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Reputation Effects, Embeddedness, and Granovetter's Error

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Siegwart Lindenberg, Rafael Wittek and Francesca Giardini

6 Reputation Effects, Embeddedness, and Granovetter's Error

Abstract: Reputation effects are crucial for social life. There has been important work done in the social sciences on this topic and Raub's contribution has been widely recognized. It builds on Granovetter's seminal work on embeddedness. However, Raub's contribution is unnecessarily limited by the fact that he copied Granovetter's error by assuming that all we need for dealing with reputation effects is attention to social structure (in the sense of networks) and to rational choice as a theory about actors. In our contribution, we argue that if reputation effects in the moral domain (compared to reputation effects in the domain of competence) work properly they inform people about the salience of overarching goals, including the very goal to follow normative obligations. To understand the conditions under which this happens necessitates attention to normative embeddedness, to normative heterogeneity, to structural features beyond networks (ingroup/outgroup dynamics and power differences), and to the mechanisms that govern the dynamics of overarching goals. This requires a serious correction of Granovetter's error, by approaching reputation effects in the moral domain on the basis of microfoundations that can deal with the interdependence between psychological processes and social structure.

6.1 Introduction

Reputation effects (especially those in the moral domain) have been heralded as one of the pillars of human cooperation. Milinski (2016) even calls reputation "a universal currency for human cooperation." Reputation effects can make individually costly but socially beneficial behaviors more likely. Yet, it is by no means clear how reputation effects work and when they might fail to occur. For example, according witness testimony, Harvey Weinstein was sexually abusing women for years, without reputation effects. And then, all of a sudden, it was a scandal. Rebecca Traister (Traister 2017) asked in an article in *The Cut* in October 2017 why the Weinstein allegations did not make a stir much earlier. "The history of allegations has been an almost wholly open secret [. . .] and yet somehow ignored, allowed to pass, unconsidered." Why did similar allegations hit the press about Trump and yet, nothing much happened? Why did the reputation effect not work properly in either of these cases? Journalists

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have good guesses, but our scientific grasp of these dynamics clearly needs help, by considering more closely the conditions under which reputation effects are likely and conditions under which they are unlikely to occur.

Seemingly, the widespread and simple idea about reputation effects is that because people care about what is said about them by others, they will behave in such a way that nothing bad is said about them. In addition, they base decisions about their own behavior on what they have seen or heard about the other's behavior in the past (for example, they do or don't trust the other's promise). In the literature, the behaviors that are allegedly regulated by reputation effects are often lumped together under the term "cooperation," meaning basically what Granovetter (1985) called "orderly transactions," including trustworthiness and prosocial behavior. Gintis and Fehr (2012: 28) remark that this approach to cooperation is by now quite standard in economics and game theory, with the famous combination of rational choice and assumed self-interest: People engage in orderly transactions not because they have a feeling of obligation to do so, but because they want to avoid getting a bad reputation. The dynamics of social obligation and shared social norms plays no role in this approach, leaving an open goal for sociologists to at least try to kick in the ball. Yet, counter to what one might expect, the sociological research that picked up reputation effects ever since Granovetter's (1985) work on embeddedness of human transactions in dyadic relationships and social networks, more or less ignored the importance of being embedded in shared norms and the mechanisms involved in their workings (for example how norms influence behavior differently in when ingroup/outgroup dynamics are at play or when there are great power asymmetries).

Werner Raub is one of the sociologists who, following Granovetter, have prominently contributed to the reputation and embeddedness research. But he followed Granovetter and saw the embeddedness effects based on the assumption of rational choice and self-interest as more parsimonious (and thus preferable) explanations of cooperation and trust than explanations that are based on moral commitment (that is a feeling of obligation to follow social norms). This pitting of rational choice against "normative" or "moral" explanations of cooperation and trust is in our view based on an erroneous contrast between rational choice and normative explanations, and it unnecessarily limits what can be learned from research on reputation effects. But before we expound on the reasons why we consider this position flawed, we will briefly explain the considerable role Granovetter himself played in this development.

6.2 Granovetter's error

In 1985, Granovetter published a by now much cited article about "embeddedness". The general message was that two prominent views on how "orderly transactions" (in business transactions and life in general) are brought about, are fundamentally

flawed. The classical view in sociology of orderly transaction as being brought about by internalized norms and values, and the classical and neoclassical view in economics of orderly transaction as being brought about by clever institutions and self-interest are both atomistic, neglecting the impact of social structure. Dyadic relations are embedded in relations with others and between others and this embedding has great influence on behavior, including behavior in business transactions. “Actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations” (Granovetter, 1985:487). The sociological program to be pursued thus should be to study the influence of embeddedness on the likelihood that transactions are orderly. For sure, Granovetter pointed to an important shortcoming of economic explanations of orderly transactions, and Werner Raub followed Granovetter's program, made it his own and pursued it in a very systematic way. He focused particularly on trust problems, that is, on situations in which lack of trust or abuse of trust would imply results that are inferior to the social beneficial outcome (Raub and Buskens 2008).¹ He studied various kinds of embeddedness that affect trust: dyadic (that is the same dyad embedded by shared past or future), network, and institutional. In the course of realizing this program with colleagues and students, he investigated relational and structural control effects (based on the ability to sanction and reward via future interactions or via spreading information) and learning effects (based on experience or information from others). In addition, he investigated how institutions (for example contract law or an eBay feedback forum) positively or negatively affect relational and/or network embeddedness.² Yet, with all this positive development, there is also a highly problematic carry-over from Granovetter's embeddedness program. It can be called “Granovetter's error”.

Granovetter (1985) introduced his embeddedness argument together with a heuristic that indicated in what direction progress may be possible: focus on the effects of structure and assume rational choice as a working hypothesis to deduce that people rationally consider structural effects (such as reputation effect) for their action. He admits, that rational choice theory uses naïve psychology, but

the notion that rational choice is derailed by social influences has long discouraged detailed sociological analysis of economic life and led revisionist economists to reform economic theory by focusing on its naïve psychology. My claim here is that however naïve that psychology may be, this is not where the main difficulty lies – it is rather in the neglect of social structure.

