“Banking on Trust: Managing Reputation Risk in Financial Services Organizations”

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ABSTRACT

In this paper we introduce concepts that build a theoretical notion of reputation risk and establish the need to extend our approaches to managing such risk. The existing literature on reputation risk has tended to be reactive and focus on immediate business threats rather than trying to understand cumulative or constituent processes surrounding trust relationships. We explore the notion of ‘active trust’ as a way of redesigning approaches to the management of risk. Our analysis focuses upon distinctive contemporary issues that illuminate the shifting relationships between financial service organizations and their stakeholders: namely the issues of governance, customer service, and staff retention. Although part of the analysis concentrates on controversy and breakdown, risks can also induce opportunities; situations that are often viewed as corrosive may present an occasion for creative management. We suggest that proactive reputation risk policies and practices are needed that extend organizational vision beyond the boundaries of the firm to consider the implications of key societal developments.

Keywords: trust, risk, reputation, organization, financial services, information and communication technologies, global media, information systems, governance, customer service, staff retention

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1. INTRODUCTION

The aim of this paper is to draw growing practitioner concern with the notion of reputation risk into an academic forum in order to further the debate surrounding it. Reputation risk is an area of increasing interest in organisations (Sheldon Green 1993; Genasi 2001). Minimizing the risks to an organization's reputation has outstripped the management of physical risks as the chief concern of UK risk managers, according to a survey from Aon (Unsworth 2001). We suggest that it is time that the organization theory and management literature recognised the increasing importance of reputation risk for practitioners, explored the roots of their concern, and examined the issues raised by approaches to its management for the study of organizations.

Reputation risk is, by nature, about the position and standing of an organization in its broader context. The ascent of reputation risk to its current, prominent position on the agenda of contemporary organizations (Doane 2001) draws our attention to the complex issues associated with managing across wider boundaries in globalizing times. A key feature of this is the role that information and communication technologies have played in extending the time/space reach of organizations, opening up new marketplaces and bringing new strategic challenges. Many industries are experiencing so-called 'hypercompetition' (D'Aveni 1994; see also Eisenhardt 1990; Eisenhardt and Brown 1998), which has been exacerbated by the capacity of international data industries and electronic communications networks to facilitate access to key market information.

As if these conditions were not complicated enough, global media have connected up a broader range of stakeholders concerned with the side effects of innovation, such as environmental impact, and the digital divide (see Beck 2000b). The increasing interconnectivity of international trade has given a mandate to non-government organizations that champion social responsibility and heightened the role played by trans-national organizations overseeing development. If organizations make a mistake in this kind of ecology it could have consequences for their longevity. The management of reputation risk, as we will discuss in this paper, does not refer mainly to advertising campaigns or traditional efforts at public relations, but instead considers the precarious path that organizations now need to tread between entrepreneurial excellence and global citizenry in a complex, uncertain business world.

The existing literature on reputation risk has tended to focus on threats and menaces in the business ecology (see Katalia 2000) rather than trying to understand other constituent considerations, such as trust relationships. Consultants and advisors are encouraging executives to move from post-hoc risk strategies, like insurance policies, to pro-active management of potential reputation risk (Barr 1996). In this paper, we argue that the web of relationships that constitute an organization are not static, but contingent and dialectical; they cannot be reduced to a one-sided, cost-benefit economic logic of capital. We suggest that organizations need to understand how social, political, and economic changes are impacting their efforts to manage reputation risk.

Our empirical base for the exploration of these issues is financial services and we will use illustrative examples from organisations in this sector to illuminate our analysis. We have chosen the financial services sector because it illustrates some of the most potent organisational characteristics in contemporary societies: firstly, it is experiencing widespread IT-enabled modernisation; secondly, it is regarded as being in the vanguard of globalisation; finally, we can draw attention to a blend of risks ranging from technical financial notions of credit risk, liquidity risk, interest rate risk, and operational risk intermingled with more overt social constructions like reputation risk.

This paper is organised into six sections. Following this introduction, the second section briefly describes the methodology used in our research. A review of the reputation risk literature is presented in the third section. The theoretical foundations of the paper are developed in the
fourth section. This is followed by a substantial analysis section, which is divided into three sub-sections focusing on key issues concerned with the relationships between financial services organizations and their stakeholders: namely the issues of governance, customer service, and staff retention. The sixth and final section considers the implications of these findings for the management of reputation risk in organizations.

2. METHODOLOGY

We adopt a social science, 'broadly interpretive' (Walsham 1993) approach with the aim of producing informed reasoning that contributes to theory building in this topic area. The academic studies that we use to support our analysis are based upon systematic qualitative case methods; however, we also draw upon published surveys in the acknowledgement that quantitative methods play a complementary role alongside qualitative data. The primary role of the paper though is to understand, not measure, and provoke debate rather than attempt to provide solutions.

This is consistent with the spirit of the risk society thesis (Beck 1992), which forms a key theoretical axis of the paper. Beck calls upon researchers to 'engage in controversial and alternative discussions on the risks of certain steps and plans' (1992: 253) drawing upon all the interdisciplinary resources that they can. In making this point, he appropriates Popper's well-known assertion that 'criticism means progress' (Beck 1992:234).

The paper presents a predominantly theoretical analysis, using relevant parts of the risk and trust literatures on the basis that they address the issues raised. We do not attempt to provide a comprehensive review of these extensive literatures, but instead focus upon selected themes: firstly, the social construction of risk and identity; secondly, the idea of 'active trust' (Giddens 1994).

The acceleration of published material on reputation risk has taken place mainly in the practitioner literature. This literature forms an important empirical core to the paper, reflecting the interests of those dealing with issues of reputation risk on a day-to-day basis and documenting current attempts to manage them. As reputation risks are a significant concern of regulators and government bodies, we use policy documents from the USA and UK, particularly banking reports and speeches reported in the press by key figures in this area.

