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Susan V. Scott and Geoff Walsham

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Department of Information Systems
London School of Economics and Polical Science
Houghton Street
London WC2A 2AE
telephone **+44 (0)20 7 955 7655**
fax **+44 (0)20 7 955 7385**
e-mail **is@lse.ac.uk**
home page **http://is.lse.ac.uk/**

THE BROADENING SPECTRUM OF REPUTATION RISK IN ORGANIZATIONS: BANKING ON RISK AND TRUST RELATIONSHIPS

Susan V. Scott*
The London School of Economics
Information Systems Dept
Houghton Street
London WC2A 2AE
T: +44 (0)207 955 6185
F: +44 (0)207 955 7385
e-mail: S.V.Scott@lse.ac.uk

Geoff Walsham
Judge Institute of Management
University of Cambridge
Trumpington Street
Cambridge

ABSTRACT

Globalizing knowledge economies foster conditions that intensify the role and value of organizational reputation risk. In a holistic, enterprise focused era reputation is a key strategic construct that can act as a boundary object linking communities within and between organizations. Yet approaches to its management tend to be reactive and remain under the hold of industrial society principles. In this paper we examine the influences fuelling a broadening in the spectrum of organizational reputation risk. Having noted the ambivalence that surrounds 'risk positions', we present a re-definition of reputation risk that encompasses the dynamics of contemporary risk and trust relationships. We explore the capacity of different trust forms to reduce complexity concerning the future and examine the potential of 'active trust development' as an approach to the management of reputation risk in organizations. This paper contributes to theoretical development of reputation risk in organizations through an analysis of recent literatures on risk, trust and reputation that links it to broader developments in society.

Keywords: reputation, risk, trust, reputation management, organizations, globalization

***Corresponding author**

1. Introduction

The aim of this paper is to examine what we suggest is a broadening spectrum of reputation risk in organizations and identify inter-related themes from current literature on risk and trust in order to develop the conceptual basis for a broader argument about reputation risk management. Having clarified our use of these terms, we take each area in turn, trace emerging debates and consider how they inform contemporary reputation risk management. Throughout our discussion we use examples from financial services in order to illustrate the issues under examination, as well as a suitably stressed context in which to explore the potential of "active trust development" (Child and Mollering 2003) as a way of approaching organizational reputation management.

It is perhaps surprising that while the majority of literature on reputation may make some mention of risk, the discussion of trust is limited. Yet there are discernible commonalities; for example risk, reputation and trust share an underlying concern with projections into the future. Risk focuses on the distinction between reality and possibility, while reputation refers to an assessment and anticipation of organizational performance; trust is generally defined as "confidence in one's expectations" (Luhmann 1979, p.4). All three concepts imply boundary-crossing reflexivity; risk and trust are dependent upon both personality and social system rather than exclusively associated with either (see Luhmann 1979, p.6) and reputation is a similarly situated interpretation.

We begin by describing the marked growth of interest in risk studies and note that rather than nurturing consensus this increased attention has created an epistemic quagmire. Drawing from scholarship in the sociology of knowledge, we suggest that what appears to be an academic debate about the valid basis of knowledge on risk may have far reaching political implications. The basis and scope of risk studies shapes priorities in the world. Indeed as Charles Perrow (1984) put it:

> "Ultimately, the issue is not risk, but power; the power to impose risks on the many for the benefit of the few."

In the next section, we pursue the theme of risk and its relationship to values (from commercial to ethical) further by reflecting on a sociological thesis called the risk society (Beck 1992). One of the key insights from this discussion is that in the face of contested expertise lay people feel a growing obligation to make sense of risk issues for themselves, adopting personal and professional risk positions rather than giving themselves up to fate or relying upon what were formerly regarded to be traditional protective institutions.

We then consider how a convergence of issues is loading the notion of reputation with increasing importance. These issues include an extension of stakeholder definitions in risk politics, the rise of enterprise management approaches, the significance of symbolic expertise in knowledge economies, and the entanglement of global media and ICTs in contemporary sense-making. We suggest that contemporary reputation risks are characterized by high levels of reflexivity between knowledge construction and risk positions, which taken together reflect a distinctive risk society dynamism whose implication for the management of organizational reputation risk need to be considered.

In a third section, we examine the role of trust in managing complex phenomena such as reputation risks. After reviewing literature concerned with the evolution of trust in organizations we consider how changing conditions surrounding the production of trust influence reputation, a phenomenon whose constitution implicitly and explicitly connects to trust relations. Extending a working hypothesis that the development of forms of trust has become important to management in contemporary organizations and following a recent turn away from the 'darker side of trust', we join authors considering the potential of proactive trust relations for the management of reputation risk in low trust contexts. We conclude by suggesting a potential juxtaposition in types of reputation, risk, and trust that raises important issues for both practitioners and organizational theorists.

2. Risk

Renn (1998) notes that despite thirty years of intense study there is no commonly accepted definition for the term risk in either lay or scientific understanding. Although risk has been a perennial human attraction, systematic studies of risk emerged only after World War II during experimentation with chemical and nuclear technologies and development of safety analyses for space exploration programs (see Starr (1969) for a seminal article in this genre). Since then, interest in the concept of risk has spread from disciplines such as finance, actuarial science, accounting, natural science research and engineering, to areas like health and safety, public policy, and environment studies (see Burger 1990; Royal Society 1997; Adam 1995; Bernstein 1996; Renn 1998). Despite this proliferation in the adoption of methods of risk assessment and management, significant epistemological differences make consensus among the disciplines studying risk problematic.

The epistemic debate is triggered by the nature of risk itself, which can be understood as both a normative state of 'reality' lending itself to deductive methods of cause-effect and a social construction requiring thick descriptions of context (see Douglas in Burger 1990). For example, Adam (1995) contrasts the realist position "car crashes happen" with the political debate about "how to reduce the number of car crashes" (e.g. by wearing seat belts, designing calming measures for traffic, reducing speed limits etc).

Disciplinary area	Definition of risk
Engineering and physical science	Probability times consequence
Psychology and cognitive science	A function of subjectively perceived utilities and probabilities of their occurrence
Economics and finance	Measurable uncertainty
Health and safety	A chance or possibility of hazard, danger, loss, injury, or other adverse consequences
Sociological perspective of cultural theory	Danger that is socially defined and (in some cases) socially constructed
Integrated interdisciplinary approach	The possibility that human actions or events lead to consequences that affect aspects of what humans value

Table 1: Disciplinary differences in the definition of risk (adapted from Renn 1998)

The rational calculations of risk inscribed into the methodological protocols of disciplines at the top of Table 1 provide formulas and measures that can be used to structure programs of action from public policy to financial risk tools. As a consequence of this 'fact-producing' utility, hard methods of risk assessment have become routine, reflecting what Hacking (1975) in his analysis of knowledge construction in modernity refers to as the "probabilisation" of the western world. Whilst realist positions on risk and the formal, calculative processes that usually accompany them are useful tools in many situations, it is important not to lose sight of their limitations (Bernstein 1996). Over-reliance on them may induce a false sense of security, particularly with regard to potential side effects of human actions and interventions (Renn 1998).

