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Chapter 6

Reputations, Trust, and the Principal Agent Problem

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IS TRUST purely strategic? Or does trust begin precisely where the ability to make rational calculations leaves off? There is much disagreement in the trust literature over even this fundamental distinction despite a recent explosion of interest in the concept of trust among social scientists. Why should this concept be of interest to economists? It has been suggested that trust can substitute for monitoring in agency situations, and even more broadly it has been argued that a failure of trust significantly reduces the gains of economic cooperation (Putnam 1992). In this chapter I consider a case of extreme trusting behavior with high economic risks and benefits. The pastoral-nomadic Orma of East Africa employ hired herders in their cattle camps and in some cases actually adopt these young men as their fictive sons. Although the innovation of kinship makes this case look superficially like the "social trust" associated with group identity discussed by Tom Tyler (this volume), I argue in this chapter that appearances can be misleading. I interpret this case as one of calculated self-interest (see Hardin, this volume) in the context of principal-agent theory, wage efficiency, reputation, and the insights of the anthropological literature on reciprocity.

The Orma of northeastern Kenya were until recent times largely subsistence, nomadic-cattle pastoralists herding in a rather lush environment bordering the coast of Kenya near the Somali border. They are still primarily cattle-dependent, though they have added whatever diversification they can find. They are now two-thirds sedentary and very much tied to the commercial cash economy; they regularly sell their livestock to purchase their daily food and other needs. (For further details on the Orma economy, see Ensminger 1992.) These considerable transformations in their economic adaptation, particularly their sedentarization in large villages that have been long overgrazed, have necessitated great changes in their herding relationships. Although the Orma always made use of remote cattle camps to keep the dry stock in the most ideal grazing and watering conditions, their use of these camps far from the watchful eye of the herd owner is even more extensive today. This has put great strain on the family labor supply for wealthy households with large herds and is all the more exacerbated by the fact that these very same wealthy families tend to educate their sons, who are then unavailable for this work. Increasingly the Orma have turned to poor relations and nonrelations to herd for pay in the cattle camps. The resources at stake are tremendously valuable, and the herding conditions, riddled with the risks of wild animals and bandits toting AK-47s, are difficult. One of the Orma strategies for dealing with these very high agency costs is to develop close personal ties, sometimes even culminating in adoption, with faithful hired herders.

This extreme form of accommodation to high agency costs involves the substitution of trust for monitoring. But is this trust purely strategic, or does it require consideration of a non-utilitarian perspective—perhaps, in this case especially, a perspective that incorporates social identity and what Tyler (this volume) refers to as social trust? If trust is purely strategic, why does it work for the Orma as a substitute for supervision? And how do these contracting parties get on this escalator of increasing trust and cooperation that appears to land them ultimately in the place where all employers would love to be—with employees who are totally loyal to the firm and no longer require supervision?

Moving Beyond Agency Theory to Incorporate Trust

Specialization and division of labor are both increasing among the Orma. Poor households derive a significant portion of their income from sources other than the sale of their herds. Rich households, on the other hand, are increasingly taking advantage of larger economies of scale in livestock production. We might be inclined to predict a movement toward purely contractual wage labor to create these larger economies of scale, but we find instead that more informal methods of increasing the labor force persist.

Agency theory (Alston 1981; Alston and Higgs 1982; Fama 1980; Fama and Jensen 1983a, 1983b) teaches us that agency costs arise as the division of labor intensifies in a hierarchical situation. Whenever an individual (identified in the literature as a "principal") engages another individual (identified as an "agent") to whom some decisionmaking authority is granted, a potential agency problem exists (Jensen and Meckling 1976, 308). Agency costs stem from the fact that the interests of principals (herd owners in this case) and their agents (hired herders) may diverge, and consequently the principal incurs transaction costs in monitoring the behavior of the agent. Michael Jensen and William Meckling (1976, 308) put it this way:

> If both parties to the relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interests of the principal. The *principal* can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent.

