Transferring Reputation to the Corporation in Different Cultures: Individuals, Collectives, Systems and the Strategic Management of Corporate Reputation

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ABSTRACT
In the resource-based view of the firm, corporate reputation can be considered an extremely important resource. The firm, besides having a corporate reputation, also participates at three other levels, from each of which reputational content can be transferred to the corporate level. These are: the individual level of the employee or agent, the collective level of the group or network to which the firm belongs and, finally, the level of the system in which the firm operates. Whether reputational content can in fact be easily transferred from one level to another, depends on a number of factors. Most significant amongst these are the structure of the firm's environment at the different levels and how this is perceived by the firm's audience. This paper sets out to describe the transferability of reputation taking into account the perception and underlying psychological processes which vary with cultural differences. The theoretical discussion leads to a number of research questions regarding the relationship between the likelihood of successful transference and the particular culture shared by the corporate audience.

INTRODUCTION

In the resource-based view of the firm, which has come to dominate the field of strategic management since the early 1990s (Barney, 1991; Grant, 1991) corporate reputation has been classified as an intangible component of a firm's pool of resources. This internal resource, as perceived by the firm's stakeholders, has been shown to be a determinant of corporate performance (Aaker, 1989; Herbig and Milewicz, 1993).

Previous studies on corporate reputation have pointed to the need to investigate the multi-dimensionality of a firm's reputation in terms of reputational content ranging from having a reputation for financial stability to having a reputation for product quality or product innovation (Weigelt and Camerer, 1988; Fombrun and Shanley, 1990; Herbig et al., 1994; Herbig and Milewicz, 1993; Dollinger et al., 1997). Apart from such reputational attributes at the level of the firm, little of the research on corporate reputation has paid adequate attention to reputational content that can be derived from other levels related to the firm. These different levels of the organization open up a new view on corporate reputation building.

Considering corporate reputation as the reputation of the firm as an entity, three other levels of reputation can be distinguished from each of which reputational content may be derived. The first level comprises the reputation of individual actors who are employed by the firm, represent the firm, or are associated with it in another significant way. Examples of actors on this first level are the company's

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CEO or individual salespersons of supplier-firms (Larson, 1992; Doney and Cannon, 1997). The second level is the reputation of a collective of firms to which the firm belongs, for instance, a recognizable network (Larson, 1992; Noe and Rebello, 1995; Landon and Smith, 1997). Finally, the third level is the reputation of the system in which the firm operates and which provides the necessary background to allow the firm to function in the way it does (Van de Ven and Garud, 1989). Most importantly, this system enables the firm to trust and predict the outcome of transactions involving other actors (individuals, corporations or collectives), if they live up to their reputation. A highly relevant example of such a system is the monetary system of the country the firm is operating in.

The main argument of this paper is focused on the *transferability of reputation* and on the question of how corporate reputation can be derived from reputations at other levels. Understanding better how this transferability operates can be of great importance, not only to private businesses concerned with the development of the firm's reputational resource base, but also to policy makers in the public sector. It can be of particular interest to organizations participating in the formation of new organizational arrangements such as joint ventures, strategic alliances, mergers and inter-firm networks in general. In such circumstances, managers should be particularly concerned with the opportunities (and threats) these arrangements provide for corporate reputation building. In this context the transference of reputation from the collective to the corporate level is clearly the most important mechanism and will therefore be analyzed in more depth. A second aim of the paper is to explore the ways in which the (national) culture of a firm's audience can influence the likelihood of reputational transferability from one level to another.

First, the link between the concepts of reputation and trust/trustworthiness will be discussed. This will provide some additional insights which, in the following sections, will support a better understanding of the processes of transfer between the different levels of reputation. Another section will focus on transferability as determined by the perception of the firm's audience and the psychological processes involved. In the last section, the concept of culture will be discussed as one possible determinant of the audience's perception and transferability. At this early stage of the approach to corporate reputation management the aim of the theoretical discussions is to frame a number of research questions. These questions are meant to shed light on the great potential for research in this particular area and guide the way for the formulation of concrete hypotheses in the future.

REPUTATION, TRUST AND INFORMATION

The concepts of trust and reputation are clearly related, but the nature of this relationship is not immediately clear due to the lack of generally accepted and precise definitions of either concept. As a result of the particular attention the concept of trust is currently receiving in areas like management and marketing, the variety of its definitions is constantly increasing. Most definitions are based on sociological (Luhmann, 1979; Lewis and Weigert, 1985a & b) or social psychological literature (Deutsch, 1960; Lewicki and Bunker, 1995). For instance, in the marketing literature trust has been defined as the perceived trustworthiness and credibility of a target (Doney and Canon, 1997; Smith and Barclay, 1997). This definition seems to provide a good point of departure to analyze the link between trust and reputation, because, in most relevant studies, the definition of reputation in some way includes the concept of credibility. A good reputation has been described as 'the trustworthiness or the extent of confidence in the source actually carrying out its intentions' (Herbig et al., 1994). In other studies, the development or possession of a favorable reputation is seen as the prerequisite for the attribution of credibility or trustworthiness to a firm/entity (Bell, 1989; Barney and Hansen, 1994; Ganesan, 1994; Doney and Cannon, 1997; McKnight et al., 1998). As can be seen from these sources, having a reputation is often automatically associated with having a good reputation.