Concern about this has been raised in recent studies documenting a rise in the use of formal rational-scientific approaches to the management of risk. For example, increasing use of computer-based decision support systems to organize and prioritize credit applications (Scott 2000), the spread of audit culture (Power 1999), and studies showing how dominant accounting practices influence agents behavior (Miller 1998). The conclusion of this literature is that risk models don't pre-exist they have to be formed. Accordingly, it could be said that our definitions of risk shape and format society, which suggests that changes to the assessment and management of risk need debating, particularly where we detect a narrowing in its treatment.

To counter-balance the tendency to over-rely upon reductionist approaches to risk, there are calls among the risk community to emphasize the necessity of interdisciplinary risk assessment that builds upon the insights of both hard and soft approaches (Freudenburg 1988; Renn 1998; Johnson 1987). As Perrow's (1984) extensive study of high-risk technologies shows, signals that indicate a potential risk might begin with statistically insignificant everyday activities that require contextual interpretation in order to discern their implication for the broader systems level within the organization under study. Social science approaches such as cultural theory have shown that organizational incompetence is situated and embedded in social relations (see Douglas 1985, 1992; Douglas and Wildavsky 1982; Thompson and Wildavsky 1982; Thompson, Ellis and Wildavsky 1990; Wildavsky 1988, 1994). Such approaches counter balance what sociologists of knowledge have referred to as the hegemonic institutionalization of instrumental techno-science knowledge, and present a broader perspective that is more likely to represent a range of stakeholder positions in a more encompassing risk debate.

We join with scholars that advocate complementary use of the full spectrum of methodological approaches to extend the potential contribution of risk studies. However, we need to take a further sociological turn to appreciate the particular intensity with which phenomena such as reputation risks are being treated by both scholars and practitioners. In order to understand the scope and profundity of risk politics, we examine the risk society thesis of Ulrich Beck (1992) in which he connects themes from the sociology of knowledge to controversies over risk definitions and the politics of responsibility.

2.1 Risk in globalizing knowledge societies

Beck's work is broadly aligned with the interdisciplinary definition of risk at the bottom of Table 1 above; in other words 'the possibility that human actions or events lead to consequences that affect aspects of what humans value' (Renn 1998). Beck's agenda is shaped by the urgent need to address environmental issues. While he accepts the premise that knowledge is socially constructed, he remains concerned by the potential inaction that might accompany a collapse into relativism. Building upon a well-established sociological tradition in which social change is understood as a learning process, Beck maintains that rather than polarize on risk issues we need to find a way to engage in a managed dialogue. This is consistent with Luhmann's (1993) point that "the risk element in all societal systems is exclusively concerned with communications". Beck's position is that

> "Risks only exist in terms of the (scientific or anti-scientific) knowledge about them. They can be changed, magnified, dramatized, or minimized within knowledge, and to that extent they are particularly open to social definition and construction."
> (Beck 1992, p. 23)

Key questions for Beck are why and how particular definitions of risk and responsibility come to dominate the political arena? Beck's preferred way of organizing a negotiated outcome in situations of contested expertise is to re-center ethical notions of values. Rather than assign blame and create a scapegoat to bear the cost of unforeseen consequences alone, Beck advocates expanding our definitions of stakeholders in a way that supports the emergence of responsible modernity.

In this regard, Beck's development of the theme of responsibility and blame bears closest resemblance to the work of fellow risk researcher Mary Douglas. Douglas (1990) has argued that:

> "We need a common forensic vocabulary with which to hold persons accountable and further that risk is a word that admirably serves the forensic needs of the new global culture."

Beck (1992) adopts a similar approach in his concept of risk, which he defines as "a systematic way of dealing with hazards and insecurities induced and introduced by modernization itself".

Beck's thesis is marked by particular concern with manufactured or high-consequence risk associated with modernization, summarized here in his definition of a risk society, which he describes as:

> "…a phase of development of modern society in which the social, political, ecological and individual risks created by the momentum of innovation increasingly elude the control and protective institutions of industrial society."
> (Beck 1999, p.72)

This is a world in which the logic of wealth production is replaced by the logic of risk production, where attention shifts from the distribution of 'goods' to the distribution of 'bads' (see Wynne and Lash1992).

Beck maintains that the emergence of side effects created by the implementation of techno-scientific innovation (for example global warming, BSE or 'mad cow disease', genetic pollution), characterizes life in the 21st century. Manufactured risks have distinctive systemic dynamism remaining latent until they breakout as controversies. Once they have manifested, such risks have the capacity to transcend time and space, translating risk from being purely a local matter for individual response to a global concern of profound political significance (Albrow 1996). The latency and boundary-crossing dynamism of manufactured risk engenders a potential increase in the scope of stakeholders in terms of claims, obligation, and responsibility. As a consequence modernization often brings not just automation and rationalization, but a stage characterized by confrontation, especially toward a perceived "organizational irresponsibility" (Beck 1999, p. 6) on the part of those who govern our lives.

As Wynne (1996) points out in his critique of Beck, it is not just corporations that assess and manage risk; in a globalizing risk society we all construct "risk positions" (Beck 1992) on issues that involve or concern us. The pressures of "individualization" (Beck 1992) and breakdown of traditional trust relationships (marriage, family, trade union, government) has engendered a heightened sense of personal and collective vulnerability. Revelations about 'mad cow disease' (BSE/JCD) and global warming have shaken trust in scientific experts, governments and corporations to 'do the right thing'. Heightened risk consciousness turns us into "citizen risk detectives" (Beck 1999, p.130) learning to recognize the signs of redefinition, engendering a distinctive form of modernization anxiety (Wilkinson 2001). The suggestion that subjective risk consciousness is growing in status and nature holds important implications for organizations.

According to a survey from Aon (Unsworth 2001) minimizing the risks to an organization's reputation has outstripped the management of physical risks as the chief concern of UK risk managers. As with other areas of risk discussed above, we maintain that the scope and definition of reputation risk has become highly contested. Indeed, we suggest that previous definitions of reputation risk are bounded by an industrial society mindset, which renders them inadequate on both a practical and theoretical level. Before proposing an updated definition of reputation risk, we pause to consider how the notion of reputation itself has changed.