(Granovetter 1985: 506)

¹ This too follows Granovetter's (1985) lead, who focused on the effect of embeddedness on “trust and malfeasance”.

² Even though we maintain that too little can be learned from this approach about reputation effects “in the wild”, we have no space to go into a discussion of the achievements of Raub's research program.

Granovetter (1985: 505) speaks of “psychological revisionism” which in his view is something one should stay away from, “an attempt to reform economic theory by abandoning an absolute assumption of rational decision making”. In the embeddedness approach, once we work with the behavioral “working hypothesis” of rational choice, “the details of social structure will determine which is found.” (Granovetter 1985: 493).

Of course, Granovetter’s approach is much to be preferred over and above a pure structuralist approach that does not even allow any theory of action to help explain structural effects (see Lindenberg 1995 for a critique of the pure structuralist approach). However, it is infected by a fundamental error: it makes the untenable assumption that structural effects are independent of the working of norms and the psychological mechanisms connected to the way they work. Yet, contrary to what would be implied by Granovetter’s error (and often found in the economic literature, for example Fehr, Brown and Zehnder 2009), long-term business relationships are not likely the result of the ongoing working of reputation effects. Granovetter in fact does not keep to his own program and brings in norm-related psychological mechanisms through the back door. For example, in a sequel to his 1985 article, he explains why intimate relationships have different structural effects than relationship with strangers, maintaining that

continuing economic relations become overlaid with social content that, apart from economic self-interest, carries strong expectations of trust and abstention from opportunism. That is, I may deal fairly with you not only because it is in my interest, or because I have assimilated your interest to my own (the approach of interdependent utility functions), but because we have been close for so long that we expect this of one another, and I would be mortified and distressed to have cheated you *even if you did not find out* (though all the more so if you did).

(Granovetter 1992: 42)

It is difficult to see how the rational choice “working hypothesis” would explain how “expecting fairness of each other” can lead to being “mortified and distressed to have cheated” even if the other did not find out. Also, if it is difficult to judge whether or not somebody cheated or was simply unable to keep a promise (as often happens), what cues in the interaction would help indicate a mishap rather than willful cheating? How is sincerity socially communicated and accepted? (Lindenberg 2000). Granovetter offers no hint on what the role of norms in all this might be. In order to trace different effects of being embedded in different kinds of relationships, Granovetter needs to make use of mechanisms he “officially” deemed to be irrelevant and whose use belongs to “psychological revisionism.” There is a price to be paid for this kind of “shadow methodology” because the “bootlegged” psychological mechanisms cannot be analyzed, critically evaluated and possibly adapted or corrected.³

³ The use of such a shadow methodology has also been observed for Durkheim who officially rejected using psychology but in practice made ample use of psychological mechanisms in his

They must remain ad hoc, in the vague sphere of “common knowledge”. Granovetter explicitly appeals to common knowledge to bolster his ad hoc theory of intimate relations: “It would never occur to us to doubt this last point in more intimate relations, which make behavior more predictable and thus close off some of the fears that create difficulties among strangers.” (Granovetter 1985: 490). But to be on the safe side with regard to the phenomena that can occur in intimate relationships, he insists that “in personal relations it is common knowledge that ‘you always hurt the one you love’; that person’s trust in you results in a position far more vulnerable than that of a stranger.” (Granovetter 1985: 491). Now, he can use one “common knowledge” assumption when he needs the positive effect of intimate relationships and the opposite one, when he needs the negative effect. Too little is gained in terms of what we learn about the dynamics of embeddedness by using these kinds of ad hoc assumptions.

To his credit, even though he followed Granovetter’s program, Raub steadfastly refused to also follow his shadow methodology. To the contrary, he sharpened Granovetter’s rational choice “working hypothesis” by keeping as strictly to the assumptions of standard game theory as possible. “We assume a setting of strategically interdependent actors, which seems appropriate to the embeddedness argument in general and to the modeling of reputation effects in particular. Thus, to analyze rational behavior in such a setting, we have to use strong game-theoretic rationality assumptions.” (Raub and Weesie 1990: 629). This has the advantage of allowing rigorous model building and rigorous deductions. Yet, the price is that ever more simplifying (and thus unrealistic) assumptions have to be made to allow such rigor. For example, in 1990, Raub and Weesie published a by now much cited article on reputation effects (Raub and Weesie 1990) in which they contrast three game-theoretic models of reputation effects: one with no embedding, one with perfect embedding, and one with imperfect embedding. The models are rigorous but require that structural embedding is always associated with actors *costlessly* getting information on *all* interactions of their partners. In addition, there is no allowance for mistakes or misunderstandings. If an act is taken to be a “defection”, it will trigger retaliatory reactions throughout the network. While some game theorists make this the basis for the generation of trust (others trust their transaction partner because they reckon with their partner’s fear of this retaliatory reaction, Guennif and Revest 2005), Raub and Weesie admit that this lack of allowance for mistakes or misunderstandings is an extremely unstable social system. They suggest a remedy that keeps entirely to the inner logic of their models. Rather than internalizing people’s fear of mistake and misunderstandings, they argue that, to avoid such instability “requires that actors be informed not only on the interactions of their partners

explanations (see Lindenberg 1983). Homans (1964: 818) said of shadow methodologists jokingly “they keep psychological explanations under the table and bring them out furtively like a bottle of whiskey, for use when they really need help.”

but also on the interactions of the partners of their partner.” (Raub and Weesie 1990: 464). It is a nice example of how highly simplifying assumptions can drive one progressively further away from social reality and from the necessity to deal with the dynamics of norms. Following Granovetter’s error even without shadow methodology and with mathematical rigor will thus also teach us too little about the dynamics of reputation and embeddedness.⁴

6.2.1 Reputation and the importance of norms

The fateful and, in our view misguided, juxtaposition of rational choice versus “normative” explanations on which Granovetter’s error is based, is embraced by Raub even more willingly, as it echoes an earlier and even more extreme statement by Coleman (1964: 166f), that Raub frequently cites: “sociologists have characteristically taken as their starting point a social system in which norms exist, and individuals are largely governed by those norms. Such a strategy views norms as the governors of social behavior, and thus neatly bypasses the difficult problem that Hobbes posed [. . .] I will proceed in precisely the opposite fashion [. . .] I will make an opposite error, but one which may prove more fruitful [. . .] I will start with an image of man as wholly free: unsocialized, entirely self-interested, not constrained by norms of a system, but only rationally calculating to further his own self-interest.” This leave little room indeed for considering the relevance of norms and normative obligations for reputation effects.