Given the clear link between trust and reputation, research results about trust formation on different levels can be of relevance to the questions addressed in this paper. However, it seems easier to distil a clear description of trust from the above-mentioned studies rather than of reputation. The issues of trust and reputation will be treated more systematically in order to propose a new definition of corporate reputation, the core concept of the paper.

Trust can play different roles in the reputation building process, depending on the mode of information transmission. Three different modes of how information about a particular entity is acquired are distinguished here. First, a market actor can acquire firsthand experience by direct interaction with a firm. The actor will gather and evaluate firm-specific information, which becomes the basis of the reputation the firm then holds in the eyes of this particular actor. Second, information may be acquired in an indirect mode. In that case, an actor with direct experience can operate as an agent and, incidentally, a 'reputation maker', for those with little or any direct experience. The latter will be 'reputation takers', who will develop trust on the basis of secondhand information. Third, an actor can acquire information about a firm by making information already in the actor's possession applicable to the firm, in other words by deriving and transferring it from other related entities or levels to the firm.

The knowledge about a firm, that is the beliefs market actors hold about it, is the product of the information flowing to them (Dretske, 1981; Machlup, 1983). Trust is closely related to the flow of information while reputation has to do with the stock of information forming the knowledge held about an entity. In the first case of direct interaction, if A trusts B, this means that A has confidence in his ability to correctly interpret the flow of information coming to him from B. Thus, trust includes assumptions about the quality and the constancy of quality of the flow of information and also about the likelihood that B will attempt to wrongfoot A's interpretation process. B can provide A with information which can be true, exaggerated or even false – as long as A has confidence in his/her own capacity to interpret and evaluate the information coming from B in a proper way, A will be able to trust B. In the second case, the indirect acquisition of information about B, a third actor C has to have trust in A as a conduit of information flow, ie trust in A's ability of correct interpretation and evaluation, in order to trust firm B. This means that the reputational information C receives is different from the firsthand information A received, because it incorporates A's evaluation of it.

In other words, B's reputation is a shorthand evaluation of information about B. This information can be positive, for instance, B produces innovative products, or negative, for instance, B delivers too late. In the case of direct interaction, this information can also touch upon B's trustworthiness as an information provider, whereas in the indirect mode it is the trustworthiness of the information transmitter, the agent, which is relevant in the process of reputation building.

In all these cases reputation is a stockvariable. It is an exceptional and highly interesting kind of stock or resource because it is a 'relational' resource. First, this resource always implies at least two actors: the actor whom the information is about, who has a reputation, and the actor who has compiled the information, who knows the reputation. A reputation always implies a particular relationship. One can have different reputations with different actors or with different groups of actors. This paper started with the statement that the reputation of a firm, the information about the firm, is a resource of a firm. A firm's reputation is indeed a resource if, for instance, it assists the firm in marketing new products. However, this reputation is also a resource of other actors dealing with the firm insofar as it allows them to skip at least part of the costly information-gathering process when making decisions involving the firm. A final aspect that needs to be highlighted is that the value of this resource to one type of actor is strongly correlated to the value to the other type of actor. The value of a firm's reputation, in resource terms, rises the greater the value other firms attach to the information encapsulated in that firm's reputation.

Taking all these aspects into account the following definition of corporate reputation is proposed:

A firm's corporate reputation is a shorthand evaluation of the stock of information about that firm in the possession of a particular actor or group of actors that is used by those actors to make decisions, involving a certain degree of risk with regard to the firm, without feeling the need to collect more information.

As mentioned above, such a shorthand evaluation can be derived, without intervention of third parties, from other stocks of information. Stocks of information about other entities and about entities at other levels than that of the corporation can be transferred to the stock of information about the firm and used to determine its corporate reputation. The focus here will be on this particular mode of information transmission. The phenomenon of familiar entities providing information about new but related entities has been investigated in other contexts such as brand extensions/family branding (Herbig and Milewicz, 1993) and trust-transference processes from well-known to newly employed sales representatives (Milliman and Fugate, 1988). In the approach here, this type of transference allows for the construction of corporate reputations even *ex nihilo* as it could be the case when a rather unknown firm joins a network of firms with well-established reputations. In this case, the firm derives reputational content from a collective level. Transference mechanisms, especially those between the collective and the corporate level, will be analyzed in more depth in the following sections.

LEVELS OF REPUTATION AND THEIR TRANSFERABILITY

Individual and corporate

Reputational content of the corporate level of reputation may be derived from the inside and the outside of a firm's boundaries. As an internal source, the level of individual reputation can be defined as including reputations of particular individuals who are employed by the firm, represent the firm, or are in any other way clearly associated with the firm by outside observers.