3. Reputation

Reputation has been a key resource, shaping commercial choices throughout history as Greif's (1989) account of business relations among medieval Maghribi traders shows. Shakespeare even commented on it in Othello:

> "Who steals my purse steals trash...But he that filches from me my good name robs me of that which not enriches him, and makes me poor indeed."
> (Shakespeare's Iago in Sheldon Green 1993)

Reputation refers to the standing of a person or collective and in its broadest sense reflects what is generally thought or said. Reputations can range from being credited with positive qualities or attributes through to notorious fame. The importance of intangible assets such as reputation has been a long running, if low volume theme, in organizational literature. An early example of such work is Perrow (1961) who commented on how the conscious cultivation of intrinsic qualities, such as prestige, may help organizations control their dependency upon the environment:

> "If an organization and its product are well regarded, it may more easily attract personnel, influence relevant legislation, wield informal power in the community, and insure adequate numbers of clients, customers, donors, or investors."
> (Perrow 1961)

While reputation is mentioned by economic and business literature it tends to be treated mechanically with an emphasis on its utility in reducing transaction costs. For example the *Handbook of Industrial Organization* gives the following comment:

> "Reputation is an intangible asset that is beneficial for transacting in environments where one frequently encounters unforeseen contingencies. It offers an implicit promise for a fair or reasonable adjudication process when events occur that are uncovered by contract. The more faith the firm's trading partners have in the firm's ability and willingness to fill in contractual voids in a reasonable manner, the lower the costs of transacting. Thus, establishing and nurturing a good reputation is of much strategic significance."
> (Holmstrom and Tirole 1989, pp.63-110)

In order to develop the concept of reputation further we need to turn to literature concerned with subjective, intangible organizational qualities including organizational identity, image and culture. There has been significant overlap in the study of these concepts and scholarship in this area is broadly based offering a multiplicity of issues and theoretical perspectives (see Hatch and Schultz 2000). This represents a rich scholarly resource upon which to build, including research on: corporate and organizational identity (Balmer 1995; Hatch and Schultz 1997); image (Sutton & Callahan 1987; Dutton & Dukerich 1991; Dowling 1993); impression management (Giacaloni & Rosenfel 1989); corporate attribution analysis (Salancik & Meinal 1984); organizational legitimacy (Elsbach & Sutton 1992); corporate brand (Ollins 1989, 1995); and organizational culture (Schein 1985). In an attempt to navigate through this multidisciplinary area and move beyond semantic debate, Hatch and Schultz (2000, p.11) propose defining organizational identity through its theoretical interdependence with image and culture.

Following Hatch and Schultz (2000), we suggest that it is helpful to think of reputation in a similar way as a composite concept, affected by multiple constitutive influences including organizational identity, image, culture, and corporate brand. From this perspective the qualities that distinguish reputation from other intangible aspects are relative, rather than absolute. Having noted this qualification, we identify points of relational difference and suggest that their combined effects imply a particular role for organizational reputation.

For example, we can say that reputation is ascribed with more potential business value than its related concepts. Barney (1991) maintains that, in some circumstances, reputation is seen as a source of "competitive advantage" (see also Barney and Hansen 1994). In a national survey conducted by Hall (1993), reputation was regarded as the most important intangible contributor to business success. Such assertions are likely to be conditional on sample and situation. Nevertheless, multiple sources of evidence suggest that the value of reputation is likely to continue its ascension in increasingly knowledge-based economies. The basis for this is that as technical systems become more easily replicated, there is growing recognition that symbolic expressions of expertise, such as reputation, are scrutinized as evidence of strategic differentiation (Ciborra 2000). Once the equity value of a company exceeds its reported asset holdings and published performance figures, perceptions of reputation may encourage stock market investment. Indeed, intangible assets are regarded as part of the fuel driving so-called "irrational exuberance" (Shiller 2001) on stock markets.

Balmer (2003, p.177) suggests a further distinctive characteristic of reputation is that it is "formed over time" based on what the organization has done and how it has behaved. Whilst past performance is key to the formation of reputation, we suggest its temporal features are more multi-faceted and complex than Balmer (2003) indicates here. Reputation is closely associated with the longevity of an organization, helping to make a competitive position more stable and defensible (Rumelt 1984). Implicit in this is not just historical information but also a projection into the future. In other words, based upon past performance an organization may be credited with the capacity to survive volatility produced by events or conditions. The dissolution of reputation has different, but equally remarkable, temporal features suggesting that although an established reputation may at times give organizations a seemingly unassailable position, it is also ironically "not the most durable" asset (Hall 1993). Hall comments:

> "Reputation, which is usually the product of years of demonstrated superior competence, is a fragile resource; it takes time to create, it cannot be bought, and it can be damaged easily".
> (Hall 1993)

The ambivalent nature of reputation, both lasting and vulnerable, is in part due to its highly contingent status. Reputation can express or 'sum up' an organization. However, it does so on the basis of a holistic, multi-level assessment encompassing environment, sector, firm, group, professional and personal. In one of the few published frameworks of intangible resources and capabilities, Hall (1993) positions reputation both within and between organizational phenomena, lying on the boundary between a capability that is people dependent (perception of quality and service) and a resource independent of brand or image. This hybrid and multi-level interconnectivity makes the management of organizational reputation challenging. Hall suggests that as a consequence of this:

> "[R]eputation…should receive constant management attention…[A] key task of management is to make sure that every employee is disposed to be both a promoter and a custodian of the reputation of the organization which employs him."
> (Hall 1993)

The multi-level dynamism of reputation also presents problems when attempting to attach responsibility to reputation issues and accounts for its complex legal characteristics. Hall (1993) maintains that reputation occupies a hinterland between that which a company can legally protect and that which it cannot. Strategies designed to 'control' reputation would therefore appear to clash with the on-going challenge of managing those aspects of reputation that are insur/ensur-able and the uninsur/unensur-able.

Based upon this discussion, it may be helpful to conceptualize reputation as a "boundary object", (Star & Griesemer, 1989) providing a means of translating across social worlds and creating integration. Boundary objects inhabit several communities of practice and satisfy the informational requirements of each of them (Bowker & Star, 1999). They are:

> "both plastic enough to adapt to local needs and constraints of the several parties employing them, yet robust enough to maintain a common identity across sites….The creation and management of boundary objects is a key process in developing and maintaining coherence across intersecting communities."
> (Bowker & Star, 1999)

The instantiation of reputation is a consequence of this on-going translation, integration and maintenance across boundaries. Indeed, we suggest that it is this capacity for organizational reputation to reflect systemic qualities that may account for the increase in attention that it has received since the 1990s, leaving related topics such as corporate image trailing behind (Balmer 2003, p. 177).

Reputation has overflowed previously narrow definitions of it as an output measure of organizational performance and has become a strategic construct, a way of thinking about the whole organization (Schultz, Hatch, Larson 2000a, p.3). In a globalizing age in which enterprise-wide initiatives and inter-organizational business alliances are becoming commonplace, professionals are reaching out for scaleable concepts to support their organizational practices. Cross-functional strategies such as Just in Time (JIT) and Business Process Reengineering (BPR) have been taught in business schools for two decades, but their area of focus has been mainly technical (Schultz, Hatch & Larsen 2000a, p.3).