One focus of agency theory has been to explain the choice of contract given the nature of the supervision required. Thus, in their study of agrarian contracting in the southern United States, Lee Alston, Samar Data, and Jeffrey Nugent (1984) argue that fixed-rent and sharecrop contracts reduce the need for direct supervision of labor, and it is therefore not surprising that such contracts are preferred over wage contracts by farmers with fewer supervisors (Alston and Higgs 1982, 351). Similarly, we can understand much about the way in which Orma herd owners structure their relations with hired herders as an adaptation to huge monitoring costs.

Agency theory goes a long way toward explaining labor relations and contracting among the Orma. But the actual adoption of herders carries these relationships into a domain not well specified by the economic theory of contracts. As Robert Pollak (1985) notes, characteristically different qualities are associated with family and hired labor. One would assume that for the Orma the advantages of family labor are great, for precisely the reasons noted by Pollak—transaction costs are reduced. But the way in which kin relations reduce transaction costs is not well understood either.

Turning a more or less explicitly contractual relationship into a kinship relationship moves the exchange in the direction of what anthropologists refer to as "generalized reciprocity" (Sahlins 1972), and by its very nature this movement implies less precision in the specification of the contract, less monitoring, and greater tolerance for long-term debit flows in the relationship.

Marshall Sahlins (1972) distinguishes three qualitatively different forms of reciprocity that fall along a continuum, he argues, from generalized to balanced to negative. Generalized is the form of reciprocity most commonly found among close kin and characterizes the nature of the relationship we usually expect between parents and their children. Here the flow may be unidirectional without any explicit expectation of balance, or at least not over any short time frame. These relations are notable for the fact that careful accounts of aid are not kept and the relationship can sustain a very long—perhaps permanent—period of one-way flow. As one moves toward balanced reciprocity, which is characteristically found among friends, one may freely give aid but with the expectation that the aid will be reciprocated equivalently and in a timely fashion. In other words, people are keeping score, often closely. A balanced reciprocity relationship that can tolerate longer repayment schedules and longer periods of one-way flow is characteristic of closer relationships that lie toward the generalized end of the continuum. At the opposite end of the spectrum we have true negative reciprocity, which is characteristic of theft and dealings with enemies or total strangers. Here the goal is to get something for nothing and to reciprocate as little as possible.

What is notable about the adoption of Orma hired herders is the way in which the original contractual relationship moves from balanced (if not somewhat negative) reciprocity to something closer to fully generalized reciprocity between the two parties. Clearly one aspect of this transition is a reduction in the account-keeping of who is indebted to whom, much as one sometimes finds within nuclear and extended families. At the very least, even if the relationship continues to balance out in terms of effort and reward, long-term deficits in either direction may be run up without serious concern to either party.

Although this unusual solution to the agency problem is consistent with principal agent theory, the developing literature on trust has better explored this particular aspect of exchange in "committed" relationships and brings new insights to bear on this category of cases. The special characteristics of this relationship also point to the relevance of anthropological literature on reciprocity.

The Subject of Trust

There is a growing interest among sociologists, political scientists, economists, and scholars who study organizational behavior in the subject of trust. Much of the interest in trust is associated with its impact on cooperation. It has been argued that a certain amount of trust may be necessary in order to reach optimal levels of cooperation. In societies where people have low levels of trust, opportunities for exchange may be forgone. Thus, it has been proposed that there are detrimental economic consequences to a national decline in trusting behavior (Putnam 1992).

The Orma practice of adopting hired herders as fictive kinsmen clearly changes the nature of the relationship considerably and specifically embodies a higher degree of trust. But what, then, is this magic elixir called trust that makes agency problems go away? In the purely rational self-interest accounts of James Coleman (1990) and Russell Hardin (this volume; 1993, 505), "you trust someone if you have adequate

reason to believe it will be in that person's interest to be trustworthy in the relevant way at the relevant time." In other words, you trust when you have sufficient knowledge of the other party's incentive structure and competence to be confident that he or she will fulfill the behavior that you expect of them.

But to Toshio Yamagishi and Midori Yamagishi (1994, 136), this is merely one form of trust, what they refer to as "knowledge-based trust." This is trust based on information that we have about a partner, including their competence and reputation. But Yamagishi and Yamagishi identify a second form of trust that they label "general trust." This is a cognitive bias based on a belief in the goodwill and benign intent of the partner. "A trusting person is the one who overestimates the benignity of the partner's intentions beyond the level warranted by the prudent assessment of the available information."