Research on trust in organizational settings deals with the link between firms and their individuals as perceived by outside observers. Findings in this area identify a positive relationship between the extent of interpersonal trust and inter-organizational trust in inter-firm dyads (eg Doney and Cannon, 1997; Zaheer et al., 1998). Having established a conceptual link between trust and reputation, research results on organizational trust give additional insights for understanding the transferability of reputational content between the individual and the corporate level. One might argue that, when individual reputations based on first-hand knowledge have been developed and individuals keep transacting on the interpersonal level of trust even after the decision of contracting the other firm, why should there be any real transfer of reputation to the corporate level at all? The answer is that, at the end of the day, it is the functioning of the firm as a complex organization which will determine whether the outcome of transactions will be satisfying to the business partner or not. Lack of direct experience with the firm functioning as a whole constitutes a certain risk and forces the business partner to take the available reputations from the individual level to the corporate level as a proxy for what he is still to experience about the organization as a whole. Thus, transference of reputation to the corporate level is certainly an essential process in such situations, even if the transferred content is subject to later corrections when the firm as a whole gradually builds up its corporate level reputation in the perception of its audience.

The transference of reputation between the individual and the corporate level can work both ways, either corporate reputation being perceived as a substitute for individual reputation, or vice versa. Here the focus is on transference in the direction of the corporation, but it should be self-evident that the two patterns of transference can easily strengthen each other, individuals deriving part of their reputation from the company they are representing and letting the company derive more corporate reputation from the growing reputation of the individual. This may be a mutually beneficial process, but, if things go awry, careers and companies may also accelerate each other's downfall. In the case of the first transference pattern the reputation of the firm rubs off on its individuals, for instance when salespersons or individual buyers dealing with supplier firms are attributed with characteristics which are derived from the perception of the organization these individuals represent (eg Dasgupta, 1988). This mechanism has also been observed in a study where different reputations of firms forming an alliance had an impact on the level of trust between the individual representatives of the involved firms (Smith and Barclay, 1997).

The rest of this sub-section will deal with the pattern of transferability where the reputation of individual representatives of a firm are transferred to the firm as a whole, in other words where the individual level substitutes the corporate level of reputation. This substituting mechanism can involve various individuals within the hierarchical range of an organization, from the firm's sales representative to its CEO acting as the firm's figurehead in all sorts of environments (eg the golf course as the hotbed of inter-organizational cooperation). Larson (1992) presents a process model of network formation in which reputation, trust and personal relationships are highlighted within exchange structures between organizations. The data (gathered in the high tech computer industry) suggest that organizational networks were often formed on the basis of prior relationships between individuals and their known reputations. According to the study individual entrepreneurs relied on personal reputations to form alliances, because their company reputations were not yet well established.

In addition, useful evidence can be drawn from research on organizational trust. For instance, the focus on interpersonal contexts as integrated parts of inter-organizational transactions is seen as an indicator of the interpersonal nature of trust developed towards organizations (Eisenstadt and Roniger, 1984). This phenomenon is held to be especially significant in the context of transactions between large organizations. Friendly relations between individuals serve as a basis for trust towards the organization as a whole, a mechanism, which, when transferred to the development of reputation, also clearly supports the idea of the individual level substituting for the corporate level. The role of relationships between individuals in market transactions is also discussed in a study by Swan et al. (1985). Their results indicate that the personal relationships relevant to the perception of a company were only those of individuals at the management level. However, other findings extend this view by showing the influence of salespersons on the buying firm's perception of the supplier firm (Doney and Cannon, 1997).

All in all, these findings support the view that a firm's audience actually uses characteristics such as trustworthiness or favorable reputations of individuals as a source for characterizing a company as a whole. Benefits of reputation transference are, for instance, lower transaction costs as a result of a higher level of initial trust. On the other hand, the risks of the audience misperceiving a firm by relying on transferred reputations must not be underestimated. Self-presentational techniques or negative reputations on the individual level may trigger misjudgments and create a wrong impression of the firm as a whole. Research into impression management suggests that strategies employed by individual actors and those used by corporate actors, for instance in official policy statements, are very similar (Elsbach and Sutton, 1992). Individuals who speak as agents of their organization seem to be constrained by their organizational socialization to use impression management strategies in line with the corporate actor's identity (Dutton and Dukerich, 1991). On the whole, as has been argued in this section, there is a considerable potential for a firm's audience to perceive the individual level as a substitute for the corporate level. This allows for reputational transference mechanisms, which may turn out as beneficial or detrimental, not only for the firm itself, but also for its transaction partners.

CORPORATE AND COLLECTIVE

The collective reputation of some kind of group of which the firm may be considered a member is another source for deriving corporate reputation from the outside of a firm's boundaries. The relationship between corporate and collective reputations is of particular interest in this period of increasing inter-organizational dynamics. *Collective reputation* refers to the reputation of a group of organizations when this group is perceived as a distinct entity by outside observers. As in the previous constellation (individual-corporate) the link between the collective and the corporate level of reputation can follow two basic patterns: reputation flowing from the collective to its member firms and vice versa (Tirole, 1996). In other words, individual organizations can draw on reputational resources of the group in which they are members or the group as a whole derives reputational content from one (or more) conspicuous members of the collective. We will again focus on transference towards the corporation, although here, once more, transference in one direction can significantly strengthen transference in the other direction, both in a positive and a negative way.