Whilst technology holds the abstract promise of integrated enterprise strategies (see Davenport, 2000), in practice realizing their potential has proved more complex; indeed it is regarded by some as a "strategic crisis" (Schultz, Hatch & Larsen 2000a, p.3). Business process innovation may pull the organization together on paper, but what inspires professionals to effectively cohere as a reputable entity in practice? Scott and Wagner (2003) suggest that during the implementation of a large scale information system designed to rationalize financial management and administration around Enterprise Resource Planning, one of the key motivations for particular staff to overcome technical difficulties experienced was an over-arching will to protect the 'grand narrative' and ensure that 'no matter what it took' the reputation of the academic organization in question was not damaged. This illustrates that for many organizations the issue is not just about the value of a brand but also about the *values* associated with a brand.

Dutton, Dukerich and Harquail (1994) suggest that the image a person holds of their work organization shapes the strength of their identification with the organization. They propose that members are drawn to organizational images that help them preserve continuity of their own self-concept, self-esteem and social standing. This is reinforced by Fombrun and Rindova's (2000) study of reputation building, which they maintain revealed the importance of congruence between perceptions of the company by stakeholders and the company's inner reality. Their findings illuminate the challenges involved in achieving and managing reputation in the face of transparency and porosity of boundaries, defined by them as:

> "…a state in which the internal identity of the firm reflects positively the expectations of key stakeholders and the beliefs of these stakeholders about the firm reflect accurately the internally held identity."

(Rindova & Fombrun's 2000, p.94)

Our discussion on reputation so far has focused on the changing conditions in which it is constructed and maintained. In the next sub-section we turn our attention to key issues surrounding the destruction of reputation, and its links to the themes of risk identified earlier. The aim is to develop a definition of reputation risk that is informed by the respective discussions of both concepts above and consequently more suited to contemporary organizations.

2.2. Reputation risk

The term 'reputation risk' is generally used to describe potential threats or actual damage to the standing of an organization. Practitioner-oriented literature tends to prioritize the correlation between reputation risk and commercial shareholder value, as illustrated in the following definitions of reputation risk in industry publications as:

> "…any event which has the potential to affect the long-term trust placed in the organization by its stakeholders, thus affecting areas such as customer loyalty, staff retention and shareholder value."
> (Veysey 2001).

Note the dominance of commercial issues in Eisenberg's version:

> "[Reputation risks threaten] the current and prospective impact on earnings and capital arising from negative public opinion that may expose the institution to litigation, financial loss or a decline in its customer base."
> (Eisenberg 1999).

Our proposition is that a fundamental shift is taking place from industrial society thinking on the issue of organizational reputation risk to growing recognition of the need for a revised approach that takes into account conditions in globalizing knowledge economies. In the former, concern about reputation risk would focus upon failure to meet contractual obligation, taxes, and measurable quality or performance issues. In other words, in industry society thought, as Milton Friedman put it: "The social responsibility of business is to increase its profits" (Friedman quoted in Sison 2000).

In contemporary societies, alongside traditional concerns, a further range of ethical, symbolic or expressive issues are coming to bear upon organizational reputation (depicted graphically in the figure below). We maintain that this broadening spectrum of reputation risk dynamics needs the attention of practitioners and scholars.

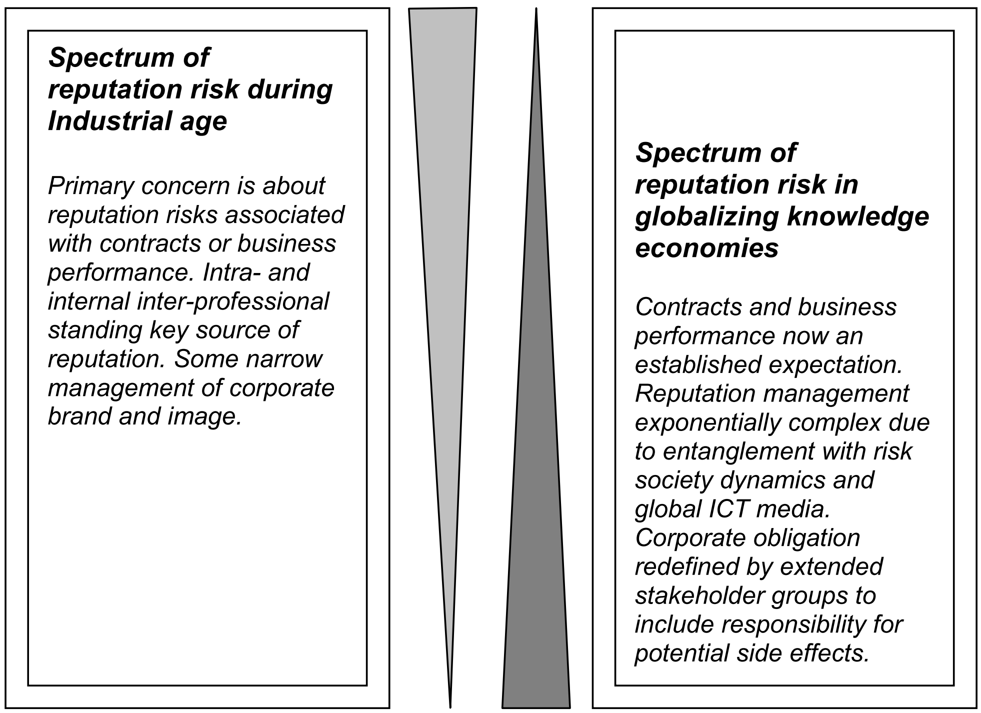

Figure 1: The broadening spectrum of reputation risk

In an adaptation of Renn's (1998) inter-disciplinary definition of risk, discussed in the previous section, we suggest a more encompassing definition of reputation risk as 'the potential that actions or events negatively associate an organization with consequences that affect aspects of what humans value'. This is a useful starting point, establishing a basis for exploring a more inclusive range of reputation risk and examining the conditions that are fuelling its less formally recognized contemporary forms.

One of the most underestimated aspects of present day organizational reputation is the need to take an expanded definition of stakeholders into account. Whilst some companies show willingness to develop enterprise or infrastructural perspectives on their business, there is still a tendency to sequestrate from "larger society" (Grunig 2000, p. 208) and take a truncated view of stakeholder engagement. To an extent, of course, this may be necessary in order to focus; however, unless this tendency is mitigated, it could prove a liability.

Anti-globalization riots (see Rugman 2000) are an expression of and fuel for popular movements challenging so-called "unfettered capitalism" (Gray 1998). In an echo of Milton Friedman, many organizations have largely shrugged off this reputation risk, regarding themselves as free market service providers who are not responsible for, or to, communities beyond their business sector. However, the obligation to respond remains, and pressure builds when respected figures like Joseph Stiglitz (Nobel Prize winner and former World Bank chief economist) announce that global capitalism has not succeeded in convincing major segments of the public that they are taking the issues surrounding it sufficiently seriously or making a major effort to address them (Stiglitz 2002; see also Burbach et al 1997).