One way of thinking about the difference between Coleman's and Hardin's use of the term and Yamagishi and Yamagishi's is to see it as the difference between risk and uncertainty. In the rational account we trust because we can assign probabilities to the expected gains from cooperation with another. As Hardin (1993, 516) notes, "My estimation of the risk is my degree of trust in you." And further: "The degree of trust I have for you is just the expected probability of the dependency working out well." And finally, in game-theoretic metaphor (515): "One should open with a cooperative move in the hope of engaging the other also to be cooperative. This is not merely a moral injunction. It is a rational claim of self-interest. One should open with cooperation when the expected long-run benefits of iterated cooperation outweigh the short-term risk of loss."

In contrast, Yamagishi and Yamagishi focus on uncertainty. They note that trust involves an overestimate that is neither "warranted" nor "prudent" based on available information. I take this to mean that appropriate probability assessments are not possible (thus differentiating their sense of trust from the Coleman-Hardin sense of it as risk); indeed, Yamagishi and Yamagishi refer to this case as trust under "social uncertainty." Put more succinctly, Yamagishi and Yamagishi cite Lewis and Weigert (1985): "Knowledge alone can never cause us to trust" (970), for "trust begins where simple prediction ends" (976).

In a similar vein, one might be easily tempted to assume that the fact of turning a contractual hired herder relationship into a kinship relationship looks a great deal like an effort to create a common identity, much as Tyler (this volume) argues that "social trust" is the foundation of a nonstrategic form of trust. But the very strategic nature of such a move demonstrates what is really going on.

In the following case I attempt to demonstrate that even the extreme form of trusting behavior that we find among the Orma can be characterized as "encapsulated self-interest" according to Hardin's (this volume) usage. As Hardin (1993, 526) notes:

> A full account of rational trust must be grounded in reasons for expecting another to fulfill a trust and in reasons for holding general beliefs about trustworthiness. These are addressed, respectively, by the incentive account of trustworthiness that justifies and explains trust and by the commonsense Bayesian account of learned trust. The commonsense Bayesian is little more than an inductivist who generalizes from the past to the future.

Obviously the truster's and trustee's reputations loom large in the analysis. But as Hardin (1993, 515) also correctly notes, the "general social conditions" affect the statistical probability that trusting behavior will be repaid by trustworthiness. In this context the "general social conditions" have a direct impact through the mechanism of reputation, the evaluation of which is tied to norms of appropriate conduct.

The Case Study

Orma Herding Relationships

Among the Orma, herding relationships exist on a continuum from related individuals who are neighbors and share herding duties to individuals of absolutely no relationship who herd for a household on more or less contractual terms. In the past household imbalances between stock and labor were resolved primarily by coresidence in nomadic camps and common herding and sharing of subsistence production. Under such conditions supervision was direct and pervasive. As sedentarization increased and a larger number of stock had to be kept in cattle camps, such informal relations became more formalized and individualized. Young men from poor families began working away from home and exclusively for their wealthy patrons.

Almost all East African pastoralists make extensive use of cattle camps. These camps afford ideal conditions for herd mobility in order to maximize access to grazing and water resources. Because the cattle camps are unencumbered by households, including the elderly and infirm, and are left in the care of agile young men who often travel with nothing more than a spear, milking gourd, and hide for sleeping, their mobility is uninhibited. The stock are also far out of the control of the head of the household, who often is the owner of the majority of the herd, thus creating an agency problem. Cattle camps among the Orma (as among most East African pastoralists) easily roam one hundred miles from the residential village, sometimes moving daily. They typically hold 60 to 100 percent of a household's livestock, which is likely to

be the entire source of income and wealth of the family. Supervision is difficult, and there is an inevitable conflict of interest between the absentee herd owner (the principal) and the on-site, day-to-day decision-maker, the herder (or agent). Indeed, this problem is a favorite subject of discussion among Orma elders, who spend endless hours developing monitoring and incentive strategies to overcome it. It is accurate to say that a high level of suspicion and distrust of hired herders is the norm, though one does tend to encounter the attitude that while other people's hired herders are not to be trusted, one's own are exceptions.