The geographical emphasis of the paper is western, reflecting our attempt to manage the scope of the paper and, perhaps, in part conditioned by Beck's (1992) configuration of the risk society thesis. Reputation risks are by nature boundary-crossing and a more thoroughly international approach would, we are sure, raise interesting issues relating to risk and trust. Our overarching reason for the focus of the paper is that whilst the companies called upon to manage reputation risks are globalizing, their headquarters are for the time being predominantly western.

The analysis was developed using logical deduction in which momentum is generated, and direction informed, by an iterative process of critical reflection between empirical material and literature. We use illustrative examples drawn from the published literature to support the development of our line of argument. These were chosen to illuminate the pervasive nature of reputation risk and, therefore, reflect different kinds of organizational forms and multiple levels of strategic management interest. They emerge as three substantive sub-sections, organized around the themes of governance, customer relations, and staff retention. These act as conceptual vehicles to cluster material together and are crafted out of our understanding of the relative importance of issues currently transforming the business environment reflected in our published sources. They were further refined on the basis of their potential to build bridges between academic and practitioner forums, thereby facilitating further debate.

3. LITERATURE REVIEW
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)

Despite this, the academic literature on reputation is rather thin (Hall 1993) and limited to a few key pieces on its role as an intangible resource in the defence of market position (Rumelt 1984; Gemser and Wijnberg 2001), or more general discussions aimed at marketing students in business schools (Bromley 1993; Fombrun 1996; Sheldon Green 1993). The majority of published material on reputation risk is to be found in practitioner outlets. Issues currently drawing significant interest on this topic can be summarised into three key areas: raising awareness of reputation risks through current events; reporting on relevant policy announcements; and consultancy or software-based approaches to the management of reputation risks. Some key aspects of this literature are drawn together below.

Based upon our synthesis of the available literature, we define reputation as a positive quality ascribed to a person or collective that is built up over time and based upon perceptions of continued competitive performance. It is a social construction that fuels trust relationships and is of particular interest in this paper with regard to commercial organizations, which tend to interpret reputation in terms of goodwill and corporate brand image. Rumelt (1984) suggests that reputation can help make a competitive position more stable and defensible. The trustworthiness associated with reputation may be an important source of 'competitive advantage' (Barney and Hansen 1994). However, Hall (1993) warns that the strategic asset of reputation ‘takes time to create, it cannot be bought, and it can be damaged easily’.

Reputation risks are defined by Veysey 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 2001b).

The most spectacular examples of reputation risks tend to be product failures. The Firestone and Ford case provides a tragic example: faulty tires were alleged to have caused the deaths of 200 people in the USA (The Economist June 20th 2001). The demise of privatised rail infrastructure company Rail Track was preceded by fatal train crashes attributed to lack of relevant repairs to high-speed track (The Economist Oct 19th 2000). In financial services the collapse of Long Term Capital Management in September 1998, whose reputation had been wrapped up in with a ‘who’s-who of brains and brawn in international finance’ came ‘perilously close to causing a catastrophic failure of the global financial system’ (The Economist Aug 31st 2000).

Reputation risks can also relate to market failures associated with strategic miscalculations and marked by a variety of timeframes ranging from the slow corrosion of customer base experienced by the traditional Marks & Spencer's brand (see The Economist Oct 26th 2000) to the ‘e-shock’ of disintermediation by IT-enabled modernization (De Kare Silver 2001). While these reputation risks might be regarded as part of the expected uncertainty of innovation or competition, a further characteristic of reputation risk is its capacity to fly in from the margins to take center stage. David Abrahams warns organizations to:
'... be aware of all potential risks to brand, including 'left field' risks that might not be immediately obvious. Don't just concentrate on the risks that look like they are 'the bigger ones'.

(in Veysey 2001b)

The volatility of reputation risks stems from their entanglement with political tensions, particularly those emerging from shifting definitions of stakeholder relationships. These may lie between regulators and the organization, or with the public who have constructed agitated views of social responsibility (for example, the use of child labour in the production of goods in developing countries). The source and precise nature of reputation risks are difficult to predict; indeed the issue that eventually provokes outcry may have been in existence for a significant period. When they actually erupt reputation risks can engross the whole enterprise and demand considerable management attention’ (Hall 1993).

The broader ramifications of a decline in reputation reverberate beyond organizational boundaries with potentially negative consequences for local communities in which staff and customers live or, in the case of larger companies, national economies. Our major critique of existing, particularly practitioner, approaches is that they are rather narrow and show a distinct bias toward more immediate corporate concerns. For example, note the emphasis on shareholder value in Veysey's (2001b) rendering above and the dominance of legal and commercial issues in Eisenberg's version here:

'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).

Furthermore, there is a tendency to approach the management of reputation risks as if they were similar to other, more tangible risks (Veysey 2001b; Hall 1993); indeed Fombrum (1996) refers to the notion of 'reputation capital'. The aim of many of these methods is top-down control rather than management, with a linear determination to identify the risk and its causal factors, measure it, benchmark it, and thereby neuter it (for example, Kartalia 2000). There is also a temptation to automate, using incident databases that track events and monitor media, based upon the belief that:

'Firms that professionally manage and protect their reputations with fervor and technology will be the competitive winners in this very risky age.'

(Kartalia 2000).

Such approaches are mainly reactive and only scratch the surface of complex relationship issues. We suggest that reputation risks are not like other risks, and by their nature challenge our capacity to identify them or neatly predict their scale or scope. This is part of what makes it so difficult to persuade the necessary people to commit resources to their management, and makes them so profoundly worrying for those who sense their existence. Doane (2001) maintains that only 5% of companies listed on the UK FTSE 100 index produce verifiable environmental and social performance reports. For most other companies the management of reputation risks, if it is addressed at all, is delegated to their marketing departments. A perilous way of addressing a form of risk acknowledged to be pervasive, regarded as the responsibility of everyone in the organization (Hall 1993), and for which the board themselves may find themselves held responsible - indeed, chased down in person by TV cameras.