The audience's perception and its effects on transferability will be discussed in a separate section, where particular attention will also be paid to the way in which particular members of the collective can be perceived as exemplars of the whole group. However, a collective has to be recognized as a distinct entity by the audience before it can have a reputation to be transferred. This suggests that factors on the side of the corporate actors such as the structure of a collective and the interrelationships of the corporate members influence the perception processes on the side of the corporate audience.

The easiest way to detect that a collective (or any entity) is recognized as an entity is to see whether it has a name that is used by actors outside of the collective. A name of a collective, as with any name, can carry certain associations; an arbitrary name can develop a complex of associations pointing, as it were, to particular reputational content. In both cases, the name can function as a 'reputation indicator' of a group (Landon and Smith, 1997). The indicator has considerable impact on the audience's inference processes about a group and its members and therefore on success or failure of the transference process. Probably the most common example of indicating the collective reputation of a group is by nationality or regionality (e.g. the reputation of a Milanese firm producing shoes as related to the *Italian* producers' collective reputation of product design). The reputation indicator here is *Italian* and is not to be confused with the *attribute* the group's reputation refers to: *high-standard product design*. The term *Italian* brings with it a wide range of associations which certainly includes associations with high-quality design and stylish clothing. This makes it highly functional for a group of Italian shoe producers to let their collective be recognized as the group of Italian shoe producers. Sometimes, groups adopt names that are arbitrary or even meant to be derogatory, but manage to be so successful to make the name an indicator of a good reputation. The name may then become an indicator of such enviable attributes that people gradually forget about the name's former negative connotations. This happened more than once in the history of art in cases of groups of producers such as the Fauves and the Impressionists (see also Wijnberg and Gemser, 1998).

An empirical study on the collective of Bordeaux wine producers illustrates the mechanism linking individual and collective reputation (Landon and Smith, 1997). The results show that the price premium associated with the individual reputations of the firms was as large as that associated with collective reputation variables. *Bordeaux*, the regional indicator, is crucial to the transference mechanism from the collective level to the corporate level of the individual firms. Especially in consumer research much work has been done on the 'country-of-origin effect'. However, the current paper will not treat this particular field in further detail.

Further empirical data in support of the point being made have been presented by Noe and Rebello (1995). They show that the reputation of a collective of firms which disapproved of cheap, unethical production technologies was perceived as a substitute for the reputation of individual firms. This substitutability became visible in the fact that some firms within the collective were temporarily able to free-ride on their group's reputation, while actually employing unethical production techniques. The cheating firms enjoyed the reputation of the group as transferred to the corporate level by external observers. In such cases the network of firms is perceived as a determining part of a firm's dynamic identity (Choi and Karamanos, 1998). Larson's data (1992) also confirm that joining networks consisting of organizations with strong industry reputations enhanced a firm's reputation 'by earning it legitimacy and credibility'. It can be assumed that the procedures providing this legitimacy and credibility are similar to those in individual organizational settings. Like individuals to an organization, firms are only likely to be admitted to a network and to continue to remain members in good standing, if they meet certain standards upheld within the collective of firms (Gemser and Wijnberg, 1999). A network's audience then infers that firms within an accreditation system will hold the particular standards related to this system. This inference process can create space for free-riders.

Particularly interesting structures of collectives are those in which one or more members operate as reputational indicators of the group. In this case, a more complex process of transference takes place, since reputation flows from one or more member firms to the collective level from where other members operating under the umbrella of this reputational indicator can derive corporate reputation. In this case, producers can be perceived as reputationally centered around one or more members. A good example in cultural industries are the German expressionists Kirchner and Heckel who are viewed as central producers within a grouping called *Die Brücke*. Here, the pattern of reputational transference where one or more producers serve as the central sources of a grouping's reputation is the prerequisite for the pattern our paper focuses on: members of a group deriving their reputation from the collective level.

Evidence of the threats behind these reputation transference processes can be demonstrated by a number of studies about individual firms damaging the reputation of the collective within which they operate (eg Larson, 1992; Choi et al., 1995; Tirole, 1996). In such unfortunate cases firms with undesirable attributes move to central positions within the group as perceived by external observers and evolve into reputational indicators of the group. The negative reputational content may then in turn rub off onto the corporate elements of the group, unless outside observers are able to identify in detail which members are submitting to the rules of the group and which are not. It can be assumed that the more complete the audience's information is about all individual members of the group, the smaller the potential threat of reputational transference will be. In this context, the size of the group and the audience's tendency to simplify the information they process are important factors influencing the transferability of reputation. The psychological mechanisms underlying this phenomenon will be treated in more depth in the section discussing the corporate audience's perception and its impact on substitutability.

CORPORATE AND SYSTEM

Finally, a firm's reputational resources may be derived from the reputation of the system to which the activities of the firm are linked in a significant way. A system, like a collective of firms, is an external source of reputational content. The term 'system', in the way it is used in this paper, originates from sociological literature related to the concept of trust which again serves as a complementary source of help for a better understanding of the structures of systemic reputation.

