

# Trust and reputation in the age of globalisation

Mark Eisenegger

*It will be shown in this paper that the reputation of all agents in our society invariably consists of three components. Firstly, their own competence and associated successes must be continuously demonstrated (functional reputation). Secondly, agents must adhere to social norms and values in a responsible way (social reputation). And thirdly, every agent relies on an emotionally attractive profile to separate him sharply from his competitors (expressive reputation). On the basis of this three-dimensional reputation approach, it is examined how the logic of reputation constitution has changed in the age of globalisation. Among other things, it becomes evident that the greatest reputation risks lurk in the sector of social reputation. In today's global communications society, significantly more attention is generated by denouncing moral misconduct than by honouring socially responsible behaviour. In particular, companies that boast in their external communications of having a clean vest carry a high risk of falling into the "moral trap". One of the rules of successful reputation management described in this paper is consequently: credible social commitment builds on actions and not on words. This rule applies all the more strongly at times like the current crisis of the financial markets. The concluding focus of this paper is directed to this crisis and its consequences for the reputation dynamics in the economy and society.*

## Trust and reputation – Fundamental and indispensable

It is trust – not power, wealth, or even love – that is the most important operational resource in our society. Why? Without trust, we would simply be unable to act. If we were not able to trust third parties to act as we expect them to act, we would do anything to avoid getting ourselves involved with them. For example, we would never think of entrusting our money to a bank in the crisis zone of Iraq. We would like to have faith that our bank

will comply with social standards, that we are not being duped or even cheated. And we want to be confident that the bank will handle our money competently and in our interest. The more we have learned to trust an agent (for example, a company), the more comfortable we are likely to be relying on that agent in the long term. For, trust is based on the experience that an agent has fulfilled our expectations in the past. And trust creates confidence that that agent will also fulfil our expectations in the future. For this reason, trust cements existing relations and at the same time acts as a magnet for future relations. Obviously, this applies not only in business. The same law holds in politics and other areas, even in our everyday lives and personal relationships.

However, it is only in rare cases that we can base our trust in those with whom we interact on our own experience. And this is where reputation comes in. For, whenever we are unable to rely on our own experience, we must fall back on the recommendations and judgements of others. Such recommendations, however, are nothing else but reputation judgements, which we then use to guide us – among other reasons, because it saves time and money. Whether we are deciding on a lawyer, a banking partner, a school for our children or which politician we should vote for, reputation judgements play a role that is central – and, in most cases, even decisive. Much more often than is commonly suspected, trust in those with whom we interact is based on the judgements of others, which influence us through direct or indirect communication (such as the media).

## **The true, the good and the beautiful – Three-dimensional reputation**

But what is reputation? Or: what are the elements that constitute a reputation? Irrespective of which agent we consider, be it a company, a politician, or even an academic, an agent's reputation always consists of precisely three reputation dimensions.

The idea that agents must continually prove themselves in three respects is an extremely important theorem in the social sciences. Even the ancient Greek philosophers Plato and Aristotle distinguished the worlds of the good, the beautiful and the true (Wilber 1999: 50ff.). On this idea, the enduring respect of the ancient community would only be accorded those citizens who served the world of truth in their activities, showed themselves to be virtuous citizens in the world of good and also demonstrated the requisite inner and outward grace in the world of the beautiful. The

same trio appears in Kant's famous three critiques in the form of objective, ethical and aesthetic judgements (Kant 2004a-c). We also see these three forms of judgement in Sir Karl Popper's distinction between an objective, a subjective and a social world (Popper/Eccles 1982). And, last but not least, these three dimensions make up the core of Jürgen Habermas's theory of communicative action, with his three validity claims (*Geltungsansprüche*): propositional truth, normative rightness and subjective truthfulness (Habermas 1984).

These three relationships to the world form the basis of our three-pronged approach to reputation, which can be applied to any chosen reputation bearer and which consists of three reputation dimensions: the functional, the social and the expressive (Eisenegger 2005; Eisenegger/Imhof 2008: 125ff.).