We suggest that one of the most damaging reputation risks arises from being caught indulging in overtly calculating and disingenuous manipulation of public trust, shareholder perception, and
employee relationships. The complex issues of trust and risk are all too often reduced and co-opted into instrumental terms focused upon:

"... how institutions can adapt procedures and self-presentation in order to secure or repair credibility, without fundamentally questioning the forms of power or social control involved"

(Wynne and Lash, 1992:4)

Although concerned by the technology-driven, limited calculative rationality of some approaches to reputation risk that we found in the literature, we were inspired by the high level of interest in managing reputation risks. Evidence in the published case studies indicates that managers are reaching out for a broader approach to understanding of reputation risk from a stakeholder perspective, focusing on trust relationships. For example, Barr (1996) reports on risk management processes at Brinker International where executives take part in a cross-training program working in their restaurants to give them a sense of day-to-day business operating risks. Risk managers are encouraged to assimilate their experiences and move their thinking to 'a higher plane' that they call 'borderless risk management'. Brinker's CEO says:

'Our theory was that it is easier to prevent something from happening on the front end than to deploy an army to go out and catch people on the back end'

(Smithart in Barr 1996)

Underlying practitioner concern with reputation risk is an awareness of interpenetrating or 'blended risks' (Cates 1996), and the increasing porosity of boundaries between the company and society. Some managers realise that their work, work life and company policies are influenced by changes in broader societal conditions; however, their focus and time pressures restrict much of this from view. From necessity most practitioners become wrapped up in short term, present-time consciousness. However reputation risks tend to connect with the long term, and issues that hover on the margins, which are not susceptible to analysis using the same type of approaches used to counter operational risk.

The notion of reputation risk could be regarded as 'just another management fad'; however, we believe that it reveals significant re-configurations of trust/risk relationships in contemporary organizations. Whilst we understand the concerns regarding reputation risk, organizations need to be careful not to leap at reductionism, or pseudo techno-scientific 'solutions'. It is our contention that trust cannot be reduced to contracts, and reputation risk cannot be reduced to isolated variables. In the next section we would like to add some broader societal concerns to the organizational issues that we have already raised, in order to connect the issue of reputation risk to wider academic debates.

4. THEORETICAL FOUNDATIONS

The aim of this section is to introduce concepts that build a theoretical notion of reputation risk, establish its connection with the potency of a risk society, and therefore establish the need to extend our approaches to managing such risk. To do this we emphasise the work of two key authors, Beck and Giddens, who have developed a distinctive way of thinking about risk in contemporary society. Their proposition is that trust is the 'flip side' of risk. As perceptions of uncertainty increase, so expressions of trust are also shifting, and analysis of this may offer a way of creatively managing complex trust and risk relationships.

The connection between risk and trust has already been established in the academic literature (see Luhmann 1979; Das and Teng 1998, 2001; Currall and Judge 1995; Mayer, Davis and Schoorman 1995). However, such research examines risk and trust in a relatively confined context, whereas Beck and Giddens thread their ideas through into a broader thesis focused upon developments in society. Lewicki, McAlister and Bies (1998) note that very little attention
has been given to social context and relationship dynamics in the risk/trust literature (for further discussion see McAlister 1995; Sheppard 1995; Misztral 1996). Although differences are noted, it is often limited to the ‘organization’ (Lewicki, McAlister and Bies 1998) rather than any broader definition of context (Mancini 1993). We suggest that the management of reputation risk requires an institutional ‘opening out’ (Giddens 1994) and the kind of willingness to go beyond traditional categories of enquiry, as found in Beck’s idea of a risk society (1992).

Ulrich Beck is part of a community of scholars (see also Giddens 1990; Lash and Wynne 1992; Beck, Giddens, Lash 1994; and Beck 1999) who share a common belief that ‘we are witnessing not the end, but the beginning of modernity – that is a modernity beyond its classical industrial society design’ (Beck 1992:10). Beck published his seminal thesis, The Risk Society (1992), in order to analyse the key themes that he believed characterised this stage of development in western societies. His metaphorical use of the term risk encourages us to move from a narrow consideration of conventional, rational-calculative risk like credit risk, to socially constructed risks like strategy and reputation. For Beck:

‘The concept of risk is like a probe which permits us over and over again to investigate the entire construction plan, as well as every individual speck of cement in the structure of civilisation for potentials of self-endangerment.’


Beck (1992) maintains that wealth production is now complicated, and at times dominated, by the generation of high-consequence, or ‘manufactured’, modernization risks. Modernization has brought multiple, complex, technical systems ranging from highly interconnected computer networks, nuclear power, pesticides, and biotechnologies. In their wake come new dimensions of risk, or side effects, that transcend time and space, remaining latent until they morph in status from the hypothetical to the menacing (the digital divide, international terrorist networks, genetic cloning).

As a consequence, we have to work out how to live our lives alongside potential risks, hazards, and insecurities induced and introduced by modernization itself (Lash and Wynne 1992). Our responses to manufactured risks are held back, suspended in a state of ‘unawareness’ (Beck 1992), until the distribution of rapidly revising expert knowledge breaks through it. These are ‘global times’ (Adam 1995) where our use of ICTs and media transports us from a social present to a ‘global present’ (Adam 1995); a web of networked relations where distant events become immediate and hold implications for us. 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 1999:44). Modernization often brings not just automation and rationalization, but a stage characterized by confrontation, especially toward a perceived ‘organizational irresponsibility’ (Beck 1999: 6) on the part of those who govern our lives.

It is not just corporations that assess and manage risk, in conditions of detraditionalization. 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’. We all become ‘citizen risk detectives’ (Beck 1999:130) learning to recognise the signs of redefinition and to seek a better understanding of stakeholder dynamics through a process of ‘reflected doubt’ or ‘effective distrust’ (Wildavsky 1994; see also Soloman 2000).

This raises a key question haunting the management of reputation risks in such a reflexive society:
'How can a secular society exposed to the rigours of a global market, based on institutional individualization amidst a global communications explosion, also foster a sense of belonging, trust and cohesion?'

(Beck 1999:12).