Raub and Weesie (1990: 629) define reputation as “a characteristic or an attribute ascribed to him by his partners.” However, they fail to add that it is not just any characteristic or attribute. Reputation is a socially acquired *evaluative* opinion about a social actor regarding a *tendency* to act in a particular way (be that an individual, group, organization or country) (Giardini & Wittek, 2019; Weigelt and Camerer 1988). Reputation is similar to direct social control (say, that one wants to avoid disapproval) with regard to the importance of shared norms and standards. However, reputation is more than direct social control. It is about a good/bad continuum, and that requires shared standards of evaluation *and* it is about a presumed behavioral tendency, even though this judgment may be based on just one incident (“once a liar, always a liar”). Thus, reputation effects are about the assumed likelihood that a social actor behaves dishonestly, is helpful, is better than others in certain regards, keeps promises, is cooperative, is opportunistic, etc. It is also useful to stress that unless one deals explicitly with dyadic reputation effects, reputation refers to the evaluative opinions that are shared in a particular group. In

⁴ Incidentally, Corten et al. (2016), testing the Raub/Weesie model of reputation effects found that its predictions did not hold up. Unfortunately, Corten et al. did not see Granovetter’s error at work.

this sense, one can also speak of the reach of reputation, depending on how inclusive the group is in which it is shared. In order to see the importance of the evaluative aspect of reputation also for Granovetter and Raub, it is useful to observe the language that is used by them when describing the behavior about which reputation effects emerge: In Granovetter's (1985) article on embeddedness, the term "opportunism" appears 17 times, and "malfeasance" 25 times. In the Raub and Weesie (1990) article, "opportunism" appears 15 times, "malfeasance" 11 times, and "defection" 62 times. It is not said but implied that there are shared standards and norms, and that people who violate these standards or norms (that is defect, are opportunistic, or knowingly commit a wrongful act) must fear for their reputation because others may infer an action tendency on the basis of this violation. People anticipate such loss of a good reputation and thus are more likely to behave "properly."

Simply assuming clashing preferences or goals is not enough for reputation effects. If preferences and personal goals are important for reputation effects, their influence derives from their link with norms. For example, if an overnight guest squeezes my toothpaste in the middle and I happen to be somebody who gets irritated by that, it makes no sense to say that this is an example of how a bad reputation is being built. Even in the case of a purely dyadic reputation effect, my friend would have to know that squeezing the toothpaste in the middle is negatively evaluated by me, and I would have to know that he knows that, as he would have to know that I know he knows. In short, for reputation effects to occur in this situation, I would have to be thought of by my friend as somebody who willfully irritates a friend. What would be violated in this case is a friendship norm via my willingness to let personal preferences (for squeezing the toothpaste in the middle) prevail over behavior appropriate to a friendship relation.

People can have personal norms, but that is also not enough for reputation effects. It is the fact that standards and norms are shared that allows people to abstain from a certain behavior for fear of losing their good reputation. For example, if there is no shared norm about going to church on Sunday, people will neither lose their good reputation by not going, nor would they go to church for fear of losing their good reputation. Reputation effects thus necessitate normative embeddedness, that is shared standards and norms. The argument that norms cannot be taken as given, that they must be "endogenized" and explained by equilibrium behavior in repeated games (see Buskens and Raub 2013), is misplaced in this context, as reputation effects presuppose the existence of shared norms rather than the other way around. Norms do not emerge to make reputation effects possible, but reputation effects go piggyback on shared norms, that is they are made possible and derive their usefulness on the basis of shared norms. When it comes to examples of how reputation effects work, Raub and Weesie (1990: 642) don't hesitate to cite as prime example the case of diamond merchants (also used by Granovetter) that clearly presupposes shared norms: "Like other densely knit networks of actors,

they generate clearly defined standards of behavior easily policed by the quick spread of information on instances of malfeasance.”

The requirement that reputation effects necessitate normative embedding is only half of the story. We also have to deal with the question why people would make judgments about “behavioral tendencies” on the basis of observed behavior. Is it simply that there are types of people and even one or a few behaviors signal a type? Or are these judgments more complex? This too is a question that needs answers.

Why is it important to make the dynamics of normative embeddedness and behavioral tendency judgments explicit? The quick answer to this question is: because norms and judgments about behavioral tendencies in dealing with norms affect virtually all aspects of the dynamics of reputation, be that the question what can be subject to reputation effects, where reputation effects can be expected, why these effects may vary in strength, when and why people would pass on reputation-relevant information, or how power asymmetries affect what is and is not damaging for one’s reputation. It is exactly because reputation effects are such an important part of (self)controlling behavior that we need to be able to answer such questions. For answering any one of these questions, one has to consider psychological aspects connected with the dynamics of normative embeddedness, the actor who may or may not anticipate reputational effects, the observer who may or may not react to transgressions, and the transmitter who may or may not pass on information that could affect one’s reputation.⁵

6.3 The effects of heterogeneity on normative embeddedness

Normative embeddedness that is needed for reputational effects depends on normative homogeneity and thus is not simply embeddedness in social relationships. This is far from being trivial. Many of the examples used in the literature about reputation effects are from anthropological research on so-called traditional societies, or from experiments with subjects from homogeneous populations (for example Giardini and Conte 2012; Gintis, Smith and Bowles 2001). In these examples, shared norms and standards are more or less taken for granted and not included in the analysis. But can one simply ignore normative embeddedness in our societies as well? As populations become more heterogeneous with regard to social norms, reputation effects are likely to become more restricted to normatively homogeneous