System trust exists insofar as 'the members of that system act according to and are secure in the expected futures constituted by the presence of each other or their symbolic representations' (Barber, 1983). The social entities (eg individuals, groups and organizations) forming part of and acting within a system are central to the development of trust towards that system. System trust is then akin to *social trust* in that it is 'our general sense' that the actors in a marketplace 'can be counted on to uphold the standards of good social interaction. In the context of market relations these standards usually refer to the degree to which persons can be expected … to make an effort to fulfill their side of any implicit or explicit bargain' (Goodwin, 1996, 47). More generally, trust in a system is also said to rest on a 'presentational' base, which is the 'appearance that everything is in proper order' (Lewis and Weigert, 1985a, 974).

Drawing on the above sources, for the

purpose of this paper we define a system as a coherent set of standards that are *taken for granted* in a particular community of actors and with respect to a particular category of (trans)actions which are backed by these standards. As outlined above, the reputation of the system allows a firm to function in the way it does and, most importantly, it enables actors in the marketplace (individuals, corporations or collectives) to trust in being able to predict the outcome of transactions involving other actors, if they live up to their reputations. Systems have a certain similarity to public goods in the sense that consumption or participation is not competitive and, in contrast to some public goods such as motorways, the usefulness of systems increases the more they are relied upon by all participants. Examples of systems in this sense may be as narrow as, for instance, the Internet as a medium for concluding transactions, or as broad as the system of market-capitalism in general.

In between these two examples lies another highly important system which significantly has been chosen by Luhmann (1979) as a paradigmatic example of system trust: the monetary system. This type of system illustrates particularly well how closely the reputation of a system is related to the extent of the audience's willingness to rely on the system. According to Luhmann's notion of system trust, anyone who trusts in money 'believes in the stability of the value of money ... and basically assumes that a system is functioning' (1979). An individual then 'places his trust in that function, not in people.' Conversely, it is argued that, as a last resort, people do not develop trust in the monetary systems, but in the individual entities operating them (Simmel, 1907). Basically, these diverging opinions mirror the potential of substitutability between the levels of systems, organizations and individuals.

Systems, especially those with a rather complex nature, are often perceived as difficult to analyze or understand by the actors dealing with and within them. This triggers simplifying mechanisms which allow the actors to assume that the system which forms the background to their transactions is functioning without a need to be analyzed, questioned or controlled in any way. In other words, by ignoring the myriad of individual actors, institutions and procedures which sustain a system, system trust constitutes 'a form of complexity reduction' (Luhmann, 1979). This is very similar to the cognitive simplification processes which have been mentioned briefly in the context of collectives earlier in this paper and will be discussed in more detail in the next section on perception and transferability.

In a monetary system, a very conspicuous example of an organization operating within it is its central bank. Attributes such as credibility or a favorable reputation can be perceived as transferable, especially between a politically independent central bank and its monetary system. The mechanism of a (corporate) actor deriving reputational resources from the systemic level obviously only works if the system has been in force for some time. In a newly established system, reputations of individuals and institutions will be paid more attention, since the audience will be more alert to available indicators reassuring them of the system's 'proper functioning' (Lewis and Weigert, 1985a). The audience's tendency to simplify and reduce complexity increases as the alertness decreases. The mechanisms during the stage of building up a system's reputation are comparable to 'institutionalizing processes' where interpersonal experience is gradually converted onto a 'higher, impersonal level' (Zaheer et al., 1998). Once a system has built up its reputation, these resources are consciously or unconsciously used by all the actors operating within the system and also by outside actors transacting with those in the system.

Depending on the type of system, the reputational content a firm derives from this level will be important in different transactional settings. Attributes of the monetary system in which the firm operates should be particularly important in international interactions. Another type of system relevant to firms is the industry in which they operate. An industry has been referred to as a 'social system that governs, integrates and performs all the functions required to transform technological innovations into commercially viable products' (Van de Ven and Garud, 1989). Under the umbrella of such an industrial system firms compete, form clusters, collectives, alliances and rely on the coherent set of standards which allows them to act, interact and predict outcomes of transactions within the industry. The reputational resources derived from the industry level can be particularly important in inter-industry trade. The industrial activity-system (Jenkins and Floyd, 1998, 2) in which a particular firm operates may give the impression to the outside observer, that, for instance, technological or creative challenges will be met adequately because of the standards of the systemic resources available to the firm.

In sum, different kinds of systems can simultaneously form the background for a firm's transactions. Depending on the type and setting of the individual transaction in which the firm engages, reputational resources derived from one or the other system will be more relevant to the perception of the firm by transaction partners outside the respective system.

PERCEPTION AND TRANSFERABILITY

Psychological processes underlying the transfer of reputation

In the discussion of the collective and the systemic level the paper has already briefly touched upon issues related to perception. In this section, the psychological processes which form the audience's perception in a way that allows for substitutability and transference of reputation will be analyzed in more depth.