The Agency Problem Among Orma Herders

Cattle herding under the conditions that pertain in East Africa is a risky venture. Losses of 70 percent were recorded for both the 1974 and 1984 droughts, but good husbandry reduced these significantly for some exceptional herd managers (Ensminger 1992).[1] Although careful husbandry can lessen the dangers of all of these risks, managing a herd is hard work indeed. As has been pointed out to me on numerous occasions by herd owners, it is not easy to lift a five-hundred-pound steer out of the mud. Such a task is backbreaking work that takes the effort of at least four men with poles to support the underbelly of the animal as it is righted—often over and over again. Herd owners use this example to dramatize the difference between the care a herd owner would provide for his own animals and that commonly provided by hired herders. They maintain that in the absence of the herd owner, or at least his son, a hired laborer would not make the effort to lift stock that are stuck in the mud, as happened to large numbers of weakened stock in both 1975 and 1985, following the first rains after a severe drought.

The costs to a herd owner of not finding good workers for the cattle camp are legendary. In the following account an elder describes the problems associated with long-distance management.

> The ones doing the best work in the cattle camp are in their parents' camp and not herding for pay. Those are their cattle. The employees—there are so many things they don't do. First, they don't want to herd. There are young boys who are supposed to help them and they leave all the work to the young boys. The hired herders just pass the time and demand to be paid. They may leave a child to herd 7 or 8 days and give them no rest for even a day. There are so many like this these days. Second, they don't check the cattle when they arrive at the end of the day—they don't look for lost cattle. Third, they may leave the cattle camp and go visit a nearby village and say they are looking for a lost cow, but come back and say they couldn't find it. If cattle are lost they must be found immediately or they will never be found. So the owner loses his cow. Nowadays, people have noticed. If someone has lost a cow the boy won't get paid. This is the an-

swer. Others decide to pay the salary even if the herder has lost a cow, but then they fire the boy. Others tell the boy to find the cow and if he does, then he will be paid. Then sometimes the boy goes and never comes back. These are the problems. Not everyone is like this. Some who herd for pay do a very good job. The owners trust them.

Strategies for Overcoming the Agency Problem

Given the great risks involved, one would expect pastoralists to be extremely reluctant to engage hired laborers. Indeed, Louise Sperling (1984) finds that the Samburu avoid this practice for precisely this reason. Over the long term the Samburu relieve labor shortages by practicing polygyny (thus producing their own labor force), and over the short term by borrowing the children of close relatives for years at a time or by herding cooperatively with other members of their settlement. The Orma also engage in all of these practices.

Among the Orma there were in fact large increases in household size between 1980 and 1987 for rich households (from 10.9 to 15.5). These increases occurred not only because fertility and polygyny rates were higher but also because fewer sons split off and more joint families stayed together upon the death of the father.

But many Orma households still find themselves in need of additional labor, in part because the Orma are more sedentary than most East African pastoralists; by 1987 fully 63 percent of households were permanently settled in the Galole area. Sedentarization requires a greater dependence on the use of cattle camps: grazing conditions are far inferior in settled villages than in nomadic villages, and much more stock (often even milking stock) must be kept in the cattle camps, often for far longer periods of the year. Also, the relatively severe labor shortage in the wealthiest Orma households may have arisen because of greater inequality in the distribution of wealth among the Orma than among most other East African pastoralists. Among the wealthy Orma, a high portion of young men are at school, employed with a cash income, married early and settled down in a permanent village, or kept out of the cattle camps by their mothers, who now often prefer to have their sons near them rather than in the distant camps.