⁵ Because of restrictions of space, we follow Granovetter as well as Raub in focusing mostly on the dynamics concerning “bad” reputation.

local “pockets”, and even friendship networks may be too heterogeneous for many reputation effects (say with regard to tax evasion, or honesty in business deals, or duties as a parent). As a result, reputation effects become less of a regulatory force for interpersonal behavior, with some authors even complaining about an increase in “cheating culture” (for example Callahan 2004). Instead, widespread reputation effects become more restricted to useful but quite mundane forms of evaluation (such as the quality of food in a restaurant, quality of online services, or e-commerce rating systems that solve the very trust problems created by the internet itself) because for them there is still a widespread consensus on standards. But even these reputational mechanisms are quite complicated. “Strong reciprocity” (that is the assumed predisposition to unconditionally reward or punish one’s interaction partner’s cooperation or defection, see Diekmann et al. 2014), is often invoked for such mechanisms. However, what is less often considered is that strong reciprocity also works against reputation effects by blocking feedback. For example, a study of reputation effects for eBay found that buyers are reluctant to give negative feedback for fear of counter punishment from the seller (Li 2010). In short, the mundane forms of reputation effects require a good deal of psychological finesse to work properly (see for example Bolton, Greiner and Ockenfels 2013 and 2018). In addition to the mundane effects, many reputation effects occur for the extreme forms of deviant behavior (such as pedophilia, sexual abuse of women, downright corruption). And even here, important psychological mechanisms are at work, drawing our attention to the role of “publicizers” (see the section on “transmitters” below). This leaves large gap of behavior that is not well covered. For example, for businesses, so-called reputation effects are increasingly “managed effects” based on corporate identity, certification contests, brand recognition, and quality perceptions realized more through public relations campaigns than observed past behaviors (see for example Gray Balmer 1998 or Balmer and Gray 1999). Alternatively, for business transactions, care for establishing and maintaining long-term relationships through bonding, relational contracting, and relational governance reduces the reliance on “fear” factors such as hostages and reputational effects inside organizations (Birkinshaw, Foss and Lindenberg 2014) and between organizations (Dyer and Singh 1998). Transgressions regarding the relevant norms involved (such as breaking trust) then may be fatal for the bonding of the relationship. For example, investigating interfirm networks in the apparel industry, Uzzi (1997: 59) found that “if the strong assumptions of trust and cooperation are exploited in embedded ties, vendettas and endless feuds can arise.” This is likely to help the transacting parties from breaching trust. But it is not a reputation effect.

For shorter term relationships, a good part of what reputation effects could have done is taken over by institutional sources of evaluative information (such as information on creditworthiness, on certifications, on “good behavior” certificates, on rankings, ratings and comparative sites). Not surprisingly, where reputation effects regarding more complex evaluation questions of products and practices in

informal groupings are operative, we see explicit work on normative embeddedness with shared norms and standards. Examples are occupational communities (for example Lawrence 1998) and the increasing number of online communities with a focus on community building, mutual support and the sharing and exchange of information (Preece, Maloney-Krichmar and Abras, 2003).

Even when norms are widely shared, their ability to create reputational effects is dampened in heterogeneous societies. For many groups, growing heterogeneity (religious and ethnic) makes those norms that are shared more abstract. This was already observed by Durkheim (1964 [1893]): Norms in heterogeneous societies “rule only the most general forms of conduct and rule them in a very general manner, saying what must be done, not how it must be done.” The consequence is that, in any concrete action situation, the abstractness of norms leaves considerable moral “wiggle room” (Dana et al. 2007; Lindenberg 2008; Mazar, Amir and Arieli 2008; Spiekermann and Weiss 2016), making it less obvious whether or not people transgressed a norm. Given such wiggle room, the actor is less concerned about reputational effects of many of her actions, and the observer is less likely to draw reputational conclusions from observing these actions. In sum, heterogeneity creates “wiggle room” with regard to norm conformity, which, in turn, weakens reputational effects. But there is much more to be considered than this wiggle room. Psychological aspects need also to be explicitly considered for all major figures involved in reputation effects: the actor, the observer, and the transmitter.

6.4 The actor

For reputation effects to occur, actors need to be concerned about them, but when is this the case? The damaging effect of a reputation effect derives from the possible inference that the “deviant” behavior reveals a behavioral tendency. Why would an actor assume that others do not only judge his actions, but also infer a *behavioral tendency* on the basis of first or second-hand experiences of his actions? To answer this question, we have to have a closer look at the role goals play in this. People conform to norms and legitimate rules and standards for different reasons, depending on their goals. It may be prudent to do so; or it may feel good to do so; or it may be the right thing to do. Reasons for doing things cluster when they are generated by the same goal. Particularly interesting in this regard are three overarching goals because their salience can change from one situation to another (Lindenberg and Steg 2007, 2013). It is very likely that the actors know that their behavior says something about the salience of their overarching goal. For example, Hilbe, Hoffman and Nowak (2015) showed with cleverly designed experiments that people who deliberately ignore cues that might tell them whether or not defection might be profitable are more trusted. “Intuitively, by not looking at the payoffs, people indicate that they will not

be swayed by high temptations to defect, which makes them more attractive as interaction partners.” (Hilbe, Hoffman and Nowak 2015: 458). Behaviors are signals about which overarching goal is salient (Lindenberg 2000).

There are three overarching goals: a gain goal (focused on increasing or maintaining one's resources, such as money); a hedonic goal (focused on improving or maintaining the way one feels); and a normative goal (focused on acting as a member of a collective, on acting appropriately with regard to the norms of this collective). For goals to become action-relevant, they have to be cognitively salient. At any given moment, one of the three overarching goals is likely to be the most salient and have the strongest influence on reasons for doing things, which, in turn are linked to cognitive and motivational processes such as what one pays attention to and what one ignores, what concepts and chunks of knowledge are being activated, what alternatives one considers, what information one is most sensitive about, and how one processes information. Social cues can greatly affect the salience of these overarching goals (Lindenberg 2012), so that social embeddedness (structure) and normative embeddedness (shared norms with more or less salient normative goals) interact. Let us make this more concrete by discussing each of the three overarching goals from the point of view of the actor. Even though in real life, all three goals are active to some degree at the same time (with one of them being most salient), we will ignore this mixed motive aspects for reasons of simplicity of exposition.