We suggest that in recent years there has been an institutional opening up and organizations are scrutinized in ways that they have not been before. The momentum of perceived organized irresponsibility can be very difficult to contain. In the knowledge economy, organizational stakeholders have learnt to revisit their relationships and revise them if necessary:

> "The crisis of the digital divide is breeding a cultural consciousness of activism; so many asymmetries of resources and rights have been revealed that the public are willing to linger on new information. In cases where there is doubt, one's own information and not that of industrial agencies is believed."
> (Beck 1999, p.44)

As Gambetta says, formal structures and social reality have a distressing tendency to diverge, sometimes sharply (Gambetta 1988a, p.230). These kinds of reputation risk have to be proactively researched and managed as they often linger as unheard voices in the margins until revealed. Regardless of whether or not the company's definition of its responsibilities reaches out beyond the direct parameters of its enterprise; organizations cannot ignore the dynamics of sense-making and knowledge construction in contemporary society.

Reputation is emblematic of the kind of resource that managers have to learn to work with in the knowledge society. It is "weightless" (Quah 1998, 1999), informational, abstract and intertwined with global media. It forms part of a web of sense-making surrounding the organization, playing its part in an ICT-charged "ensemble" (Orlikowski and Iaconno 2001) of resources. Concern over brand and reputation has, of course, existed in previous times but the speed, scope and reach of global media has intensified the capacity for damage and sense of insecurity. Consider the lumbering campaign of protests against Barclays Bank's presence in South Africa during the 1980's (Beresford and McRae 1986; Lascelles 1996; Anon. Chicago Tribune, 1986) compared to the speed of so-called "pump and dump" incidents in which information on an Internet bulletin board can influence the price of actively traded shares on the stock market (see the

Emulex case, Anon. Reuters Aug 31st 2000; Anon. New York Law Journal Oct 23rd 2001).

There is evidence that the interconnectivity and access to information offered by the Internet has made it easier for organizational stakeholders to organize over time and space fuelling their potential political dynamism. For example, in the USA, web sites were used to collate evidence from disaffected customers and publicly castigate Citibank for allegedly pursuing high interest rates policies targeted at customers in poor areas (see www.innercitypress.org/citi). Within days of the Equitable Life pensions mis-selling scandal breaking, thousands of customers made contact via the internet (see for example www.emag.org.uk) swapping information and discussing possible actions they could take.

Having considered contested stakeholdership above, we turn to those closest to the heart of the matter: the organizational members. Fombrum and Rindova's (2000) proposal that reputation can be built "from the inside out" brings us to reflect further upon the theme of individualization introduced in our sub-section on the risk society above. Significant events or symbolic organizational expressions may be as closely monitored by internal stakeholders as external. If these are interpreted as holding strategic implication it may trigger a revision in both personal and professional "risk positions" (Beck 1992).

We suggest that the anxieties produced by conflicting demands and stressful personal/professional life can "ready" reputation risks. We draw this term from Willison's (2000) work on computer fraud and "situation crime prevention" in criminology theory. This theory suggests that situations provide not only the opportunity, but also "ready" individuals for crime. In other words they promote the inclination to commit crime (Willison 2000). Just as crime prevention teams are advised to analyze the antecedent stages of fraud, we maintain that a build up of influences upon personal/professional risk positions may "prompt, pressure, permit, or provoke" (Wortley 1997) reputation risks.

The "ability to understand and synthesize different personal and professional views" is at the center of contemporary reputation management (Larsen 2000, p. 205). Correspondingly, Larsen (2000, p.205) suggests that a key question for the organizational member is how they can "be a symbol of the organization and of him or herself at the same time". If this is to be achieved at all, the choice and use of symbolism to communicate with stakeholders and production of the organizational "message" has to be thoughtfully managed (Grunig 2003, p.213). As we progress toward a knowledge economy, we suggest that strategic effectiveness depends as much upon expression of symbolic expertise as it does upon competent planning.

> "Strategy must serve all stakeholders and that means employees as well as customers, shareholders, creditors, suppliers, local communities, and the media.. This has been said before, of course. But what is different this time is that that the coming-together of stakeholder interests has an expressive (symbolic and communicative) dimension that has not been emphasized in the past…These are matters of meaning as much as or more than they are technical concerns, and this is changing everything."
> (Schultz, Hatch & Larsen 2000a, p.2)

If the stakeholders think they have access to information and are not being treated as "cultural dopes" (Wynne 1996), they may put motives alongside mistakes, in which case reputation may buffer organizations during hard times (Greyser 2003, p.237). The flip side of this is that, in an information age, people rapidly deconstruct empty glossy public relations. It is unadvisable to indulge in PR that does not match experience (Grunig 2003, pp.212-213). For example, major UK retail banks continue to engage in expensive marketing campaigns promoting themselves as the leaders in caring service, dedicated to knowing their customer and supporting them throughout their lifetime of changing financial needs in the community. In 2000 a public protest group called the *Countryside Alliance* castigated the retail banks for closing rural branches providing essential basic financial services to communities (Treanor and Hetherington 2000; *The Guardian* 5th April 2000); small villages lost their only branch with banking relationships that often spanned generations. The branch closure strategy was extensively covered by the national media. The UK retail banks have responded with the stainless steel rhetoric of progress:

> "It does not fall to every company, in every generation, to do good in society."
> (Martin Taylor, CEO Barclays Bank, Public Lecture 1998)

The potentially "runaway" (Giddens 1999) nature of ICT-charged reputation risk has inspired new efforts to manage it. For example, organizations are attempting to manage reputation risks using probability based definitions and off-the-shelf IT-based 'total solutions', which treat them as if they were similar to other, more tangible risks (Veysey 2001; Hall 1993). Reputation risk management is becoming increasingly automated, using incident databases that track events and monitor media (Kartalia 2000). The aim of many of these methods is top-down control rather than management, with a linear determination to isolate risk variables and their causal factors, then measure and benchmark them based upon the assumption that this will neuter the problem (for example, Kartalia 2000).

The momentum of such innovations fuels the emergence of technologically-driven sub-industries to manage reputation risk, but unless mitigated by management they are also likely to produce side-effects. This approach to reputation risk reflects a reductionist mentality in an era when we need to think outside 'machine' logic and reach for boundary-crossing, enterprise framing of issues. We have suggested that it is important to consider a broad pallet of risk management approaches, and to that end we propose exploring the development of trust as a potentially stabilizing influence on reputation risk.

4. Trust

In his treatise on trust, Luhmann (1979, p.3) begins by seriously considering whether it is advisable for scholars "to employ terms and concepts taken from common usage or from the traditional realm of discussion about ethics". As with risk, each disciplinary area has attempted to develop a distinctive intellectual position on trust, which has resulted in fragmentation and lack of coherence (McEvily, Perrone and Zaheer 2003). Mollering (2001) scopes out a consensus position in which trust is broadly defined as "a state of favourable expectation regarding other people's actions and intentions". However, scholarship on the concept of trust takes this as its point of departure and from here identifies different levels of analysis spanning individual, team, organization and societal. Included in this literature are theoretical constructs such as system trust and personal trust (see Luhmann 1979; Wolff 1950), as well as considerations of trust in specific empirical contexts (see Huff and Kelley 2003).