First, agents must, in the world of the true, prove their competence and demonstrate the required success. This functional reputation is proven in relation to the performance goals of the various functional systems (politics, the economy etc.). In the economic system, for example, it is measured by a company's profits. This reputation dimension follows a strictly fact-based logic: functional success or failure is measured by figures that can be objectively verified.

Second, reputation bearers must prove themselves in the social world of the good. This gives rise to the concept of social reputation. The central question here is to what extent actors are 'good citizens': that is, whether they simply trample on others in pursuit of success, or whether they act responsibly, in line with social norms and values. Having an intact social reputation requires following codified and non-codified social norms.

Further, losses of reputation in the social world weigh more heavily than losses of reputation in the objective world. Doubts about functional competence can be dispelled by demonstrating fresh success. Perceived moral deficiencies, on the other hand, have a longer-lasting effect on reputation, and can usually only be remedied with radical measures – such as publicly admitting fault.

Third, agents also possess an expressive reputation. Whereas judgements are fact-based for the functional reputation dimension and ethically based for the social reputation dimension, it is judgements of taste that dominate in the world of the beautiful (Kant 2004c). Reputation bearers are judged according to the emotional attractiveness of their individual character and according to how unique they appear. Agents with a positive

expressive reputation appear fascinating, sympathetic and unique (see the summary in Table 1).

**Table 1.** Functional, social and expressive reputation

	Functional reputation	Social reputation	Expressive reputation
Reputation reference	Objective world of the true	Social world of the good	Subjective world of beautiful
	Performance targets of function systems	Ethical standards	Individual character and identity
Reputation indicators	Competence; success	Integrity; responsibility	Attractiveness; uniqueness
Appraisal style	Cognitive-rational	Ethical	Emotional
Reputation intermediaries	Agents with a cognitive world reference, i.e. expert, scientists, analysts, expert media etc.	Agents with an ethical world reference, i.e. political agents, NGO, intellectuals, mass media etc.	Agents with an aesthetic world reference, i.e. communications and style advisors, artists; designers, mass media etc.

Source: Eisenegger/Imhof 2008 p. 130

Thus it is always these three dimensions – the functional, the social and the expressive reputation dimensions – that interact to form the reputation of an agent. And this is true regardless of the domain in which the agent operates.

Our personal reputation, too, is always constituted at these three levels. Thus, we cultivate our functional reputation by showing ourselves to be successful and competent in our business lives. Second, we nurture our social reputation, clearly signaling that we are people of integrity – partners, buddies, friends, who act responsibly. And third – the match-winner – we do everything to be noticed and found fascinating. To avoid being seen as a bore or as a run-of-the-mill person: this is the goal of personal, expressive reputation management.

We are now in a position to describe the secret of positive reputation. Agents with an intact reputation successfully advance the aims of their organisation (functional reputation), they act responsibly (social reputation) and they have a profile that clearly delimits them from the competition (expressive reputation).

All in all, the secret of positive reputation centres around striking the difficult balance between adaptation to functional and socio-moral expectations and successful expressive delimitation (see Figure 1). It is important to emphasize this aspect of delimitation: successful reputation management requires occasionally not bowing to a social trend in order to remain true to one's self-image. To return to the example of banks used in the introduction: the ability of some banks to withstand the pressure of the derivatives industry in past years – that is, by staying focused on longer-term and more sustainable goals – has yielded dividends, at least, in the current financial crisis.

Functional reputation:	Fulfilling functional performance expectations	↑ Adaptation
Social reputation:	Fulfilling socio-ethical expectations	
Expressive reputation:	Nurturing an emotional attractive identity	↓ Delimitation

The secret of a positive reputation depends on a delicate balance between adaptation (expectation management) and delimitation (identity management)!

**Fig. 1.** Reputation management in tension between adaptation and delimitation  
Source: Eisenegger/Imhof 2008 p. 131

## Why is reputation important?

Reputation, then, creates confidence in functionally appropriate and morally correct behaviour and increases the expressive conspicuousness of its bearer. This points to the functions that reputation as a factor can fulfil.

There is considerable research already on the commercial utility of reputation. An intact reputation makes it easier to create customer bonds and attract competent personnel. It increases access to capital and reduces credit-related costs. Generally, a superior reputation erects for companies a barrier that forestalls customer loss, and keeps market predators at bay (Schwaiger 2004). Yet, merely listing such economic functions – however central they may be – by no means does justice to the importance of reputation. For, in our society at large, reputation performs a fundamental steering function.