Gain goal. The gain goal becomes salient in situations in which there are clear opportunities for increasing one's resources, such as money or status, investment opportunities, competitive conditions, and “golden” opportunities for profit. When the gain goal is salient, the focus is on costs and benefits of a particular action in the medium and longer term, and thus a person is likely to also consider whether his or her action can have damaging reputational consequences. Most economists (as well as Granovetter and Raub) assume that people only have this overarching goal. With regard to reputation effects, the actor with a salient gain goal anticipates some future interaction or some indirect effects via gossiping. If he assumes that nobody would know about his action, the action would not be constrained by reputational concerns and only focused on gain. Thus, people with a salient gain goal act strategically, and for them reputational effects are part of the cost/benefit calculation. They will consider the likelihood that their actions will be observed or traceable, whether at least some of the potential observers will judge the actions evaluatively, and whether the observers could gain from passing on evaluative information to third parties who do care about conformity to norms and standards. Without it being mentioned that somebody has to care about norms and standards, this is also as Granovetter and Raub would assume it happens. But reputation effects only contribute to orderly transactions if they are truly informative about somebody's behavioral tendency. Strategic self-interest (a salient gain goal) can undermine reputation effects because actors with a salient gain goal are likely to also

consider how they could appear to conform to norms and standards, even when they don't conform. In other words, when at least some relevant others are assumed to care about this conformity, actors with a salient gain goal will put effort into managing the impression they make on others even when they transgress norms and standards with impunity (see for a vivid description Williams and Milton 2015). The better they succeed in doing so, the less "orderly transactions" are brought about by anticipated reputation effects.

What is the assumed naïve psychology of others in this regard? If observers assume the gain goal to be salient where a salient normative goal was socially expected (say, after observing the breach of a promise), they also assume that the gain goal will easily dominate the normative goal on other such occasions. This is how one observed behavior can lead to the inference of a behavioral tendency. In fact, the naïve psychology associates a behavioral tendency with who you are, with an identity, and it influences behavior. For example, "please don't be a cheater" works much better in preventing unethical behavior than "please don't cheat" (Bryan et al. 2012). The inference process is based on incongruence of expected and inferred salience of an overarching goal. For example, a salient gain goal would be expected when somebody negotiates a deal; a salient hedonic goal would be expected when celebrating a birthday; and a salient normative goal would be expected with regard to promises made. If breaching the promise would be profitable, observing that it is breached without excuse or explanation is taken as a sign that the gain goal becomes salient too easily in this situation for this particular person or company, when it should not become salient at all (Lindenberg 2000).⁶ Institutions actually encourage the salience of these overarching goals in these different situations (Lindenberg 2017). This, then, is the likely mechanism behind the link between behavior as a signal and the behavioral tendency that is assumed on the basis of this signal. The identity inference is based on the assumed ease with which one of the three overarching goals can become salient in a particular situation. Types (say a "cheater", "a money-grabber", a "saint") are of course not only identity labels people assign to others, but they do exist as chronically salient hedonic, gain or normative goals in people. For understanding reputation effects, however, it is also important to remember that, despite the chronic salience, *intrapersonal* shifts in the salience of overarching goals are also possible for such types, when the situation is strong enough (see for example Pulford et al. 2016). In sum, it is the incongruence between expected and experienced salient goals in others that is at the basis of reputations. Such incongruence is much less likely and thus much more informative than congruence. For this reason, it is also said that "it takes a long time to build a reputation and only an incident to ruin it."

⁶ This would hold even if the deviance were not related to moral standards but to standards of competence, but in the following, we will not go further into reputation effects for (in)competence, because they are likely to depend also on conditions specific to standards of competence.

As we discussed already, reputation effects are not about clashing “private” preferences or goals. It is by now clear that reputation effects actually rest on the fact that there are different overarching goals and that observed behavior is used to form impressions about their salience. Could negative reputation effects occur if everybody assumed everybody else to have a salient gain goal (as in, say, highly corrupt circles)? Our answer is: no. Even though everybody might prefer others to keep promises, to help, to be honest etc., if nobody assumes others to have a salient normative goal, there would be no news value attached to not keeping one's promises, not helping, not being honest. At best, one could acquire a reputation for keeping one's promises, being honest, etc., but with the assumption by the researcher that everybody has a salient gain goal, even this positive reputation effect would not be possible. This points to the internal inconsistency of an approach that assumes a gain goal for everybody (that is rational choice with self-interest and common knowledge) and claims to explain reputational effects. In a world without different overarching goals, reputational effects in the moral domain would play no important role.

Hedonic goal. The hedonic goal becomes salient when people are exposed to situations that contain strong visceral or arousing stimuli or when people are tired. When the hedonic goal is salient (say, somebody is in a party mood, or feels very anxious), the focus is on feelings (short term) and thus also on behavior that feels good or improves the way one feels. One is sensitive to others' proximal affective reactions (such as anger or praise), but this is different from anticipated reputational effects, as the concern is with the impact of the others' reactions on the way one feels right now, rather than about other people's inferences about one's behavioral tendencies. Thus, with a high concentration of people with a salient hedonic goal (such as often in a beach resort), we would expect much mutual concern about others' affective reactions, but only a very limited occurrence of behavior that is controlled by anticipated reputation effects.

The hedonic goal plays also an important role in reactions to observing a violation of norms by others, because such a violation often increases the salience of the hedonic goal, that is, it increases the focus on how one feels. For example, moral outrage after observing moral transgressions is often a hedonic reaction rather than a normative one (O'Mara et al. 2011; Veldhuis et al. 2014). A focus on how one feels makes reaction to observing norm violations very dependent on factors that have little to do with the spread of veridical information about trustworthiness (Wetzer, Zeelenberg, and Pieters 2007). Feeling victimized may lead to taking revenge and telling others an exaggerated account of what happened, or it may heighten one's vigilance and fear of counter attacks, making one abstain from passing on negative information (see for example Bolton, Greiner and Ockenfels 2013). We will come back to this issue then dealing with the observer and transmitter.