In contemporary society we struggle to trust (Deutsch 1962; Kee and Knox 1970); indeed, Misztral (1996) proposes that in an era characterized by so much rapid change, we are better advised to retain flexibility and openness in our definition of trust in order to allow scope for the inevitable creativity demanded by the times. Certain organizational forms have been noted for their in/capacity to support trusting dynamics and others have been explicitly designed with the intention of creating new trust relationships (Powell in Kramer and Tyler 1998). From hierarchies to networks, mutual to for-profit, each have different trust/ risk requirements and configurations of responsibility, control, accountability, and transparency. We therefore adopt Kramer and Tyler's (1998) suggestion that 'trust is an orientation toward society and others that has social meaning beyond rational calculations'. So, how does this particular approach to risk interpenetrate within our approach to the management of reputation risk?

Reputation risk is a classic risk society phenomenon; it is 'weightless' (Quah 1998, 1999), informational and abstract; it is intertwined with global media and ICTs. Most of all it is concerned, not only with reactive 'fire-fighting', but also with managing potential risk. 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; Chicago Tribune Nov 25th 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).

The most significant feature of contemporary reputation risks is that knowledge about the type of risks being generated, their timeframe, and the magnitude of their side effects is often scanty or emerging. A distinctively risk society reputation risk might be further indicated if, for example, we find that the insurance industry is unwilling to offer cover (see recent articles remonstrating the lack of liability policies for companies launching internet initiatives in Farley 2001 and Veysey 2001a). Just as managers push for the development of new forms of insurance to cope with uncertainties, so they need to take into account a corresponding shift in trust relationships.

Trust relationships have become more reflexive and prone to revision in response to a sense of vulnerability. There is heightened sensitivity to the conditions under which we are asked to trust; if the production of knowledge disturbs our comfort level we are more likely to adjust relations. This does not necessarily result in immediate abandonment of trust routines, but can announce a phase of 'as-if trust' (Wynne 1996) in which relationships are silently put on probation. Trust becomes more lissom against a backdrop of choices; we assess our options, hedging, betting and positioning ourselves among alternatives. Seemingly insignificant breakdowns may then 'ready' (Willison 2000) stakeholders for a further revision to their trust relationships. This kind of latency is rarely detected by traditional business indicators, but can destabilise management strategies.

We suggest that current research needs to acknowledge the proliferation in forms of risk/ trust (Lewicki, McAlister and Bies 1998) and support the development of approaches to manage their simultaneous, multiple forms. In this paper we make use of Giddens' approach to risk and trust. We focus on his key construct of 'active trust', which calls for us to 'confront the question of what is being broken up with the question of what is being created' (Beck 1999:130). Giddens (1994) strongly asserts that human agency can still influence systemic dynamism of societal
development and suggests that management of risks can be analysed through the concept of active trust.

This is not the notion of faith usually associated with religion, traditional trust mechanisms shoring up kinship obligations, or a legal contract; it is a future-oriented relationship with whomever or whatever you are trusting (Giddens and Pierson 1998: 108-109). Active trust cannot simply be called upon, and should not be confused with duty, but must be continuously created and won:

"Active trust is trust that has to be energetically treated and sustained. It is at the origin of new forms of social solidarity today, in contexts ranging from intimate personal ties right through to global systems of interaction." .

(Beck 1999 p130)

Organizations already have a sense of this reflexivity and the agency necessary to engage with it, and we believe this underpins the notion of managed reputation risk. In the next section we will examine three key areas in financial services where the theoretical concept of active trust can inform approaches to the management of reputation risk.

5. MANAGING REPUTATION RISK IN FINANCIAL SERVICES ORGANIZATIONS

Financial services are a core industry providing essential intermediary facilities for key economic exchanges ranging from consumer purchases to pensions, mortgages, savings and loans. The IT-enabled international expansion of major financial services corporations has put them on the front line of the globalization debate, attracting the scrutiny of regulators, non-government organizations, investors and the general public. As the scope of these stakeholders suggests, the strategies pursued by financial services organizations have to achieve a precarious balance between entrepreneurial facilitation and usury: how to make money from mediating the socio-economic exchanges of others?

Our analysis is divided into three sub-sections focusing upon distinctive contemporary issues that illuminate the shifting relationships between financial service organizations and their stakeholders: namely the issues of governance, customer service, and staff retention. We have structured the analysis section in this way to show the pervasive nature of reputation risks at different levels within a sector. Offutt, quoted in Business Insurance, declares reputation risks ‘could be anything and everything’ (Veysey 2001b). We have selected issues that are of keen concern to practitioners and also connect to rich academic debates.

The first sub-section discusses governance: that is the structures, policies and practices associated with the long term steering of an organization. It is a key point at which strategy connects with responsibility and as such closely relates to reputation risks affecting the longevity of corporations. Organizations may be steered by any of a variety of governance models, including cooperative, mutual, or ‘for-profit’. If controversy or liability emerges regarding the direction taken by an organization, duty and responsibility fall upon those governing it. There has been a wave of changes to the governance structures in financial services organizations. Revising the design of governance models can significantly influence the faith and goodwill that stakeholders feel about the future of an organization. We examine this issue at financial futures exchanges, the institutions that market participants, like banks, turn to for risk management services. We consider who governs the provision of this service and how this is perceived by different levels of stakeholders. What are the potential side effects of a shift in governance structure for managing reputation risk? Who are financial services serving?

In the second analysis sub-section, we move from the issue of who runs the organizations and the influences that consequently bear upon them, to the perception of customer service in
financial services. We illuminate the connection between strategy, customer service, and reputation risk with the examples from retail banking. Despite the emphasis on longevity in definitions of reputation risk, many of the current approaches to its management seem numb to the sensitive processes associated with sustaining loyalty over time. Customers may stay with a retail bank, for example, if they have no alternative; however, retaining them in the face of competition is strongly influenced by how much cumulative trust is in the bank. We suggest that the key to establishing this kind of relationship with stakeholders is a deeper understanding of the kinds of risks and opportunities presented in a globalizing age. To this end we discuss the distinctive dynamics of uncertainty that characterise reputation risks and the revision of trust relationships demanded in a risk society.