Before investigating the mechanisms behind transference as such, it should be stated that, like the development of trust, the formation and perception of reputation can be 'cognition-based' and 'affection-based' (Lewis and Weigert, 1985a; McAllister, 1995). Whether information processing will be predominantly cognitive or emotional will depend on the type of information and the circumstances in which processing takes place. For example, processing information such as technical details in a company's annual report while sitting at a desk in an office seems a clearly cognitive activity which then leads to cognition-based perception of corporate reputation. Watching a CEO commit suicide on TV will more likely lead to affection-based information processing about the firm. It is of particular interest here that emotional mechanisms prove very important under circumstances where information is acquired on the basis of indirect interaction or by transference from other entities. Successful transference can only take place where the information transmitter or the entity from which information is transferred will evoke the right (given the circumstances and the audience) cognitive-based or affection-based response.

Another issue which plays a role in processes of transference is simplification. The higher a system's complexity and the greater the size of a collective in which a firm operates, the more likely it becomes that simplification processes occur in the minds of the audience. This is what research on cognitive simplification processes and information overload suggests (e.g. Miller, 1956; Schwenk, 1984). Research on strategic groups suggests that market actors tend to mentally group a large number of firms instead of analyzing them independently (eg Reger and Huff, 1993; Porac et al., 1994). Linking these psychological mechanisms to the concept of transferability, it can be assumed that cognitive simplification in the audience's perception allows and maybe promotes transference of reputation. This assumption does not seem to be far-fetched. For instance, strategic group research is currently extending the former view of the groups based on similar strategies and profitability to a view which also covers the firms' mutual understanding with respect to central characteristics of the group — including intangibles such as reputation (Peteraf and Shanley, 1997).

Several aspects influence the audience's tendency to simplify what they perceive. The more transparent and comprehensible a system, the smaller the need for complexity reduction will be. Similarly, in an extremely small group of two organizations forming a strategic alliance, reputational integration on the collective level is less likely to occur, especially when their individual reputations are perceived as similarly strong. In support of this assumption a study by Garvey (1995) shows that joint venture is preferred instead of horizontal or vertical integration when the reputational forces of the participating firms are strong. Mergers where the individual firms retain their own names illustrate this argument. This was initially the case in the merger of Midland and HSBC. However, the Midland brand is currently being phased out in favor of a single HSBC brand. This is a highly interesting case from the point of view of the approach to corporate reputation examined here. A different example is the (attempted) strategic alliance between Volvo and Renault which aimed at exploiting Volvo's strong reputation in engineering in combination with Renault's strong reputation in design. Reputational integration did not take place in this group, since it was small enough to allow for a high degree of information processing about individual members, which works against cognitive simplification mechanisms.

A prerequisite for these simplifying mechanisms is the audience's willingness to perceive a collective as a collective, in other words, as a distinct entity. The continuation of individual company names in the above examples is an important signal countering this willingness. This observation relates to what was discussed briefly in the context of collectives and their names which serve as reputational indicators. Also, systems have to be recognized and accepted as systems before individuals will allow themselves — as explained earlier — to give up their alertness and simplify what they perceive. Equally, before the perception of a reputation can take place at all, the outside actor has to perceive the entity in question as an entity. Of the four levels distinguished, only the individual and the corporate level seem to be 'natural entities' and 'carriers' of reputational content. An individual and a corporation usually have names that are known to outside observers. On the contrary, collectives and systems have to prove their existence as entities by getting names and being recognized as name-worthy. If an audience does not recognize and trust the existence of a collective or a system (but also a corporation) as a valid category, effective transference cannot take place. This touches upon the existence of reputational indicators and the broader problem of categories and concepts.

Some collectives of firms are more easily recognized as collectives by their audience than others. If a collective has a clear focal point, the audience is more likely to perceive it as a collective. A good example of this are networks with a 'center' which is managing the partners in the collective (Gomez-Casseres, 1994; Lorenzoni and Baden-Fuller, 1995). The central firm often serves as the reputational indicator, a simplifying device which guides the audience's inference processes about other members in the network. However, what guides the audience's inference processes about firms in large networks without a clearly identifiable center? Even more interestingly: which of the member firms of such a collective are most likely to be perceived as reputational indicators? In other words, which correlations does an audience establish between the group and the firm, as well as between the firms? It would be extremely valuable to managers joining or being part of an inter-firm network and admitting other firms to it, if reputational consequences for their own firm could be predicted to a certain degree.

Research results in experimental psychology offer considerable assistance for understanding these processes. First of all, theories of concept structure (for a useful overview see Komatsu, 1992), in particular the so-called exemplar and family resemblance views help to understand better the concept of the reputational indicator and which firms are likely to take this role within a group. Psychologists have generally defined a concept as the mental representation of some attribute(s) or properties shared by a complex of objects. Collective reputations strongly resemble such mental representations. They are like pictures of groups of firms which have been drawn by cognitive processes in the heads of individuals perceiving these groups. The use of psychological concept theory to the questions that have emerged in this approach to corporate reputation building is threefold: first, it can help to understand why collectives are perceived as collectives; second, it can inform assumptions about the inferences a corporate audience makes about individual firms in a network/collective of firms and third, it allows an explanation as to why one firm of a collective is more likely than another to be perceived as the reputational indicator of the collective.