Normative goal. When the normative goal is salient, the focus is on behaving appropriately, with a feeling of obligation to do so. In this case, one would behave appropriately even when one feels unobserved. The salience of the normative goal is strongly influenced by institutions, such as the rule of law (Lindenberg 2017). However, this does not mean that others play no role. There is an evolved sensitivity to social cues that affects the salience of the normative goal and creates what we call “cued” reputation effects (in contrast to “calculated” reputation effects that can occur with a salient gain goal).⁷ With calculated reputation effects, the presence of others could make one conform to norms because one wants to avoid getting a bad reputation. In contrast, even though cued reputation effects may have evolutionary roots in calculated reputation effects (Hoffman, Yoeli, and Navarrete 2016), they are by now governed more or less automatically by cues emanating from others. People with a salient normative goal have been shown to be less calculating about reputation effects (Simpson and Willer 2008) and signaling that one is not calculative increases trustworthiness in others (Jordan et al. 2016). In this way, others become more calculative and less prosocial vis-à-vis somebody who has a bad reputation (Schilke and Cook 2015; Wedekind and Milinski 2000).

The physical and even the sheer psychological presence of others who stand for shared norms increases the salience of the normative goal (that is of the collective orientation) and it activates anticipated shame and/or guilt about not acting appropriately (Engelmann, Herrmann and Tomasello, 2012; Shaw 2003a, 2003b; Wu, Balliet, and van Lange 2016). That this is not part of a cost/benefit calculation can be gleaned from the fact that the salience of the normative goal is strengthened already by pictorial representations of eyes gazing at an individual (Manesi, van Lange, and Pollet 2016). The salience of the normative goal is also very responsive to the observed respect by others for norms and standards (Lindenberg, Six and Keizer 2020). For example, in field experiments, it was shown that observed (dis) respect for norm A greatly increased (decreased) conformity to norm B in the observer (see Keizer, Lindenberg and Steg 2008, 2013). Normative and social embeddedness interact but cued reputation effects are not related to the anticipation of a possible flow of information through specific networks. Rather, cued reputational effects are linked to the presence (bodily or psychological) of generalized others and signs of their respect or disrespect for norms and standards. Thus, even though network structures may be important for cued reputation effects and for what information (if any) people will circulate, other structural features, such as ingroup/out-group differences and power asymmetries, maybe at least as important.

⁷ In the literature, these two ways in which reputation effects restrain behavior are often confounded (for example Jordan et al. 2016).

6.5 Special effects for the actor: Ingroup/outgroup and power-asymmetry effects

Ingroup/outgroup effects. Human beings have evolved to function in so-called fusion/fission groups (Aureli et al. 2008). This means that they are cognitively and motivationally equipped to function in changing group constellations, such that being part of, say, a hunting party in the morning and part of an inclusive group (comprising various subgroups) for arranging a safe camp for the night. The collective to which the normative goal refers thus can change flexibly, depending on the circumstances. This ability also allows so-called ingroup/outgroup dynamics, in which the relevant collective for the normative goal explicitly excludes some other group (the outgroup). Intergroup conflict and competition will strengthen this “parochial” orientation of the normative goal (De Dreu et al., 2016; Wildschut and Insko, 2006). Thus, ingroup members expect each other to have a salient normative goal regarding the ingroup (and be rewarded with social approval and status for actively “proving” these orientations to their ingroup fellows, see De Dreu, Balliet, and Halevy 2014) and to have a salient gain goal or hedonic goal regarding the outgroup. Outgroup members are similarly expected to be parochial in their orientation. For an actor, this has important consequences regarding reputational effects: strong cued reputational effects for most ingroup members, strong calculated reputational effects for some ingroup members, and for all ingroup members no reputational effects vis-à-vis outgroup members. Thus, whatever makes groups more parochial will strengthen constraints on behavior through reputational effects for the ingroup and weaken these constraints for the outgroup. We will come back to this point when discussing the observer.

Power asymmetries. Power asymmetries are likely to generate strong effects of salient hedonic goals (sexual abuse, fear) and to change the working of the normative goal. When people in one group differ much in terms of power, it is likely that the more powerful will care less about reputational effects than the less powerful. This is not just because power can neutralize the negative consequences of reputational effects, but also because power can be used to either prevent reputational effects from occurring, or to exploit them. With relational asymmetries, the powerful are also more likely to be less concerned about using unethical means (Brass, Butterfield and Skaggs 1998). Importantly, the powerful can create fear in the less powerful about spreading certain information about them, purposefully building up a reputation for being fierce and unforgiving. This reigning by fear is made less effective though by the ability of the “weak” to use reputational effects as a weapon, by spreading rumors that the powerful would rather not have spread. In this case, people don't spread first-hand information but rumors they say they heard from others. Such hear-say has no identifiable source and no truth claim, and thus it is less likely to be punishable (Giardini, 2012). This form of gossip can be a strong weapon of the

weak against the powerful. The downside of this weapon is that it lacks some bite by missing identifiable sources and truth claims.

The powerful can, in turn, neutralize much of the damaging effect of gossip by interpreting behavior in such a way that the working of the normative goal is undermined. They can create moral ambiguity by reacting lukewarm or even with praise to the blatant infractions of norms and standards they wish to undermine or the applicability of which they wish to control. For example, president Trump reacted to blatant white racial violence in Charlottesville in 2017 by saying “I think the blame is on both sides [. . .] You had a group on one side that was bad. You had a group on the other side that was also very violent. Nobody wants to say that. I’ll say it right now.” (*New York Times*, Aug. 11th, 2017).

The powerful can also influence the interpretation of behavior in ways that allow the direct manipulation of information, including gossip. One way has been described by Orwell in his novel 1984 as the imposition of “doublethink” and “newspeak”. He defines the former as “the act of holding, simultaneously, two opposite, individually exclusive ideas or opinions and believes” and the latter as “an official or semiofficial style of writing or saying one thing in the guise of its opposite”. There are many present-day examples of these methods, such as the introduction of the term “alternative facts” by the advisor to the White House.