The result is that wealthy sedentary households employed on average 1.2 hired laborers in 1979, and 1.1 per household in 1987, about 80 percent of whom herded in the stock camps. Of the hired herders in 1979, 46 percent were relatives. (Sisters' sons and daughters' sons together made up almost half of this group.) Significantly, however, 54 percent of hired herders had no relationship whatsoever to the household. It should be noted that the Orma still place an exceedingly high premium on having at least one close relative of the family in the cattle camp. This person should preferably be a son, but at the very least a sister's, daughter's, or brother's son, who can act as a supervisor over the others. One elder described the need for relatives in the cattle camp this way:

> We cannot only depend on hired labor. Even if you have no son old enough to be in the cattle camp, your own son, no matter how young he is, must be there. He sends information even if he cannot order around the others. Every household must have one son in the cattle camp. If people don't have children they must get someone to whom they are related—a brother's son or sister's son. But these ones must be supervised. You need counter-checking.

The Orma concur with Sperling's report (1984) of the Samburu attitude that one can better trust a close relative as a herder than a nonrelative. But why exactly are close relatives more trustworthy than nonrelatives? When I asked the Orma what type of person they could most readily trust as hired herders, there was a quick and definite answer—sisters' sons. These are considered absolutely the most reliable people to hire as herders. When pressed to explain why such relatives are particularly trustworthy, the Orma began by explaining that it has something to do with "control." One somehow has more "control" over a sister's son than, for example, a brother's son, who is not a bad candidate as a hired herder but clearly inferior to a sister's son. Before long my informants said that the "control" is linked to the fact that sisters' sons receive important gifts from mothers' brothers, and this is why the nature of the bond makes them especially trustworthy.[2] They have more to lose by failing to live up to expectations. Indeed, approximately one-quarter of the hired herders in my sample of herders who are relatives are sisters' sons. It was clear from my discussions with the Orma on this topic that property relations are tightly bound up with "control" and "trust." Another explanation offered for preferring this relationship was that one can "punish" a sister's son and needn't worry about repercussions, as might occur across clans, for example. In short, one trusts those whom one can control, and one controls those who have the greatest interest in doing what you wish them to do.

Clearly, the first preference is to have a son in the cattle camp, and failing that, another relative who has clear financial incentives to produce good results. When no relatives are available, the herd owner or his sons living in the sedentary village increase their supervision of the cattle camps by visiting them more frequently. Trusted relatives herding in nearby cattle camps are also regularly grilled for information on the health and condition of the cattle and the performance of the hired herders.

Herd owners also employ financial incentives to increase the work performance of their hired herders. The usual herder contract among the Orma stipulates that the herder will receive food, clothing, and one female head of stock per year. These conditions are negotiated at the outset but make up only the minimal wage contract. Employers make use of all sorts of incentives to sweeten the arrangement if the herder is perceived to be doing a good job. For example, in any given year they commonly make frequent gifts of clothing above and beyond the norm, they may be generous in their gifts to the youth's parents, they may allow the herder to pick the particular head of stock he will receive as annual payment, and they may give a second animal per year in the form of Muslim alms (*zakat*).

For those herders who perform up to standard, the rewards in the form of additional payments may well exceed the equivalent of three times the standard herding contract of one cow per year. In addition, the herder receives many benefits from the patron that are harder to quantify. He may have privileged access to information, concerning both politics and livestock trading, he may be extended credit, and he may enjoy other privileges associated with the status afforded elites in the society, such as better dress, better nutrition, and access to better health care. Also, his poor relations, especially his mother and father, have someone to whom they can turn in times of need.

In the following account, an elder who is a long-term employer of hired laborers describes how one knows who the good laborers are, and having found them, how one steers and rewards their behavior with incentives:

> If [a hired herder] is bad he is just bad-natured. The good ones are good-natured. The bad ones cannot be made good. Such people you pay and get rid of. If he has not completed 12 months he gets no pay and is fired.
>
> [The ones you want] are respectful and don't get angry with you. To reward him you give him clothes. You allow him to select his own cows for his salary. (This makes him very happy because he knows the best cattle.) Sometimes people even employ married laborers. With these ones you can take care of the family. Even our own children can go to the cattle camp after they marry. The employer must look well after the family while the boy is in the cattle camp or he will refuse to go. The family must be given enough milk and food.
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> Now the ones who herd well get a salary of 1 cow as well as 1 cow for *zakat*. Instead of giving *zakat* to someone else, the herd owner gives it to the boys in the cattle camp. I myself paid the bridewealth of two boys who herded well for me in the cattle camp. Ali Mohamed [pseudonym] worked 5 years and married Galole Shure's [pseudonym] daughter. After he married he stayed with me another 6 years. I don't even remember how much I have paid to him. I even gave bridewealth from my own daughters to that man. I have never met the parents of that boy; he is a Wardei [descendant of an Orma who was captured by the Somali during the wars of the 1860s], but he did good work. All the boys doing well in the cattle camp get similar treatment from people. It is not only me. All the other people have ways of helping them. Those who don't work well don't get this treatment.