The third sub-section turns the discussion of reputation risk from customer relations to internal issues of staff retention and development. This is a reminder that it is not just relationships with customers that are at stake; financial services organizations also need to attend to the reconfiguration of risk and trust relationships with their staff. The IT-enabled rationalizations accompanying contemporary strategies have side effects that need careful management if the good standing of the organization is not to be eroded in the eyes of those that work there and represent it in public. When managing staff it is important to hold in mind the way in which developments in society (especially the breakdown of traditional trust relationships) extend to the workplace as these form the context-shaping staff 'readiness' (Willison 2000) to engage with potential reputation risks.

Throughout these three sub-sections, we explore the implications of shifting risk and trust relationships for the management of reputation risk. Although part of the analysis concentrates on controversy and breakdown, risks can also induce opportunities; situations that are often viewed as corrosive may present an occasion for creative management. One aspect of this is to consider the role of active trust. Proactive reputation risk policies and practices are needed that extend organizational vision beyond the boundaries of the firm to consider the implications of key societal developments.

5.1 GOVERNANCE STRUCTURES AND REPUTATION RISK: WHOSE MARKET IS IT ANYWAY?

Our discussion of governance in key financial service institutions focuses upon the major international financial futures exchanges, because they are an area of financial services where reputation risk and relationships to stakeholders (the financial community, regulators, public and NGOs) have been stressed by recent events. The major international financial futures exchanges support the risk management processes that help banks secure our mortgage rates, protect manufacturers from swings in interest rates, and farmers from crop failure (Boden 2000). However, they are fairly recent innovations, sometimes regarded as the 'wild beast of finance' (Steinherr 1998), and singled out as symbols of an information age (Giddens 1999). They epitomise the 'weightless economy' (Quah 1998, 1999), trading promises to buy or sell at a future time using financial contracts for commodities and finance. Traded only by professionals, these abstract, informational risk management products have generated controversial levels of profits and losses since their inception (see The Economist 21st May 1994).

The risk management facilities offered by financial futures exchanges contribute to the stability and flow of wealth in a globalizing age. However, they are often associated with the unfettered capitalism that is allegedly exacerbating the digital divide (Gray 1998). The exchanges have largely shrugged off this reputation risk, regarding themselves as free market service providers who are not responsible for, or to, communities beyond financial services. From this perspective, their markets are owned and run for the financial professionals who come to trade in them. This is reflected in their governance structures that are designed around, and dominated by, local membership exacerbating their tendency to be inward looking. We consider
the side effects of this by analyzing examples of reputation risks encountered by futures exchanges at both external and internal levels.

On Friday 18th June 1999, the London International Financial Futures and Options Exchange became the focus for violence at a mass demonstration in the City of London. A paper written for the World Trade Organization describes it as follows:

'It was organized via an Internet site, J18, which coordinated the separate activities of groups of NGOs. The more radical of these received most of the media attention as the peaceful demonstration planned to coincide with the G7 Summit in Cologne turned into a full-scale riot. The major targets were two McDonald’s restaurants, which were trashed, and the London International Financial Futures and Options Exchange (LIFFE), which was invaded.'

(Rugman 2000:20)

This reveals a key point about reputation risks, 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 way that they are perceived by others. The obligation to respond to such reputation risks is heightened when a respected figure like Joseph Stiglitz (Nobel Prize winner and former World Bank chief economist) announces 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). When organizations harness scientific-technical innovations in the name of 'progress' it tends to bring uncertainty in its wake; what is at stake is the acceptability of the side effects should they emerge. As Beck says:

'Risk and responsibility are intrinsically connected, as are risk and trust, risk and security (insurance and safety). To whom can responsibility (and therefore costs) be attributed? Or do we live in a context of 'organized irresponsibility'? This is one of the major issues in most of the political conflicts of our time'. (Beck 1999:6)

This impression of 'organized irresponsibility' (Beck 2000) can be deeply corrosive if it builds up over time.

Although many approaches to the management of reputation risk use the language of control (see Kartalia 2000), it is almost impossible to contain the momentum of perceived organized irresponsibility. These kinds of reputation risk have to be proactively researched and managed as they often linger as unheard voices in the margins until revealed. The volatility of such situations has increased with the proliferation of global media, who 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.

We suggest that governance at the financial futures exchanges made it less likely that their management would be able to acknowledge broader definitions of stakeholder. Following Perrow (1984), we regard organizations as complex socio-technical systems that send us signals, that need decoding by risk managers. The nature of organizational governance weighs on management capability to recognise and respond to signals making a 'system failure' more or less likely with the corresponding consequences for reputation risk.

In the case of traditional financial futures exchanges, the consequences of their numbness to reputation risk were brought to critical attention with the issues of electronic trading strategy and customer service; both of which were used as primary justifications for the changes in governance structure that took place recently. The exchanges reaped massive profits as effective
monopolies for certain futures contracts not only generating disquiet externally, but also internally. Market participants complained of arrogance among exchange stuff with regard to customer service and innovation. The bounded vision of ‘local traders’ dominating the mutual governance structures kept them from recognising fundamental pressures for IT-enabled modernization building up in the financial services communities. The perception of internal organized irresponsibility regarding the strategic direction of the exchanges grew.

During 1998-2000, the traditional financial futures exchanges witnessed a competitive surge toward electronic trading that has left them scrambling to re-position themselves in financial services. What had previously been regarded as the politically impossible by frustrated visionaries who had engaged with the idea of electronic trading since the mid-1970s, was now upon them. Since then executives in the financial futures exchanges have campaigned for, and realised, profound changes to governance structures:

‘Faced with contemporary business risks, stakeholders appear to have lost faith in their old trust mechanisms, and in particular the governance structure of the traditional futures exchanges. The decision-making structures and strategy formulation process of mutual status are deemed too cumbersome and blunt compared to the agility of the ‘for-profit’ corporations that are increasingly competing against the traditional exchanges, and they are gradually changing status.’

(Barrett and Scott 2000)

However, such strategic transformations are not without potential reputation risk. The move to ‘for-profit’ governance structures opens up traditional exchanges to heightened pressure for performance and transparency; investors want explicit information regarding the nature of risks they are assuming. For-profit governance structures have been ushered in with the presupposition that they are the only way to achieve strategic agility; perhaps for traditional futures exchanges in the circumstances, this is the case. The leaner executives have been able to release capital for ICT investments enabling the exchanges to make their competitive moves.

