because they are not attractive clients for banks and they would not get any. They do not want a loan, because they are afraid to do so, they think the future of the business is uncertain. In many cases their mindset does not allow them to do so, as pointed out by references to the peasant tradition: it is a shame to owe someone, savings should be used for investments, not loans. Consequently, if small businesses take loans, they prefer to owe each other and/or to private individuals.

A certain part of the credits is forced loan; another part originating from closed local networks can actually be considered as an action of common risk-taking based on verbal agreement.

The attitude of entrepreneurs towards banks is another determiner preventing taking loans from monetary institutions.

This topic is closely connected to the problems of trust. Characteristically, in a certain aspect they trust banks, but in other aspects they do not. Entrepreneurs mostly have the so-called contract-related and competence-related trust, in Sako’s (2000) trust typology, towards banks. However, the general, so-called goodwill trust cannot be found.

The main reason for this is that entrepreneurs do not think of banks as partners, they do not presuppose that banks wish to do fair business with them, on the contrary, banks are assumed to take advantage of their supremacy and have an obviously disadvantageous contract signed by those asking for credit, which, by the way, banks keep very correctly.

Those interviewed think similarly about the attitude of multinational companies towards contracts. Multinationals are also believed to keep the word of the contracts, but the content of the contracts is supposed to reveal signs of exploitation of economic supremacy. These contracts are thought to be identical to what Durkheim describes as a *leoninus contract* “in which the stronger party takes advantage of the weaker one and does not return the price of effort” (Durkheim 1984:199).

Were they tempted to take a loan events usually have the following script:

“– I had a weak moment. We wanted to buy a lorry and in a way against my principles, and I am the one that always tells everybody not to break their principles, I gave it a try. But only because I thought how great it would be if we had a new lorry, and in the end I failed. Because when I was reading that humiliating contract they had put under my nose I told them that even if I will never have a lorry, I won't sign this.”

(49 year-old forestry engineer, owner of an Ltd. with a yearly turnover of HUF 250 million)

Or, another experience:

“– What is your opinion about the following institutions? Do you think they are trustworthy? Do you trust them? Banks?

– I hate them.

– Why? Because they take advantage of their economic supremacy?

– Something like that. I wrote a book at the university, its title is ‘Two levels or two faces?’ I wrote about two-level banking system that this is not a commercial bank, only as regards its name. Even the smallest commercial bank is in a monopolistic position. This is the reason why it dares take advantage of having the money, and those who borrow would humiliate themselves and do anything for money in order to continue their business, or just to make a living. I don't feel that they would think like »Do you have a good idea? Do you run a good enterprise? Then, I am going to stand by you and let's do it together.«

– Banks don't take risks?

– They're not enterprise-oriented. Now, it's different, competition has begun between banks. Due to this, they're a little more flexible, but now I'm sick and tired of it. I think if not now, it will happen later. I'm very angry with them.

– You will scrape it together. What do you think about multinational organizations, the big companies?

– These are organizations that, without doing any work, make use of their financial supremacy to stamp on the little ones. I'm angry with them because sitting back comfortably, surrounded by lawyers, without taking any risk, they can simply destroy small and medium sized enterprises. Cold and austere. You know, I often do business on an emotional basis – they have no emotions, only numbers.”

(37 year-old economist and owner of a construction Ltd.)

As quoted in the last interview extract, public opinion about banks has somewhat changed, but this has had practical consequences only in a few cases. Enterprise size can be a factor determining the relationship between the entrepreneur and banks. Small-size enterprises, with an uncertain position in the market, having little financial resources are not clients banks would look for.

However, being big seems to be an advantage. Banks often visit and offer favorable credits to owners of enterprises with the largest number of employees (over 100 employees) of the sample. These businesses are the best for banks, where the number of employees exceeds one hundred, they work in a newly built plant where digital magnetic card system operates and air-conditioning is available. The financial situation of the company makes a good impression on everybody – it is almost ten years old, has been expanding continuously, it assembles surgical instruments for a German company, the Germans tend to always pay punctually. One of these attractive types of clients is in a different negotiating position:

“Now, thank God our situation is better because potential partners who have been operating for a long time and have good results attracted the attention of banks. They come to me and offer credit... I have always said, even when I wasn't in such good circumstances that a bank shouldn't expect me to be happy to pay interest. So, I'm their client, they use me... But I'm in the position that I can cut down interests, they say ten per cent and I reply: »Come on! You're

kidding.«

– All right, but you had to get into that position. I think when you had to show them ten times of the amount you wanted to borrow as a loan you didn't say things like that.

– That's right. That's why we didn't really take out loans, so we didn't owe too much. We have always bought cars on hire-purchase but it was a different construction. It was very favorable. Therefore, I tell you, we have tried to borrow from the family. It was a good choice for everyone.”

(38 year-old agricultural engineer, about one of his Ltd.'s assembling precision instruments)

I have found the following marks pointing to the lack of trust in the economic attitude of local entrepreneurs: they do not want to expand, rather reduce their activities, mainly deal alone with management activities, do not like to work for or work with strangers, do not trust banks, multinational organizations or jurisdiction.

At the same time trust is operating within certain circles, when it is about the functional replacement of banks. Retailers are willing to lend money to entrepreneurs, when they “know” they will get their money back. They do not record these agreements and transactions in writing. Closed social structure and consequent possibility of sanctions, common background assumptions, self-interest typical of long-term relations determine these phenomena.

Appropriate social organizations are able to support economic relations in many ways. In using church relations for economic purposes trust proved to be a useful factor, supporting economic activity. However, there seems to be one way of “appropriation” that tends to erode trust within organizations. When the number of members joining with the primary goal of appropriation exceeds a certain critical figure, it becomes more and more difficult to maintain the original level of trust among members. An example for the latter is the association the history of which was recalled by a founder member in one of the above interview extracts.

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