A further body of research emphasizes the analytically distinct bases of trust ranging from: cognition-based, affect-based (McAllister 1995); calculative-based, knowledge-based and identification based (Lewicki and Bunker 1996); process-based, characteristic-based, and institutional-based trust (Zucker 1986). We can say that the broad aim of the former literature is to deepen our understanding of trust as an "organizing principle" (McEvily, Perrone, and Zaheer 2003) in the world, whereas the latter analyses the relationship between different points of reference and particular forms of trust.

Our interest in trust is its role as "one of the most important synthetic forces within society" (Simmel in Mollering 2001). Key to this is its capacity to reduce complexity concerning the future. When we trust, we engage in action "as though there were only certain possibilities in the future" (Luhmann 1979, p.20) taking a "leap of faith" (Mollering 2001) and moving forward despite uncertainties:

> "Rather than being just an inference from the past, trust goes beyond the information it receives and risks defining the future. The complexity of the future world is reduced by the act of trust. In trusting, one engages in action as though there were only certain possibilities in the future."
> (Luhman 1979, p.20)

Drawing on both economic and sociological theory, Adler (2001) argues that trust has:

> "…uniquely effective properties for the coordination of knowledge-intensive activities within and between organizations…likely to become increasingly important in the mechanism mix".
> (Adler 2001)

However, he also points to the difficulties encountered by the trust mechanism in a capitalist society and suggests that these pressures are creating a "mutation of trust itself" (Adler 2001). We maintain that since reputation is vested with explicit notions of trust, such as confidence, industry standing, and 'good faith', as well as implicit representations of dependability a fundamental shift in the nature of trust production has significant implications for its management.

There is evidence to suggest that there have been changes in the conditions under which we are asked to trust. For example, the increasing strategic importance of inter-organizational collaborative networks and outsourcing relationships reconfigures key work practices across time and space (see Mowshowitz 1997; Kristof et al 1995, Pavlou 2002; Shankar, Urban and Sultan 2002). Studies of virtual organizations indicate that reduced opportunities for co-presence may hamper knowledge sharing unless those involved develop mitigating dynamics and find ways of establishing trust relationships

(Jarvenpaa and Leidner 1999; Kanawattanachai and Yoo 2002). New organizational forms:

> "…alter the patterns of interdependencies and the nature and extent of uncertainty. The consequence being that the individuals working in the new organizational forms become more vulnerable to, the decisions and actions of others – both preconditions and concomitants of trust"
> (McEvily, Perrone and Zaheer 2003)

ICTs have enabled transparency at many levels of interaction, which has proved threatening to many business models (Zuboff 1996). Greater visibility of data has also shifted responsibility for managing the privacy to organizations, which has led to a sense of vulnerability.

Such themes have inspired researchers to focus on the struggle to trust in contemporary society (Deutsch 1962; Kee and Knox 1970) or what has been referred to as the 'darker side of trust'. In many ways the aim of reputation management is to counter the tendency to distrust, which provides further insight into its rising importance and a rationale to progress its study by organizational theorists. Academic literature, practitioner outlets, and news media regularly reveal evidence of strained trust relationships among organizational stakeholders as a consequence of turbulent business conditions and/or programs of IT-enabled modernization.

For example, the introduction of a decision support system (DSS) in a major UK retail bank presented an opportunity to entrust managers with a new technology and augment their local lay knowledge with rational-calculative technique (Scott and Walsham 1998; Scott 2000). However, driven by a program of top-down rationalization senior risk managers began to prioritize the objective Lending Advisor credit scoring and overrule the subjective judgment of local loans staff. Performance related criteria became a significant component of salaries, reducing the managers' timeframe of interest and shaping the scope of risks that they were prepared to take. Two-thirds of the managers studied by Scott (1998) either retired or were made redundant, yet these organizational changes were implemented without industrial action or concerted protest by the middle managers involved (Scott 1998).

The re-ordering of expertise that accompanied Lending Advisor shifted the balance of dependency and autonomy, changing the perceived "risk position" (Beck 1992) of employees with potential consequences for the quality of decision-making. This shows the issues and effort involved in configuring relationships of competition and cooperation in organization (Gambetta 1988). Traditional mechanisms of reward (for example promotion for time served) and role definition have been swept away, but are yet to be replaced with methods that might develop 'trust in the bank' with employees. What has filled this void is a mass of complex (often latent) tensions that implicitly set the employees aspirations against the employers' constraints. In situations of dependency, these kind of stifling conditions can restrict employee imagination to a narrow interpretation of job responsibilities, which blinkers them to the build up of issues and "ready" (Willison 2000) potential reputation risks.

The performance of co-operation or "as-if trust" (see Wynne 1996; Gambetta 1988a, pp.228-234) and other external resemblances of "cognitive inertia" (Good 1988) make the process of reputation risk management difficult. When distrust is masked as part of a response to conditions of uncertainty or dependency and lingers under the surface it not only subtly shapes day-to-day actions, but also retains the latent potential to be triggered at times that may take the organization by surprise. This kind of latency is rarely detected by traditional business indicators, but can destabilize management strategies.

Having considered forms of distrust, in the next sub-section we suggest that further effort is needed to consider the potential of other more constructive trust forms in reputation management.

4.1 Cultivating forms of trust

While the discussion so far may have broad interest for organizational reputation management, particular conditions make the relationship between risks, reputation and trust more acute. Our focus in this sub-section will be areas that are reputation intense, but experiencing low contextual trust. Throughout the paper we've used examples from financial services and this sector illustrates these conditions well. In a speech given in 1998, a leading US government official noted the "loss of ground" reflected in a Harris poll conducted that year to rate customer service; banks were placed above the tobacco industry and managed health care, but were well below the airlines, telephone companies and producers of computer goods (Banking Policy Report 1998).

The financial services industry, whose reputation was built upon their capability to act as a trusted third party, seems out of touch with their stakeholders. There are too many examples in which their "social capital" (Evans 1996) appears to be on the decline as illustrated by recent developments. In addition to the cases we have already highlighted, there is the introduction of the Sarbanes-Oxley Act (see www.sarbanes-oxley.com), questions raised about robustness of governance structures, and the arrest or threatened arrest of board members at major financial institutions. This has shaken the institutional bases for trust (Zucker 1986) and in so doing engendered significant reputation risks.

Research has shown that perceived institutional effectiveness is one of the most important conditions for trust (Zucker 1986; Lane and Bachmann 1996). So, when contextual confidence is shaken what can be done to re-build reputation? Ring (1996) suggests that economic actors are learning about, and increasingly relying upon, a more differentiated view of trust. Following Soloman (2000), we suggest that organizations need to re-orientate a proportion of their strategy around the notion of "trust*ing*". Child and Mollering (2003) are an example of authors exploring a social constructivist approach in which trust is "not simply "given" to trusters, but "made" by them as well".