The exemplar and family resemblance views of concepts are both similarity-based, which means that objects are seen as instances of a category because of the attributes they share either with the abstracted picture of the category or with instances of the category which are known to the audience. However, they differ in some respects which make them both valuable for our purpose. Komatsu (1992) evaluates these views along a number of criteria which are directly linked to the discussion above: *cognitive economy* (which results from treating a number of objects as identical), *informativeness* (to what degree does categorization allow for inferences about individual group members) and *coherence* (how the group members are held together). First, the exemplar-view — Komatsu restricts his description to the instance approach — holds that the members of a group cohere, not because all of them share a particular attribute or set of attributes, but because every member shares at least one characteristic with one other member. This approach fits the examples of the *Brücke* group and other more heterogeneous inter-organizational networks. The family resemblance view of concepts corresponds to the examples of the regional/country indicators and strategic groups. In the family resemblance view a concept is a summary representation of what objects in the group on average are like. To these insights research results from experimental psychology can be added which explain the ways in which an audience forms impressions about groups and their members (eg McConnell et al. 1994).

In sum, this section suggests that whether a firm can actually derive reputational content from other levels depends on structural factors on the side of the corporate actors themselves as well as psychological processes on the side of the audience perceiving them. Cognitive simplification and categorization have been presented as the key processes influencing the audience's perceptions and inferences which either prevent or allow for the transference of reputation. The main objective of this section has been to show that theoretical tools are available which might assist us in bringing out the predictive potential of our approach to corporate reputation building in future research.

Up to this point, the discussion of perception has deliberately excluded the impact of the culturally determined mindset of the audience, which is also a highly significant determinant of perception and transference of reputations on different levels. This can be approached from various viewpoints, for instance from a linguistic angle treating the conceptualization and categorization discussed above as a language problem. The principle of linguistic relativity, better known as the Whorf-Sapir hypothesis,[1] would be a good starting point in this field. It proposes that language is an array of formal categories grouping experiences into usable classes which vary across cultures. However, instead of plugging into this highly complex field, for the purpose of the current paper it was decided to consult research results which presumably are easier to handle — especially at a stage where the aim is simply to demonstrate in a short discussion that cultural differences play an important role in the transference process. Hofstede's cultural dimensions along which he develops his notion of the 'collective programming of the mind' (1980) will prove to be a good choice for this purpose in the following section.

The impact of national culture on transference mechanisms

Transferability of reputation can provide a powerful tool for corporate reputation building. However, it is assumed that the audience's response to different transference patterns will not be identical in different cultural environments. Recent research into the relationship between national culture and trust discusses a similar assumption (Doney et al., 1998). The distinction of different cultures in terms of national boundaries is adopted too, mainly because the studies which are most useful for the purpose have employed this classification (eg Hofstede, 1980, 1982; Schwartz, 1992, 1994).

Hofstede's work, which provides indexes of cultural dimensions for 40 countries, is clearly the most frequently cited empirical study in this field. His work was chosen to propose an application which is supportive of our argument. The authors are, however, aware of the problems involved in employing a study on cultural differences which has been in the academic market for almost two decades. Major political events (eg the reunification of West and East Germany) and societal change in general have gradually led to limitations in the applicability of his empirical results.

Hofstede defines the concept of culture as the 'collective programming of the human mind' which he operationalizes by means of four dimensions (Hofstede, 1980, 1982). For those not familiar with the dimensions they are very briefly clarified here. The dimension of *Uncertainty Avoidance* refers to the extent to which uncertainty makes the members of a society feel uncomfortable. The *Power Distance* dimension measures the degree to which unequal distribution of power in institutions and organizations is accepted within a society. The dimension of *Masculinity* versus *Femininity* contrasts the emphasis on attributes such as achievement, assertiveness and material success in high masculinity index cultures with a focus on interpersonal relationships and characteristics such as modesty and caring behavior in cultures with a high femininity index. *Individualism* versus *Collectivism* highlights a preference for loose social networks in a society where the individual is in the center of the focus as opposed to the tight structure of social frameworks in collectivist cultures where loyalty and strong ties between the members of a collective are of major importance.

It seems plausible that norms and values linked to these particular dimensions will influence the extent and manner in which the transfer of reputation to the corporate level can take place. The study by Doney et al. (1998) suggests a strong *femininity* dimension in a society's mental programming as supporting the formation of trust via a transference process. Inter alia, they justify their proposition by the higher degree of *benevolence* present in feminine societies. Hofstede contrasts *benevolence* with *controlling behavior*, an attribute more pronounced in masculine cultures. Referring to these attributes it can be argued that cognitive simplification is less likely to occur in the minds of an audience with a higher masculinity index, because they feel more of a need to control eg the complex procedures behind a system or every single member in a collective. In the previous section, cognitive simplification is identified as strengthening the audience's willingness to perceive reputations as transferable. A relevant question to investigate in this context would then be whether:

A culture characterized by a high Femininity Index will, relative to a culture with a high Masculinity Index, constitute an environment more conducive to the successful transference of reputation from other levels to the level of the corporation.