However, a time lag in the adoption of electronic trading and over-emphasis on past strengths at the traditional futures exchanges in itself engendered a profound reputation risk, which is ironic in an industry so focused on present positions and future risks. This perception of inaction in the face of competitive threat has been broadcast using global media throughout the capital markets community, generating shudders of disapproval and speculative investment in alternative trading systems. This reveals a significant influence upon the time-space texture of strategy formulation in conditions of globalization and the reputation risks associated with it. Organizations are caught in complex ‘global times’ (Adam 1995), where uncertainty envelopes not just the risks, but also the opportunities. Organizations have to be seen to respond. As the practitioner literature notes:

‘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)

Information and communication technologies have given reputation risks a show case transparency and boundary-crossing potential that combines with the breakdown in traditional trust relationships to potent effect. The ‘communicative society’ that has emerged in the West:

‘... is changing the general conditions of economic and technical activity, requiring not just a different communications style, but also different forms and forums of self-
presentation. It also devalues previous organizational and strategic knowledge [requiring] new organizational forms of action and legitimation.’ (Beck 1999:101)

Management need to be able to hear bad news, indeed to seek it out with an open mind and be tolerant of the political turbulence that may travel with it. As we can see from the futures exchange example, this is likely to be particularly challenging for sectors characterized by de facto oligarchies where present industry position reinforces entrenched local cultures that are not conducive to proactive environment scanning or receptive to feedback (even from members). Radical cultural change in these contexts takes time; however, just as ICTs can shape negative perceptions, so they can play a key role in incrementally establishing active trust.

Trust capital is wasted by continuing to act out the old industrial scenario of minimising and bureaucratizing problems (Beck 1999). If professional financial institutions cannot achieve self-criticism, and reorient their governance structures to accommodate this, their stakeholders will continue to challenge them by asking: whose market is it anyway?

5.2 PUTTING THE 'SERVICE' IN FINANCIAL SERVICES: TRUSTING IN A RISK SOCIETY

We now shift our attention from the higher level of governance structures in the professional financial exchanges, to issues of reputation risk in everyday customer relations within retail banking. Reputation risk is of keen interest to regulators, and competitors, who regard it as an important indicator of bank performance:

‘As it implies, reputation risk involves the impact on a bank from negative public opinion. Reputation risk affects a bank’s ability to establish new relationships with customers or vendors as well as a bank’s ability to continue existing relationships... it is inherent in all bank activities.’


We consider how retail banks have faired in the ‘court of public opinion’ (Beck 1992) and the challenge of sustaining customer loyalty as their customers are tempted by new hi-tech entrants. Why have reputation risks become an issue for major retail banks and what can the experiences of this part of the financial services sector reveal about their (mis)management?

The definitions of ‘customer’ and ‘service’ have changed over time to reflect shifts in the strategies of retail banks. Historically, the reputation of major banks rested upon a distinguished credit rating and their strategy was to provide savings and loans to a high-status clientele. In the 1960’s banking services began to be expanded to other sections of society spurred by the pursuit of new markets and promoted through a community-oriented customer service ethos. The provision of financial services through an extensive branch network to a broader, lower income customer was later made profitable by cross-selling products such as pension plans, savings schemes, and insurance. This foray into additional product lines was not always a success and many banks had their previously steady reputation tainted as a consequence. This was subsequently compounded by the overwhelming success of credit cards, which encouraged a cycle of debt upon new customers and inevitably led to accusations of usurious interest rates.

'Service' during the latter part of the 20th century became increasingly interwoven with strategies of IT-enabled modernization and the emphasis on people gave way in practice to customer profiling for further product sales. The major 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. The widely publicized emphasis on performance in customer service attempted to draw upon the traditional image of community-centered banking built up pre-1990, but was juxtaposed with the customer’s everyday experience and media representation of banking strategy.
A vivid example of this comes from the UK where retail banks have been criticised by a public protest group called the Countryside Alliance for closing the rural branches that provided 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 justification from the retail banks was that they were replacing out-dated banking services with Internet banking. However, research has shown that Internet banking is predominantly used by sophisticated urban dwellers, whereas rural communities with their range of age groups and IT education are not so quick to adapt (Orenstein 1997). Alternative points of access via local Post Offices are being introduced, but have not yet been fully implemented. The actions of the retail banks are highly visible and have been associated with generally diminishing level of services to the countryside; reduced public transport, increased petroleum prices, and the downturn in employment from manufacturing industries. 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)

Such programs of rationalization have sat particularly uneasily next to large profits that seem to manifest in large pay awards for executives rather than benefits for customers:

'Whether particular fees are justified or not, in too many cases, they have been imposed and raised without adequate explanation... and without calculating the trade-off between short term income and long-term reputation risk.'

(Banking policy report 1998)

In a speech given in 1998, a leading US government official noted the 'loss of ground' reflected in a recent Harris poll conducted 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 politics of making money in contemporary society have become more complicated and sustaining loyalty over time demands active trust won by empathetic responses to customer requirements based upon understanding of the demands underlying their needs.

In formulating their reputation risk strategies, traditional financial services organizations have not adequately recognized the reconfiguration of time-risk characterising contemporary trust in brand relationships. Many of the reputation risk management solutions focus on reactive crisis management, rather than proactive reputation risk management. In one of the few texts written on reputation risk, Peter Sheldon Green criticises the marketing approach to reputation risk in the following way:

'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)

The nature of reputation risks is that they lie in wait, as latent lingering ‘unawareness' (Beck 1994), until knowledge and opportunities are developed to reveal them. No news is not necessarily good news for reputation risks; while customers have no alternative they may act 'as
if' (Wynne 1996) they trust the prevailing hegemony. However, Beck (1992) refers to this as the ‘risk trap’: the longer you ignore it, the greater the potential risk grows. Customers begin weighing up numbers and irritation, waiting for a viable option.