The practice of awarding above-market wages is similar to what Carl Shapiro and Joseph Stiglitz (1984) label an "efficiency wage." They argue that such wages provide a means of reducing shirking by increasing the costs to workers of being caught. In other words, if workers are being paid above market value, the loss to them of losing the job is greater, thus decreasing the likelihood that they would wish to risk losing the employment by being caught shirking. This, I would argue, is the mechanism by which they get on the escalator of increasing trust.

The ultimate gesture on the part of a herd owner is to pay the man's bridewealth after many years of loyal service or to marry the hired herder to one of his own daughters. After the marriage the owner will extend his care to the wife and children of the herder. At this point the herd owner may formally adopt the hired herder as his own son. The Orma talk fondly of such relationships in paternalistic terms, and most wealthy households can point to at least two or three such individuals for whom they have paid bridewealth in the previous decade. After the hired herder marries he often establishes an independent household if he has accumulated sufficient cattle to do so. This represents the end of the formal hired herder relationship, but if the hired herder resides nearby, the herd owner may still call upon him in times of emergency.

If after marriage the hired herder does not have the resources to become independent, he may stay on with the herd owner. Although his salary ceases, the herd owner takes on responsibility for the maintenance of the hired herder's household. This is the point at which the Orma recognize the relationship as an adoption. After marriage the hired herder is generally not stationed in the cattle camp, as is the norm for married sons; his base becomes the permanent sedentary village or the nomadic village. However, like the herd owners' own sons, he takes on the role of supervisor and may make frequent trips to the cattle camp to supervise the herd boys there. He also does extensive traveling to scout grazing and water conditions, collect medicines from the district headquarters, and market stock. What develops in effect is a hierarchical labor structure with increasing specialization.

Although these adopted sons are generally talked about as "just like my own sons," there are in fact differences. The herd owner may take corporate responsibility for any wrongs committed by the adopted son, just as he would for his own sons, but the adopted son does not inherit. However, adopted sons are generally of an older generation than a man's own sons (they arguably have received their inheritance while the herd owner is alive), and they are often given the role of executor of the estate upon the death of the father—that is, they take charge of dividing the stock among the sons, often according to the elder's wishes or accepted norms.

The enduring nature of these fictive kin relations is illustrated by one family that has managed to maintain such relationships across generations. The former hired herder still lives next to the man for whom he herded, even though he is now a man in his fifties of modest independent means with three wives of his own. This former herder not only had his bridewealth paid for him but was also sent to Mecca on the Hajj. His sons now herd for the wealthy elder, as their father did before them.

The Power of Reputation

Both herd owners and hired herders have ample opportunity to choose short-term gain over long-term cooperation. At any given moment either party may be in significant arrears in the relationship. Given that the bulk of the contract wage is paid only once a year, the herd owner has ample opportunity to default on the relationship before each annual payment. One old man is notorious for refusing to pay hired herders even after they have finished their twelve-month contract. Elders are routinely called in to adjudicate the disputes. Even worse, the herd owner may fail to fulfill the "just" expectations of a long-term hired herder by not paying his bridewealth at the appropriate time, as happened in a much celebrated case in 1998. Similarly, hired herders face constant temptations to shirk on arduous work, not to mention the potential for outright theft of livestock. In another case in 1998 a new hired herder received his annual payment early (after only two months of work) as a signal of generosity from the herd owner. But the herder rapidly revealed himself to be completely unworthy, and the herd owner had to let him go well before he had worked off the twelve months of salary that he had already been paid. In spite of the moral hazard demonstrated in these cases, reputation is usually a significant deterrent against short-term gain for both owner and employee.