Another (but related) way to influence the interpretation of behavior and create moral ambiguity is to redefine the behavior as not falling under injunctive (that is “obligatory”) norms but under descriptive norms (what people do) (Lindenberg et al 2020). This is achieved by using one’s power to “persuade” what would otherwise be victims of transgression of injunctive norms that they are in unfamiliar terrain and thus have to learn how things are done around here (descriptive norms). Descriptive norms can undermine injunctive norms or at least their applicability. For example, a powerful film producer can persuade actresses looking for a role in a movie that it is normal, for getting a chance of being considered for a part, to be willing to play sexual games with the producer. Ironically, hearing that everybody does it does not cumulatively add to the bad reputation of the producer but makes it more likely that women submit to him. Thus, the power to refocus the interpretation of behavior from being subject to injunctive norms to being subject to manipulated descriptive norms also diminishes whatever reputational effects might have achieved. Evaluative judgments about descriptive norms refer to personal preference, similar to what people might think about chewing gum (“I hate it, but seemingly everybody does it”) rather than to moral condemnation. Thus, gossip about personal preferences will not have much impact on reputations.⁸

⁸ Game-theoretic approaches that take norms as equilibrium behavior (that is what most people do) treat all norms as though they were descriptive norms and thus cannot even describe such shifts in evaluative judgments from moral condemnation to personal preference.

6.6 The observer

Reputational effects, especially for actors with a salient gain goal, can restrain behavior because there are presumably observers who might react negatively or pass on to others what they have experienced. Observers can be targets of actions that trigger an evaluative response or they can be observers of such actions happening to others. For both, it is not trivial whether or not some action or information is interpreted positively or negatively. There may be sheer flaws in the system providing information. For example, “likes” and positive evaluations for one’s services can be freely bought on the internet. Observers of feedback on social media may or may not be able to distinguish fake from genuine reviews. Up to now, we know too little about the ability to pinpoint fake reviews. Government agencies, concerned about the bad quality of the online reputations systems, have taken action against fake reviews. For example, the Competition & Market Authority of the British Government issued an open letter to marketing departments and agencies and their clients warning about fake reviews, and reporting that it has taken enforcement action against widespread fake online reviews (CMA 2016). But besides such faults in the feedback systems, there are important psychological aspects that influence how an observer interprets actions or information.

6.7 Special effects for the observer: Ingroup/outgroup and power-asymmetry effects

Ingroup/outgroup effects. Reputation effects necessitate the interpretation of others’ behavior as transgression of norms. However, ingroup/outgroup dynamics bias the interpretation of behavior as transgression, because cognition is affected by motivation (Brewer 1979, Balci et al. 2006). Stronger parochialism will make it more likely that actions by an outgroup member are interpreted as transgressions of the ingroup norms and standards. There is little room for granting outgroup members the possibility of having made mistakes or of misunderstandings, a privilege that is often granted to ingroup members. Even if one is not a target, observing of members of one’s ingroup being badly treated by members of an outgroup is likely to trigger moral outrage (Veldhuis et al. 2014). Conversely, the stronger parochialism, the less likely an observer will interpret a norm transgression of an ingroup members as a transgression (Hughes et al. 2017, Everett et al. 2015). More likely it will be interpreted as an error, or an action caused by an outsider. For example, seemingly, people who see Donald Trump as one of their ingroup members do not believe the accusations about his sexual transgressions (“fake news”), or see it as a forgivable mistake (“everybody makes mistakes”). In this way transgressions fail to contribute to a bad reputation among the ingroup members.

If, however, an ingroup member must admit that the observed behavior by a fellow ingroup member was a transgression, a likely reaction is that the “culprit” is not, should not be, or never was a true member of the ingroup. The reputation effect is then socially fatal. For example, in the wake of the Harvey Weinstein scandal and the “me too” tweets, famous actors who were then also accused of sexual misconduct were removed from television series, as if watching them would be unbearable. This taps into the purity dimension of morality (see Graham et al. 2011) and shows that reputation effects often have much to do with increased salience of the hedonic goal and little to do with a rational calculation of risk in dealing with a particular person. It also reinforces that, contrary to what Granovetter and Raub assume, reputation is not only about finding out whether somebody is or is not a trustworthy type. There is also fear of contagion, fear that “badness” rubs off, that one may be corrupted by being near or even just seeing such a person. In short, to the degree that reputation effects depend on observers, parochialism dampens these effects concerning the ingroup members, and distorts these effects concerning outgroup members. In both cases, parochialism reduces the information value carried by reputations or the lack of them.

Power asymmetry effects. Like ingroup/outgroup dynamics, power asymmetry affects the perception of the transgressions of others. Being powerful goes with a strong tendency to focus on achieving one’s goals (Guinote 2007). If the observer is powerful, noticing others’ transgressions depends on their relation to the observer’s goal-pursuit. If the transgression is deemed relevant, it is most likely observed and remembered by the powerful, leading potentially to reputation effects. If the transgressor is perceived as being low in power, the chance is small that the transgression touches the goal pursuit of the powerful person. Thus, as long as persons low in power do not cross the goal pursuit of a person high in power, their transgressions are likely not even noticed by the powerful, highly limiting reputation effects.

It is different if the observer is low in power. Then, observing transgressions of a powerful person may be keenly noticed but is subject to reappraisal. “Did he just insult me? Well, probably not. I think he has a bad day”. Individuals with low power are more perceptive of context effects and threats emanating from contexts than individuals with high power (Kraus et al. 2012). This makes them more likely to interpret transgressions of more powerful others as being more harmless than they were (that is they reappraise, see Hittner, Rim and Haase 2018). In this way, people are on the safe side, because what they saw does not call for a reaction. But then it also does not lead to a potential reputation affect.