Child and Mollering (2003) maintain that existing trust literature treats the truster as a passive figure who trusts/distrusts on the basis of "given" factors (e.g. predisposition, perceived trustworthiness of the trustee, and/or relevant institutional safeguards).

> "In other words, the context is seen to determine whether a truster trusts. What is overlooked in this perspective, however, is the very real possibility that the truster can influence her/his own context more or less deliberately in favor of trust. Thus we distinguish between *contextual confidence* and *active trust development* paths to trust"
> (Child and Mollering 2003)

Child and Mollering (2003) use survey data gathered among the Chinese business community to explore whether trust can be pro-actively "made" or "constructed". The theoretical basis of their approach is Giddens' (1994, p.186ff) idea of "active trust", which they maintain requires "intense and intimate communication". This leads them to explore the hypothesis that establishing personal rapport in cross-border business relations and recruiting locally positively influences trust relations. Their survey also considers the value of familiarizing business partners with imported practices, rules, and standards in order to stimulate a "micro-institutionalization" process. Child and Mollering conclude that contextual confidence in institutions remains of utmost importance, but that where this is missing, or strained, active trust development is useful.

They call for models of trust production to be extended to include the effect that active trust development has over and above "given" contextual predicators of trust.

We suggest that moves to enhance or strengthen the basis for trust could prove helpful for contemporary reputation management by diffusing risks. Giddens proposed the notion of active risk as part of a thesis on reflexive modernization and it appears in a book alongside the concept of a risk society (see Beck, Giddens & Lash 1994). The acknowledgment of personal/professional risk positions and assertion that trust is an on-going accomplishment suggested by the notion of active trust encourages reputation managers to display sensitivity to context, content and process. Its emphasis on knowledge construction supports an institutional opening out and increasingly innovative efforts to manage organizational transparency. Considerable emphasis is placed upon communication to help overcome the anxiety engendered by gaps left by the loosening of traditional norms and failure of protective institutions.

Active trust cannot be regarded as a 'silver bullet' for reputation management; however it does encourage a shift toward proactive approaches, away from one-off efforts or single solutions, which is in itself useful. Public relations and marketing professionals recognize that this has become an issue in the industry:

> "In many ways the very term 'crisis management' pinpoints the failing of much of the PR industry's approach to the whole subject. If a significant part of the PR industry continues to peddle high-profile, quick-fix solutions when crises occur; if some practitioners continue to offer a service which is beyond their experience and knowledge; if we fail to position reputation risk management as a continuing and legitimate discipline rather than just another PR bolt-on, then we will continue a long and sorry PR tradition - shooting ourselves in the foot while grabbing for a quick buck"
> (Sheldon Green 1995)

5. Understanding the spectrum of risk, reputation and trust

In this section, we position our differentiated view of trust in relation to forms of risk and set this alongside the spectrum of reputation risk that we developed earlier. Beck (1994) and Giddens (1994) maintain that "risk is the flip side of trust", however, this gives the impression of a tight functional coupling that is not always necessarily the case. Scholarship in this area suggests that the relationship between risk and trust is more complex. Many authors posit a connection between risk and trust (see Luhmann 1979; Das and Teng 1998, 2001; Currall and Judge 1995; Mayer, Davis and Schoorman 1995), however it is widely acknowledged that this is subject to many contingencies and is defined by context. Furthermore, multiple risk and trust forms are likely to be at work across many levels of existence at any one time.

We are not suggesting that there is automatically a relationship between risk, trust and reputation in every instance, but rather that it could be called upon in particular situations. If we accept that generalizations are too perilous, perhaps we can construct a set of heuristics as a way to scope our discussion. For example, Figure 2 is not intended to suggest a direct correlation between the types of risk and trust that it features, nor is this by any means an exhaustive list; instead it is designed to support a line of reflection in which we propose a relationship between forms of risk, trust and reputation. This builds upon our earlier proposal that the spectrum of reputation risk is broadening (Figure 1), so that concern over contracts and business performance is rivaled by risk society reputation risks in the emerging knowledge economy.

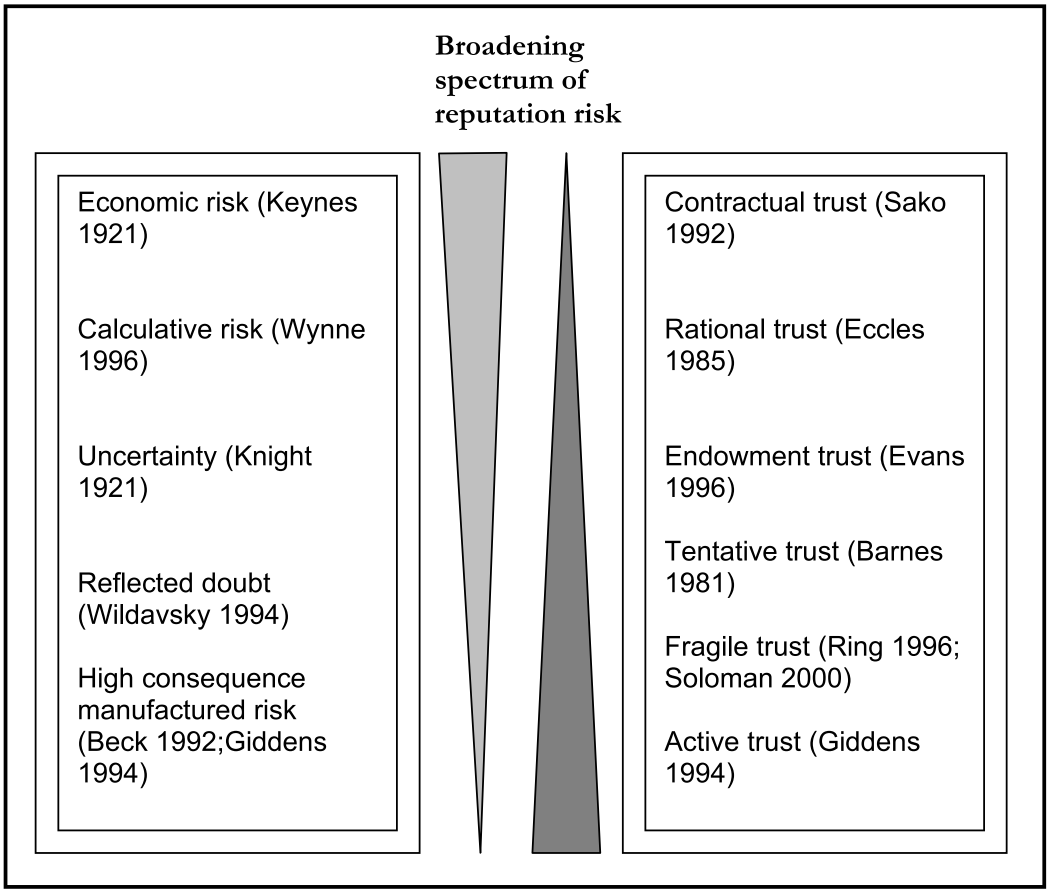

Figure 2: Juxtaposes the broadening spectrum of reputation risk (see Figure 1) in relation to forms of risk and trust.