For most customers, an organization’s reputation reveals itself to them in the present; people adjust the meaning they ascribe and the social practices with which they engage in response to changed information and circumstances. If an organization has built up ‘trust in the bank’, their customers may tolerate occasional mistreatment because they believe there is an overarching intention to do better. However, people 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 1999:44)

The Internet has provided customers with access to information and interconnectivity that reconfigures the time-space of their potential political dynamism. For example, in the USA, web sites are 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.

The management of reputation risk is not just about ‘good PR’, it is about understanding that people feel pushed into taking responsibility for managing their own personal and professional risk positions and that in contemporary society they are confronted with a proliferation of choices with which they must try to cope: relationship choices, consumer choices, investment choices, career choices. Companies can ‘draw on credit’ too often and subsequently cannot be confident that latitude will be continue to be shown, particularly if everyday experience is corroborated by media coverage. Organizations cannot rest on past achievements alone, but must actively sustain loyalty over time. If retail banks do not reinvent themselves, they are in peril of becoming functional hubs, chosen on the basis of published statistics and their capacity to irritate us least. Indeed, they may be teaching us how difficult it is to regain reputation and strategic direction once it begins to slide.

Customer interfaces have become increasingly computer-mediated, providing fewer opportunities for reputation management through day-to-day interaction. To compensate for this, alternative sources of industry intelligence need to be sought out. Snapshot statistics produced by conventional quantitative measures like return-on-investment and cost-benefit analyses may reflect ‘as-if trust’ and the probationary continuation of past trust routines until alternatives can be manifested. Non-traditional research using social science approaches drawing upon qualitative data can provide insights into latent reputation risk intertwined with social relationships and perceptions. This level of analysis tends to resist quantification but nonetheless has potential implications for the strategic longevity of the organization, for example: shareholder goodwill, customer relationship management, and conditions supporting knowledge management.

Lack of investment in research breeds numbness to strategic position and distances companies from actively understanding the implication of shifts in their own core competencies. Retail banks need to develop a knowledge base from which they can begin to establish active trust. Customers need to feel that retail banks are seriously
acknowledging socio-economic risk positions and sensitively taking into account broader risk/trust reconfigurations in society.

5.3 MOVING FROM ISOLATING REPUTATION RISK VARIABLES TO TRUST AS AN 'ON-GOING ACCOMPLISHMENT'

Finally, we move our discussion of reputation risk from customer service, to internal issues between employers and employees. Reputation risks are not confined to external relations. Organizations also need to carefully manage trust relationships with their staff. Human resources constitute the strategic potential of organizations: they maintain the companies' reputation day-by-day through the provision of quality services; in competitive times, they form the basis of strategic alliances; and when struggling to survive, they are a key resource in realising corporate reinvention (see Sheppard 1995). In conclusion, we consider how the notion of active trust can be extended to the management of reputation risks emanating from the governance of human resources within financial services organizations.

It is not only customers that find themselves with a proliferation of opportunities and risks that inspire them to revisit and revise their stakeholder relationships; staff in financial services organizations also construct 'risk positions' (Beck 1992), particularly with regard to their employer. To understand the significance of this point we have to consider how broader societal developments are influencing the lives of working people in western societies. Globalization writers, like Beck and Giddens, maintain that the rise in welfare programs has helped individuals be less dependent on family ties, but in so doing imposed the responsibility to construct and manage individual biographies. This emancipated many from traditional gender or class fates, but also redistributed risks from the state or economy to individuals (Beck 1992), and brought uncertainty as they have to navigate their way forward.

'Previous forms of trust were much more deeply involved with more traditional forms of commitment and morality, such as kinship obligations. [In contemporary societies] trust involves a more directly future-oriented relationship with whomever or whatever you are trusting.'

(Giddens and Pierson 1998:108-109)

Increasingly, occupation, like the institution of family, has lost many of its former assurances and protective functions (Beck 1992). The employment relationship is currently beset by tensions, in particular the disillusionment and anger of working people affected by the demise of their job security, career opportunities and in the equity of their treatment (Hallier and James 1997).

'People are just asked to smile and accept it: "Your skills and abilities are obsolete, and no one can tell you what to learn or that you will be needed in the future."'

(Beck 1999:12)

Most corporations fail to acknowledge the implication of personal biography management for their policies and practice, except to reinforce (often with reference to litigation) the boundaries of their formal responsibility.

The pressure to manage career risks and their consequences pervade every level of the organization. For example, top management can become threatened by risks in the business ecology and suddenly their development of long-term strategies may become subsumed by survival rhetoric. Conditioned by a management education and culture dominated by a narrow cost-benefit approach, they look to contain costs. Relationships, traditions and trust all fall by the wayside in the bid to survive this hostile, competitive environment. We use an illustrative example to highlight this point and evoke conditions that breed reputation risks.
Scott and Walsham (1998) document a program of IT-enabled modernization in a major clearing bank in which a leading edge computer-based decision support system (DSS) is introduced into middle market corporate lending processes. The loans manager enters data gathered from an interview with the customer and their historic management records into 'Lending Advisor' (LA). The LA DSS then calculates the probability of the loan defaulting, drawing upon data profiles of companies who defaulted on loans in the past (Duda et al 1987). Lending Advisor presented an opportunity to augment managers' local lay knowledge with rational-calculative technique; however, its potential to be used in this way was increasingly compromised as it became drawn into burgeoning rationalization driven through by executive management. LA became part of an extensive public relations exercise aimed to comfort anxious shareholders after the bank announced $4.1 (£2.6) billion of bad debts in the early 1990s recession.

Executives felt intense pressure to champion rapid change and LA was programmed to skew the bank portfolio to safer lending profiles. Middle managers were told to put customers that did not fit the LA risk profiles on 'exit policy'. The LA implementation imposed long hours upon the bank staff; extensive redundancies were made, management layers removed and performance related criteria introduced. Senior risk managers began to prioritise the 'objective' Lending Advisor credit score and overrule the 'subjective' judgment of local loans staff. The reordering of expertise that followed in the wake of LA, 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.