One elementary function of reputation, from a global social perspective, is to legitimate disparities in power. Power vested in those above must be recognised by those below to be regarded as legitimate. Power that cannot be secured by means of violence or repression has to be earned by an ade-

quate reputation. For this reason, positions of power sooner or later become fragile once reputations sustain significant damage. Not coincidentally, we almost daily learn of high-ranking politicians or CEOs forced from office because their tattered reputation means their position is no longer tenable. And because the modern mass media is skilled in critically examining the reputation of those with status, it plays an increasingly important role in deciding who among the 'top brass' can stay, and who must go.

Additionally, an intact reputation minimises social control. A good name removes the need to continually monitor the actions of reputation bearers. An intact reputation thus gives agents more freedom to act. By contrast, the more besieged the reputation of an institution, organisation or executive board, the greater the pressure to control and regulate them. In such cases, formalised rules (including the possibility of sanctions) compensate for the lack of reputation. It is therefore unsurprising that all substantial regulatory changes in the past have been triggered by reputation crises. The Sarbanes-Oxley Act and the surge in regulation of corporate governance can only be explained against the background of the huge accounting scandals and management excesses around the turn of the millennium. And one does not have to be a prophet to foresee that the current financial crisis and the associated loss of trust in the free-market economy will prompt a plethora of new regulations.

## Regularities

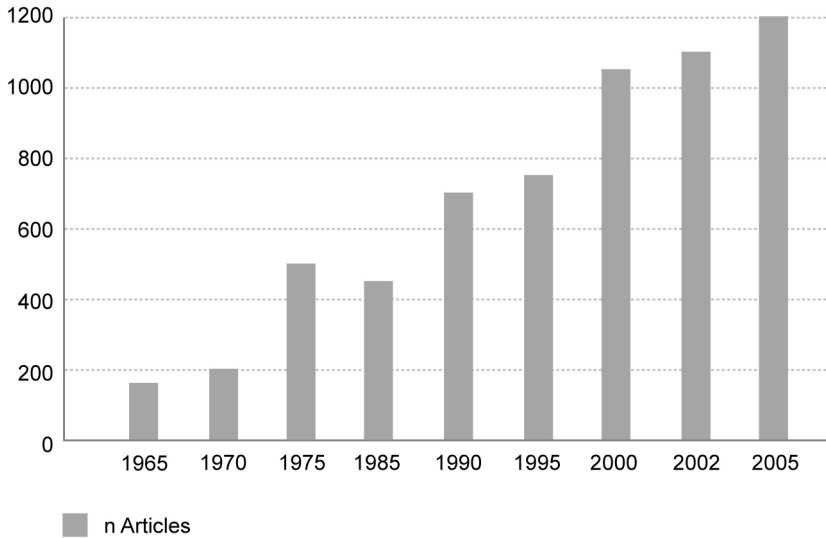
Professional reputation management relies on knowing the most important factors that decide whether a good reputation is won or lost.

The following discussion outlines several important findings and how the logical constitution of reputation has changed in the age of globalisation. These findings are based on a study of the reputation history of seven global players in international media from 1965 to 2005.<sup>1</sup>

- Finding 1: Corporate social responsibility issues have become much more important

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<sup>1</sup> The following companies were analysed: UBS (previously SBG / SBV), Credit Suisse, ABB (previously BBC), Holcim; Novartis (previously Ciba and Sandoz), Roche and Nestlé. The basis for the reputation analysis was the following group of quality newspapers: Neue Zürcher Zeitung, New York Times and Frankfurter Allgemeine Zeitung.



**Fig. 2.** Development of reporting on corporate social responsibility in international news media

In the global age, corporate social responsibility, or social reputation, has become significantly more important. Figure 2 shows that reporting on corporate social responsibility topics increased continually from 1965 with respect to the global players analyzed. How can this be explained? On the one hand, it is important to note that ethical questions have assumed central news value in the international media arena. Questions about ‘good’ and ‘bad’ have become core ratings generators in modern journalism. On the other hand, politics has – crucially – not been able to keep up with the globalisation of the economy. Because politics, which for the most part operates at nation-state level, is unable to ensure social well-being on a global scale, pressure has increased on multinationals to assume social responsibility.