Should it be perceived that an owner has treated a herder unjustly—as, for example, the old man who always tries not to pay—or that the herder's loyal performance warrants the payment of his bridewealth but the owner has not so volunteered, the owner will have tremendous difficulty attracting quality herdsmen in the future. As one elder put it, "The herd boys know who the 'bad' old men are." When asked why a man would pursue such a strategy, one elder replied, "It is stupid! He only gets bad herd boys who are after food and not getting on well with their family."

One wealthy elderly man, whom many Orma considered disagreeable, was known to be antisocial and remained nomadic in part because of his inability to get along with people. During the 1985 drought the herders who worked for him sold some of his cattle and ran off with the money, leaving Orma territory completely. Ordinarily repercussions would have followed—the families of the young men would have felt compelled to repay the stolen stock in order to maintain the good name of

the family. Normal practice would have dictated that they take corporate responsibility. In this case, there was no such sentiment. Public opinion sided with the herd boys; they were judged (even by the elders) to have been justified because they had been so poorly treated by the old man.

Although sample sizes do not permit quantitative confirmation, the elders are convinced that other "scrooges" such as this elder also fared extremely poorly during the drought. The elders believe that such men's cattle died in larger numbers owing to neglect, and that many were in effect "stolen." Not coincidentally, three elders who fared far better in the drought are highly respected, considered good managers, and have reputations for treating their hired herders exceptionally well. As one elder put it:

> The drought was what gave the boys the chance to cheat. The cattle left this area. People here had to be taking care of their families here [in the permanent village]. Usually we frequently visit the cattle camp—that helps a lot. People can check and see if a cow is missing. There is less supervision during a drought.

Because the cattle were so far removed from their owners, many herd boys had the opportunity to "settle the score," so to speak, with the "bad" old men. The prospects of employment outside of the district also enabled the young men to violate accepted behavior with impunity as long as they had no intention of returning to Tana River District.

Such behavior did not characterize the vast majority of hired herders, for whom the hope of future rewards, although not specifically negotiated, provided a clear incentive to perform well in herding activities in the absence of direct supervision. Over the long haul it is obvious whether the milk yields of the cattle indicate that they have been well cared for in the cattle camps, and whether morbidity and mortality of the stock are within the bounds expected, given existing conditions.

Conclusions

One of the most striking aspects of Orma labor relations is their informality and imprecision. One might well ask why herd owners who pay some workers according to a fixed contract don't do the same with those they pay two and three times as much. Instead, they choose to compensate these individuals through far vaguer forms based largely on gifts and enforced by reputational effects. This strategy works, I would argue, not entirely because it allows compensation to be tailored ex post facto to actual job performance, much as a bonus might be, but rather, because it reduces monitoring costs. (Gary Miller, in this volume, discusses the same characteristic of delayed reward in corporate America.)

Herding productivity is extremely difficult to measure given the vast array of uncontrolled variables that may confound measurement of the efforts of the hired herder—drought, disease, wild animals, and enraged farmers, for example. If I tell you up front that I will be tripling your wage, I probably want to be quite specific about what I expect in return performance. But this is exactly what the Orma herd owner cannot specify. On the other hand, if I reward work based on a consensus of what is deemed reasonable after the fact, given the applicable circumstances, we both risk the sanction of reputational effects but are not bound by a contract that might have been inappropriate given the unforeseen circumstances. Alternatively, I may extend a bonus up front in the hope of enticing you into even more superior performance (much like an efficiency wage) or signaling that I wish to promote you to the next level of effort and reward, but again, I expect a performance that can only be defined ex post facto, given the highly unpredictable circumstances.