The societal norms related to the *Individualism/Collectivism* dimension include a strong group orientation, low tolerance for individual opinions which results in a tendency towards behavioral conformity and a high loyalty for institutions (Hofstede, 1980). Doney et al. (1998) propose that trust is more likely to be developed through transference mechanisms in cultures with a high collectivism index. Doney et al. argue that trust can be more easily transferred within the densely knit social framework of collective cultures. A similar argument could be made for the transference of reputation. More specifically, it is assumed that individuals with a strong group orientation and low tolerance for individual opinions are less likely to focus on the reputation of an individual entity, if they perceive a collective with a reputation which might also be applicable to this individual entity. Furthermore, the conformity of behavior according to standards which are expected and taken for granted according to the paper's definition of a system suggests that members of collectivist cultures will perceive the reputation of a system as more meaningful to their judgment about a firm than members of other cultures will. Then, a question worthwhile asking in future research would be whether:

Transference from the collective and the systemic level to the level of the corporate reputation will be more likely to be accepted by market actors from a culture with a high Collectivism Index rather than by actors from a culture with a high Individualism Index.

In the case of an audience with a high *Uncertainty Avoidance Index* (UAI) it seems, at first, not clear whether the norms and values shaping their perception will have a supportive or inhibiting effect on the transference process. On the one hand, uncertainty avoiding individuals might find it too risky to rely on transferred, indirectly acquired information; they might instead prefer to gather the necessary information about the firm in a direct manner. Also, a risk-averse audience might be extremely reluctant to allow themselves cognitive simplification, since they might be afraid to miss out on important information.

However, it might also be argued that members of a high UAI culture are not likely to trust new sources of information quickly or easily but will also tend to put a relatively high trust in those sources they have come to rely upon. Because of this, they will have a high susceptibility to individuals acting as opinion leaders or experts who transform uncertainty into certainty (Hofstede, 1982). A high UAI audience prefers to focus and rely on individuals who present them with a straightforward expert opinions, rather than dealing with a great amount of complex information about a firm themselves in order to form their own opinion. In other words, they seem to have a preference for simplified information transmission. This leads to the question of whether:

Transference from the individual level to the level of the corporate reputation will be more likely to be accepted by market actors from a culture with a high Uncertainty Avoidance Index, provided that the individual, whose reputation is transferred, is perceived as an expert.

Finally, the relevance of Hofstede's *Power Distance Index* (PDI) centers around the transference of reputation from the individual level to the corporate level. As a result of the emphasis on egalitarian relationships in low PDI cultures (Hofstede, 1980) their members may be more likely to accept an ordinary employee's reputation as sufficiently important to accept it as a substitute for the reputation of the firm. An audience with a high PDI is also likely to respond positively to reputational content from the individual level, but only to the degree that they recognize the individual as high in the organizational hierarchy, eg CEO or president. Such a response can be predicted on the basis of the authoritarianism norm and differential in prestige/power emphasized in high PDI cultures. Therefore, it would be an interesting question whether:

Market actors from a culture with a low Power Distance Index are more likely to accept reputations of individuals lower in a firm's hierarchy as a substitute for corporate reputation, while actors from a culture with a high Power Distance Index are more likely to allow successful transference of the reputations of high-standing individuals in the firm's hierarchy.

The questions which have emerged in the course of this section should give an impression of how significantly cultural differences on the side of the corporate audience can shape perception and create conditions which either support or inhibit transference of reputation.

CONCLUSION

In this paper, four levels of reputation have been identified and the transferability of reputational content to the corporate level from each of the other levels: individual, collective and system has been discussed. In an environment where managers are increasingly engaging their firms in mergers and demergers, joint ventures, alliances and network formations, there is great potential for corporate reputation building which involves reputational resources from the other levels. If a firm transacts in international settings, the management of corporate reputation is confronted with an additional challenge. Cultural differences have to be handled by strategies which juggle reputational resources from different levels in a way that confirms to the culturally determined taste of a firm's audience.

A topical case of reputation building which clearly illustrates the relevance of this approach to corporate reputation management is the European Central Bank (ECB). A whole range of reputations on the individual, the collective and the systemic level is available for the construction of this new institution's reputation. Essential to the success of the bank's functioning is that it manages to acquire a strong corporate reputation in the many member states of the EU, with their diverse national cultures. The reputation of individuals representing the ECB (its president Wim Duisenberg being the most prominent example) might be more effective in building up the new institution's reputation in one country, whereas in another national setting the collective of the European Central Banks (ESCB) or the European Monetary System (EMS), the direct forerunner of the new system, might be more appropriate sources for deriving the European Central Bank's reputation.

To conclude, this paper argues for a broader perspective on reputational resources, their creation and maintenance. The firm's reputational resource base should include not only different types of reputational content and resources from different levels of reputation, but also the managerial skills needed for putting the levels and their transferability to use in different cultural environments. As a first step in this direction, insights into the transference mechanism and some theoretical tools are presented here, and given as suggestions for future work on this issue.

ENDNOTE

1 There is a great deal of literature on this issue. For a basic introduction see Whorf (1956).

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