- Finding 2: Social reputation is a minefield

Managing one’s social reputation has therefore become much more important in the age of globalisation. However, far greater risks attach to social reputation than functional reputation. This is illustrated in Figures 3 and 4.

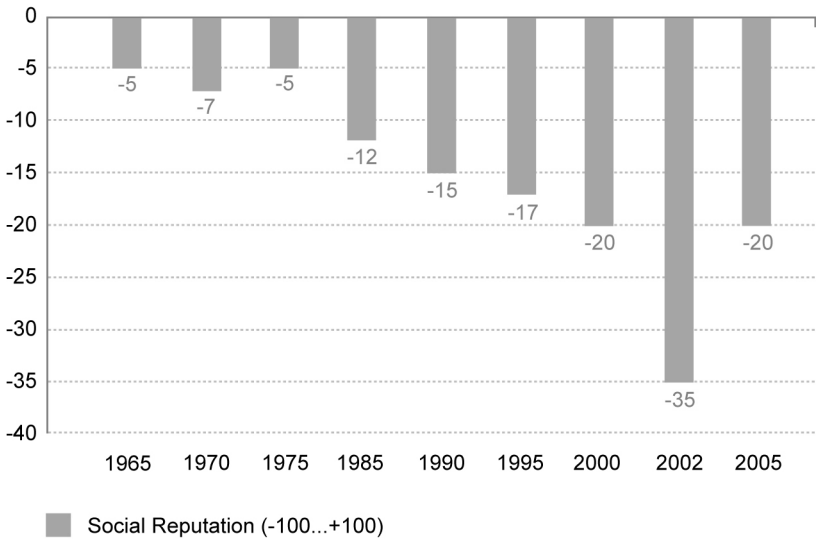


Fig. 3. Development of social reputation of analysed global players<sup>2</sup>

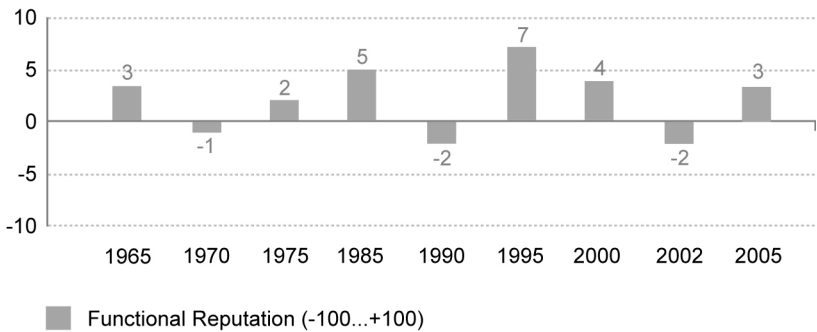


Fig. 4. Development of functional reputation of analysed global players

What is immediately striking is that the values for social reputation (Figure 3) are always lower than those for functional reputation, based on the economic performance of the major corporations analysed (Figure 4). One can summarise this as follows: the world of social reputation is a minefield for global players. For the reputation management of global players this means: functional reputation offers the best opportunities for

<sup>2</sup> The reputation index here measures the reputation of the companies analyzed as conveyed by the media. For this, all media reports for a certain time period were coded. The index ranges from +100 to -100. A (hypothetical) value of +100 means that only positive reports on the company were published in the relevant time period. Conversely, a value of -100 means that reports on the company over the time period were exclusively negative.



profiling the corporation. By contrast, as far as social reputation is concerned, a defensive strategy is called for: the aim is not to garner applause, but instead to avoid attracting negative headlines.

Especially those companies that are somewhat too bold in presenting themselves as snow-white in external communications risk stumbling into a ethical trap. This was exactly the mistake made by IT company Google, for example. It wanted to profile itself with the motto “Don’t be evil”. It then became publicly known that the company was censoring internet sites under pressure from the Chinese regime. Google was accused of violating its own ethical principles. One can learn from this: credible social responsibility is about action, not words. In the social world, companies should quietly comply with social standards without continually broadcasting their commitment. Managing social reputation by public relations alone is perilous.