This ex post facto evaluation works only in combination with trust on the part of each party during the period when each is a net creditor to the other. Thus, trust is used through the many iterations of the relationship as each party complies with the consensus norm concerning fair effort and compensation. Should either party default at either time, they pay the price of lost capital or reputation. In either case the loss is greater at higher levels of the iteration. In other words, much as Shapiro and Stiglitz (1984) suggest, the cost of shirking increases for the hired herder at higher wage levels, for he may begin back down at the bottom when he seeks reemployment elsewhere. Similarly, the capital loss and reputation loss to the herd owner for defaulting in the final stages of the relationship—at the point where a hired herder should reasonably expect bridewealth, for example—are extremely high, as we saw in the case described earlier. In that instance a group of hired herders, having observed many instances of the herd owner's "cheapness," stole many animals from him simultaneously during a drought. Because public consensus sided with the herd boys, it was the herd owner's reputation that suffered most, and he had great difficulty finding good workers thereafter.

Although the Orma clearly prefer relations that give them "control" over laborers, as is the case with sons and other close relatives who are economically dependent on them, they substitute "trust" when they have to. Under these circumstances the herd owner does everything possible to construct the choice environment in such a way as to maximize the probability that trust will be rewarded with trustworthiness. In much the same way that Hardin (1993) suggests, each party trusts in small steps, testing the waters and measuring the response of the other as well as possible, and in this stepwise progression the level of trust and risk escalates over time. Gradually the herd owner reduces his supervision and the herder tolerates longer periods between remuneration. Both parties depend in this endeavor on the norms of "fair play" to enforce their expectations through reputation.

The longer one spends building a reputation, the less likely one is to risk it by taking one quick gain. Reputation builds to greater and greater levels as one consistently forgoes greater opportunities for rewards from cheating. As a consequence, each increase in reputation also creates greater opportunity costs for shirking, as the future value of one's reputation grows. The relationship is self-reinforcing in this sense.

The actual adoption of a hired herder clearly moves the nature of the relationship from a contractual one to a more trusting one. But contrary to superficial appearances, this is not so much about the creation of trust due to a new common identity with the adoptee (see Tyler, this volume) as it is about calculated self-interest (see Hardin, this volume). From the context of agency theory, the most interesting quality of this transformation in the relationship is that we associate the move in the direction of generalized reciprocity with looser account-keeping and less direct monitoring of the daily performance of agent and principal. I believe this is what the elder discussed earlier is trying to capture when he remarks about one such relationship with a herder, "I don't even remember how much I have paid to him."

This suspension of account-keeping is in fact the essence of trust. Trust has replaced the need to monitor daily performance, thus gradually relieving both parties of a great accounting burden. In its final stages this form of trust appears to be the antithesis of strategic calculation. But as we examine the process by which it evolves, we see that in fact it is quite carefully calculated. This usage contrasts with the perspective of Williamson (1993), who wishes to reserve the term for noncalculative behavior. Trust occurs neither randomly nor prematurely. It occurs in direct measure to a decreased risk of the probability of cheating on the parts of both the principal and the agent, and this assessment is based on their incentives for long-term cooperation, their reputations, and the general social context of norm enforcement. This is a story about trusting in order to diminish accounting for very calculated reasons.

The case study on which this chapter is based stems from approximately four years of anthropological fieldwork with the Orma of Tana River District in Kenya (July 1978 to February 1981, April through December 1987, and parts of the summers of 1994, 1996, 1998, and 1999). The author wishes to thank the following foundations and institutions for generous grant support during these field trips: the National Science Foundation, the John D. and Catherine T. MacArthur Foundation, the Rockefeller Foundation, the National Institutes of Health, the Ford Foundation, Fulbright-Hays, the Beijer Institute, and Washington University.

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Notes

1. Common dangers that befall Orma herds but can be mitigated by careful husbandry are: weight loss or death due to drought conditions or failure to move stock to the best grazing; weakening of calves due to overmilking; failure to assist cows giving birth; failure to vaccinate stock against endemic diseases; attack by wild animals (especially lions and wild dogs); loss of stock in thick bush; attacks on stock by farmers if cattle are allowed to encroach upon farms; exposure to disease if herders take stock into tsetse fly-infested areas; death following the first rains after a drought when the stock are in a weakened condition and easily get stuck in the mud; and—increasingly common in recent years—cattle rustling by armed bandits.
2. This "control" does not stem from the "power of the curse," which influences these relations in some other East African societies.

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