The skills of middle management were polished to reflect performance related criteria, reducing their timeframe of interest and shaping the scope of risks that managers were prepared to take. Scott and Walsham (1998) noted that, previously, loans stood or fell based upon the manager's expertise and his or her network of advisors. To counter a Lending Advisor assessment meant assuming entrepreneurial risk contrary to institutionally sanctioned, scientifically enshrined 'proof' that this would expose the bank to excess risk. This heightened the perception of personal risk in terms of performance related reward and career trajectory. In their study of middle management Hallier and James (1997) conclude:

'What has emerged is a complex picture of the loyalties and motives of managers located at the centre of the hierarchy; a picture that at one and the same time presents middle managers as loyal to senior officials and as willing to subvert formal policies where they are opposed or are deemed peripheral to their immediate goals and activities.'

(Hallier and James 1997: )

The Lending Advisor case highlights the porosity of boundaries between the professional/personal and the uncomfortable blend of uncertainties that characterise contemporary working life in which individuals are forced to ask: what is my expertise? What is my role as a professional? What is in this for me? This can engender existential anxiety and pressure for reinvention that some psychological profiles may not be able to cope with; as Beck (1999) notes, the 'tightrope biography' can slip into the 'breakdown biography' with sickening alacrity.

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 analyse the antecedent stages of fraud, we maintain that the
build up of influences that 'prompt, pressure, permit, or provoke' (Wortley 1997) reputation risks need proactive management.

Working people at all levels of the organization need recognition and acknowledgement, which has been made more elusive in many contemporary organizations. 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, this often stifling situation can restrict employee imagination to a narrow interpretation of job responsibilities, which blinkers them to the build up of issues and 'readying' (Willison 2000) potential reputation risks.

The obligation to develop an individual's career in-house has been weakened and effective mentor relationships are rare; career paths are less identifiable in the opacity surrounding flat organizational structures. With training programs increasingly rationalized away or out-sourced, we suggest that corporations have been denuded of key knowledge resources. Yet in an industry like financial services, profits depend upon entrepreneurial artistry crafted by the people that come to work in the finance industry, as well as competent number crunching and the high-speed connectivity of networks provided by ICTs. Corporations cannot simply rely upon the job market to provide them with knowledge-centred skills and take care of career development for their staff. These changes in biographical and labour patterns have potentially profound implications for reputation risks and the long term strategic 'health' of organizations. Staff turnover brings the illusion of absolution for consequences of previous management actions; however customer and staff memories are not wiped clean, just the organizational chart.

6. IMPLICATIONS: BUILDING BRIDGES TO SUPPORT THE MANAGEMENT OF REPUTATION RISKS

In this paper we have suggested that reputation risk is inextricably linked with broader developments in societies. We have associated issues found in practitioner literature on the management of reputation risk with academic debates on the transformation of risk and trust in order to increase awareness of the complexity and significance characterising this topic area. Our proposition is that, in times of uncertainty, organizations need to acknowledge the emergence of personal and professional risk positions and emphasise the enactment of active trust. In this section we consider the implications of our discussion for the management of reputation risk.

The main aim of this paper has been to weave concepts of risk and trust found in scholarly debate about contemporary society with empirical data from a key industry sector in order to develop a theoretical notion of reputation risk. The design and implementation of revised approaches to reputation risk management in practice is, therefore, beyond our immediate scope. We can, however, outline what our study might suggest as the potential intellectual basis for such efforts.

We have directed our attention to low trust contexts in organizations experiencing IT-enabled modernization. The inherent systemic dynamism that accompanies uncertain times has the potential to generate reputation risk; however, we have suggested that this may be influenced by trust relationships. We clarify this with the careful qualification that this is a mutual, future-oriented notion of 'active trust' that is won rather than 'called up' (Giddens 1994).

'It should not be confused with duty, but instead requires equality, discursiveness, reciprocity, and substantiation'.

(Beck 1999, p116)
Active trust approaches to the management of reputation risks cannot be achieved by one-off efforts or single solutions, but are an on-going accomplishment displaying sensitivity to context, content and process. It follows that the awareness and capacity to identify opportunities for the enactment of active trust is more likely to be developed if informed by a carefully crafted knowledge base. Narrow calculations of cost-benefits are insufficient for the management of reputation risks and instead policies need to emerge out of careful consideration of the conditions in which trust develops. Broadening the type of research that receives investment to encompass social studies using qualitative data can help achieve this. It may also inform strategic positioning on a range of options, one of which may prove central to the next phase of industry development.

Managers need to recognize that it is not just their organization that establishes a strategic position; customers and staff have socially constructed ‘risk positions’ in contemporary society. It is important to support relationships and nurture conditions that make the achievement of active trust more likely. Proactive management policies would aim to ‘shut down’ situations conducive to the initiation of reputation risk and interject active trust dynamics into the chink that appeared. This has been realised at its best if no one notices that it happened, which may of course prove challenging in a performance-related organization culture.

Corporate denial of the personal/professional side-effects of IT-enabled rationalization can contribute to suffering and damage already strained trust relationships. In his recent book, human rights sociologist Stanley Cohen (2001) develops an analysis of states of denial that perhaps suggests a first step for active trust in seemingly hopeless contexts. Cohen maintains that the distinction between ‘knowledge’ and ‘acknowledgement’ is crucial in any move toward social cohesion and consensus. To inspire engagement with active trust, all parties must carefully consider:

‘How to transform ignorance into information, information into knowledge, knowledge into acknowledgement (cognition into recognition, sight into insight), and finally acknowledgement into action.’

(Cohen 2001:249)

Escalation of ill-feeling is less likely to occur if people feel they have all the information they should have, that their hardships have been acknowledged, and that their grievances have been addressed as far as possible.

In the risk society the need for reputation management is perhaps inevitable and no one is expecting corporations to be perfect. What is at stake is the perceived ‘acceptability of the error’ (Reiss in Beck 1999). If the public think they have an active trust relationship with the organization they will put motives alongside mistakes. The flip side of this is that, in an information age, people rapidly deconstruct empty glossy public relations. Organizations will increasingly discover that the side effects of being caught faking social responsibility or disingenuous behaviour carry harsh consequences.
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