We can say that there are mechanisms of trust, such as contracts, which are used habitually to "uphold a universalistic ethical standard, namely that of keeping promises" (Sako 1992, p.37). At this level we can ascribe the strongest kind of functional connection between risk and trust. For example, a calculation of economic risk may inform the selection of a particular kind of contract (for example a mortgage). Risk management resources such as mathematical probability are used most avidly at this end of the business spectrum in organizations.

The aim is to widen the relationship between risk and trust in the hope that the connection can be detached altogether, in other words that business transaction proceed as expected without recourse to contractual enforcement.

> "For economists, but for the existence of imperfect information, bounded by rationality, risk and uncertainty, trust would have no function to fulfil in economic transactions."
> (Sako 1992, p.37)

It is the capacity of trust mechanisms such as contracts to bind time and space that fuelled the development of industry society (Adam 1995). The consequences of reputation risk at this end of our spectrum are established norms inscribed by founders of modern economy, such as Adam Smith:

> "A dealer is afraid of losing his character, and is scrupulous in observing every engagement. When a person makes perhaps 20 contracts in a day, he cannot gain so much by endeavouring to impose on his neighbour, as the very appearance of a cheat would make him lose"
> (Smith [1723] 1978, pp.538-9).

Contracts produce anonymity and regulate behavior in markets that facilitate transaction; however when applied to labor relationships in organizations they have proven insufficient, as 'work to rule' disputes have illustrated. There is a reconfiguration of risk and trust as we move from top to bottom in Figure 2 the less codifiable or quantifiable, more intangible forms of organizational relationship and reputational affect. Kramer and Tyler's (1996) suggestion that "trust is an orientation toward society and others that has social meaning *beyond* rational calculations" (our italics).

At the lower end of Figure 2, we juxtapose active trust with the reflexive modernization phenomenon of manufacturing and high consequence risks to suggest a shift to the reputational dynamics that we have detailed: enterprise, expanded stakeholders, the role of ICTs, uncertainty and side effects. Again, risk and trust don't have to be linked here but we can identify conditions in which contemporary influences converge to suggest mutual reciprocation, a tighter than usual reflexive coupling. Processes of individualization (Beck 1992) have made western societies into "choice societies" in all the positive and negative senses of that phrase. These conditions provide reputation risks with additional potential dynamism and we propose that trust may provide, as others have suggested (Luhmann 1979) a device for coping with the freedom of others. Our call then is to balance the literature on distrust with further debate about risk communication and constructive forms of active trust development to support the management of organizational reputation risk:

> "We learn that, tentatively and conditionally, we can trust trust and distrust distrust…*economizing on trust* is not as generalizable a strategy as might at first appear, and that, if it is risky to bank on trust, it is just as risky to fail to understand how it works, what forces other than successful cooperation bring it about, and how it relates to the conditions of cooperation…But the point is that if we are not prepared to bank on trust, then the alternatives in many cases will be so drastic, painful, and possibly immoral that they can never be lightly entertained"
> (Gambetta 1988a, pp. 228-235)

6. CONCLUSION

In this paper we suggest that globalizing knowledge economies foster conditions that intensify the role and value of organizational reputation. Not only has the definition of risk become contested, reputation now has to bear scrutiny from an expanded stakeholder community who hold organizations responsible for ethical implications associated with being in business. The dynamism of reputation risks has increased with the proliferation of global media:

> "In the twenty-first century, the 'fast society', through speed of communication and discerning stakeholders, good news travels fast, but bad news generally seems to be 'turbo charged'"
> (Kubitscheck 2001)

Interested parties use information and communication technologies to "scour for inconsistencies" (Genasi 2001) which when disseminated break through "unawareness" (Beck 1992) and inspire stakeholders to revise their risk positions.

Having analyzed the characteristics of contemporary reputation risks, we locate them in what we regard as a broadening spectrum of reputation risk (Figure 1), and then explore conceptual approaches that could be used to support its management in practice. Working from the proposition that forms of trust have the capacity to reduce complexity, we explore its potential as a resource in the management of contemporary organizational reputation risks. We suggest that when contextual confidence is low, for example in industries such as financial services experiencing IT-enabled modernization, active trust development may form the basis for pro-active approaches to reputation risk management. Whilst acknowledging that risk, reputation and trust do not necessarily have a direct relationship, we develop a line of reflection about the potential juxtaposition of risk, reputation and trust (see Figure 2) in contemporary organizations.

This paper aims to bring the relatively niche topic of reputation to mainstream attention in organizational theory. Just as we proposed reputation as a boundary object linking communities within and between organizations, so we hope that our discussion will bring diverse disciplines together to develop a common resource on reputation. Following Schulz, Hatch and Larsen (2000) we work from the idea that in a holistic, enterprise-focused era reputation is a key strategic construct.

Our contribution to organizational theory centers on the presentation of a distinctive theoretical basis to support broader debate about the management of reputation risk in organizations. Whilst the concepts of risk and trust are mentioned in scholarly debates on reputation they have not previously been connected in a substantive way.

This brings five key ideas to organization studies. Firstly, we form a link between recent scholarship on risk and the literature on reputation, drawing attention to the risk politics involved in defining risk and extending the spectrum of reputation risks to include manufactured or high-consequence risks characterizing reflexive modernization. Secondly, our discussion of personal/professional risk positions makes a connection between contemporary knowledge construction, ICT-charged processes of sense-making, and reputation risk. In addition to this, we establish the notion that uncertainties engendered by processes of individualization and programs of IT-enabled modernization that shift the balance of autonomy and dependency in the workplace that might "ready" reputation risks.

Next, by introducing forms of distrust (as-if trust) and constructed trust (active trust), we provide insights that that may be valuable to the design of reputation management approaches. Finally, we make a connection between the broader spectrum of reputation risks (proposed in Figure 1) and forms of risk and trust (see Figure 2). This sets up a debate about the proliferation of risk/trust forms, their potential relationship, and their value to the management of phenomenon like reputation risk in organizations.

It is not our aim to produce a scientific hypotheses or empirical proof of a causal link between them; rather by drawing concepts from sociological research and organization studies into the discussion of reputation risk, we embed them in broader narratives of social development and offer the basis for a richer debate. One of the questions raised for consideration by this paper asks whether it is possible for conscious forms of active trust development to traverse boundaries, scaling up endowments of social capital (Evans 1996), and in so doing create opportunities for cohesion that might diffuse reputation risk?

There should be sufficient incentive from the theoretical position developed here and evidence presented by Child and Mollering (2003) for managers to explore reputation risk initiatives from this perspective. In addition to the need for descriptions of "thick trust" (Gambetta 1988a, p.234), we call for empirical cases to explore how simultaneous and multiple forms of risk and trust affect reputation management. In conclusion, we would suggest that in the emerging knowledge economy it may be hard to bank on trust, but it is much harder to avoid banking on a reputation.

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