However, one should draw some distinctions here: the biggest risks in the social world are born by the Goliaths of the economy, that is, the global players. Barely a single large corporation has so far managed to score sustainable points in the social reputation dimension. On the other hand, the Davids – that is, companies that operate locally and regionally – are significantly more successful in the social world. The bigger and more powerful the global player, then, the greater the pressure of expectations and the more critically the actions of these market giants are monitored. It therefore is not surprising that McDonald’s (as Number 1 in the market), and not Burger King, is the principal target of the anti-globalisation movement, or that Microsoft, and not Apple, is the preferred target for young hackers. As the size of a company increases, so too does the need to professionalise reputation management.

- Finding 3: Personality cults are harmful

Not only the rash cultivation of social reputation is dangerous, but also an exaggerated personality cult. The more strongly the reputation of a company is fixed to an entrepreneur or CEO, the more vulnerable it is. It is hard to attribute fault for wrongdoing to an abstract entity like an entire company. A famous person, by contrast, can be superbly pilloried. Also, if a company is perceived too exclusively in terms of its top management, it must rebuild its reputation each time management changes. This is expensive. Many companies have underestimated this in the past: they have encouraged a star cult, thus inhibiting the establishment of a sustainable reputation.

## **In conclusion: The financial market crisis and its consequences**

We are now witnessing the biggest financial and economic crisis in 80 years. How will this impact on the dynamics of reputation in the economy and in society? First, we should observe that we are underrating the current financial crisis if we choose to describe it only in terms of hard economic figures. This crisis is not only about nose-diving share prices, the collapse of once-reputable banks and automobile companies, the bankruptcy of entire national economies or the danger of a global recession. This crisis is much more than that. It is a gigantic crisis of trust and reputation for the entire economic system. What began about one and a half years ago with the failure of a small number of mortgage banks, going on to engulf Wall Street and major international banks and now to reach the real economy, has swollen into a genuine crisis of confidence in the entire free market economy. Joseph Stiglitz, the famous Nobel Prize laureate in economics, is probably right in speaking of an end to the economic ideology that has long prevailed: namely, that free, deregulated markets always work better than those supervised by the state.

And so, we are now seeing a new arrangement emerge between the economy, the state and society. The free market economy, in the context of this crisis, is losing reputation, while politics and the state are gaining reputation. There are renewed calls for the state as shareholder and owner, the state as an active player in the economic process. State backing now creates a competitive advantage for the companies taking advantage of this state aid. For a long time the state was seen, especially by these agents, as a hindrance to the market economy. There is, however, the danger that confidence in companies that receive state guarantees will increase, while companies that have no need for such assistance – that is, those that have been circumspect in the past – will lose reputation.

In general, there are good grounds for supposing that the neo-liberal era is at an end. This has not, however, been caused solely by a rediscovery of the state. What matters here is the combination of a social and functional loss of reputation among the ruling, global business elite. This can be seen especially clearly in the development of the ‘swindler’ (Abzocker) debate about the permissible amount of management remuneration. Up until summer 2008, this issue was debated only at an ethical level. People regarded the often exorbitant salaries of management as perhaps immoral, but not as a threat to the overall system. The debate first began to make an impact when it became linked to the system as a whole: in other words,

with the insight that compensation for the business elite and its consequences was not only a manifestation of market principles, but was also complicit in the demise of the free market economy in its neo-liberal form – both in real terms and ideologically. Shareholder value, short-term return targets, irrationally high equity returns, excessive management remuneration and bonuses are today seen as central causes for the irresponsible assumption of risks that have driven the economic system to the brink.

The neo-liberal principles of success, then, have run aground. The result: companies that can credibly combine economic success with social responsibility and that have always been oriented towards guaranteeing sustainable yields are experiencing a boost in confidence through the crisis. Unsurprisingly, there is a revival in reputation for regionally active business and local jobs, while financial market capitalism and the ideology of shareholder value are now massively on the defensive.

Crises of confidence as gigantic as the current one have the power to fundamentally reshape society. Things are sure to remain exciting for some time yet!

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