In the business world, there is an additional way in which the powerful may escape being subject to possible negative reputation effects. Big companies can afford investing considerable amounts of resources in branding and high visibility, gaining consumer’s trust with little help from reputational effects. By contrast, small companies must rely on mechanisms of reputation building (such as online

peer review systems) to gain consumer's trust. The functioning of such reputation systems thus has a strong impact on the power asymmetry of companies. For example, Newberry & Zhou (2019) show that if the reputation system for small companies would not be available, there would be a large shift in demand for goods from the small to the big companies. This makes understanding the conditions under which reputation systems work all the more important.

6.8 The transmitter

As Burt (2008) observed: "reputations emerge not from what we do, but from people talking about what we do [. . .] What circulates depends on the interest of people doing the circulation." The transmitter deserves special attention with regard to reputation effects.

An observer may or may not be also a transmitter, that is someone who passes on what he or she has experienced. Transmitters may also be people who pass on not what they have experienced but what they have heard or say they have heard. The important question is why people would become transmitters. Obviously, they may have a strategic goal in mind, to help or hurt somebody by doing so. For example, a person with a salient normative goal may want to help the authorities by passing on information on a criminal act he has seen somebody commit (Feinberg et al. 2012). A person with a salient gain goal may want to hurt the competition by passing on negative information about the competitor. A person with a salient hedonic goal may want to take revenge on somebody by disclosing negative confidential information.

Targets, especially victims, are likely to react emotionally to infractions and thus have an increased salience of the hedonic goal, which means that they have less strategic restraint, and that they are likely to choose actions that promise to improve the way they feel (such as retaliation, aggression in case of victims, and the pleasure of being nasty to people they don't like) (Barclay, Skarlicki, and Pugh, 2005). Because of their salient hedonic goal, they are potentially very important transmitters. Taking revenge makes people feel better (Chester and De Wall 2017), and telling the world is often part of taking revenge. It is these kinds of hedonic responses to having become a victim that are dangerous for actors. However, hedonic reactions can be curbed by hedonic means. Thus, instilling fear or shame in victims is a powerful way to keep victims from becoming transmitters. We mentioned already the example of buyers on eBay who fear negative counter punishment (Li 2010). Harassment in the workplace (prominently including sexual harassment) is also a good example of this. A recent study by the U.S. Equal Employment Opportunity Commission (Feldblum and Lipnic 2016), reported that about 75% of employees who experienced harassment never even talked to a supervisor, manager, or union representative about the harassing

conduct. “Employees who experience harassment fail to report the harassing behavior or to file a complaint because they fear disbelief of their claim, inaction on their claim, blame, or social or professional retaliation.” (Feldblum and Lipnic 2016: v).

Gossip. Even though fear will have a smaller impact on gossipers than on victims because hear-say has no identifiable source and no truth claim (Giardini and Conte 2012), gossipers are also likely to have a salient hedonic goal and are thus sensitive to cues that instill fear.

People like to make conversation, small talk, and have something interesting to say or hear in the process. Importantly, when people are in a situation that invites behavior that is pleasant or fun, such as gossiping, their hedonic goal becomes more salient, making it also a pleasant experience to feel virtuous by judging others without having to sacrifice for being virtuous oneself (Lindenberg et al. 2018). In such a situation, people tend to feel more virtuous than others (Epley and Dunning 2000). In addition, it is likely that people gladly take any opportunity to engage in this behavior because gossip is able to satisfy all five fundamental needs (Nieboer et al. 2005), often at the same time: a need for stimulation; a need for comfort, a need for affection (belonging); a need for behavioral confirmation; and a need for status. For example, by telling someone confidentially about how bad somebody behaved, the gossiper provides stimulation for the other, some status for himself for being in the know, some behavioral confirmation for himself and the other as they exchange disapproval of a disgusting act “they would never do”; some bonding by sharing information others don’t have, and some comfort by mutually feeling the other’s support.

Gossip does not have to be about information that affects somebody’s reputation. For example, it could be about the incredible bad luck for somebody else, rather than bad deeds. This is what De Backer et al. (2019) call “strategy learning gossip” (see also Baumeister, Zhang and Vohs 2004), as opposed to “reputation gossip” which is about people known to the gossiper, directly or indirectly. Still, gossip is potentially a major vehicle by which reputationally relevant information and rumors circulate. Gossip flows. The motivational force of gossip that is based on the satisfaction of fundamental needs is quite independent of the wish to help or hurt specific others, and it is largest when the gossip is about negative behavior of others, because that serves best the needs for stimulation, behavioral confirmation, and status (Baumeister et al. 2001). Yet, this high potential of gossip is often not realized, because it is likely to be only about outsiders and kept local by the boundaries of an inner circle.

6.9 Special effects for the transmitter: Ingroup/outgroup effects

Even though gossip is potentially a most important vehicle for reputation effects, it is likely to remain very local and thus without much bite. For example, it has been

shown that within the ingroup in organizations, positive and negative gossip is shared, whereas with outgroup members, only positive gossip is shared (Grosser, Lopez-Kidwell, and Labianca, 2010). This restriction of gossip has been generally overlooked by those who praise the importance of gossip for reputations effects and general human cooperation (for a review on gossip, reputation and cooperation see Giardini and Wittek, 2019). Why is gossip likely to be highly restricted in its reach?

True to the fission/fusion dynamics of human group formation, there are various ingroups to which one may flexibly belong, ranging from categorical groups (“we women”) to countries, to ever smaller social units, and finally to “inner circles” of people who confide in each other. These inner circles play an important role with regard to negative gossip. To badmouth somebody can be dangerous, if one is not sure that the other shares one's evaluations. This is danger that may not come from fear of a powerful third party but from being rebuffed, from losing behavioral confirmation and affection (Cole and Scrivener 2013). This is one reason why negative gossip, especially that about people not belonging to the one's own circle, circulates mainly in circles of close ties (Travis et al. 2010; McAndrew and Milenkovic 2002; Milliken, Morrison and Hewlin 2003). Another reason for keeping negative gossip about outgroup members to the ingroup is the bonding function of gossip (Dunbar, 1996; Foster 2004). By exchanging negative gossip about an outsider, the bond between the gossipers is strengthened, mutually reinforcing the membership in the same inner circle. By exchanging negative gossip with outsiders, this function is not fulfilled.

6.10 Power asymmetry effects: Broken by a special transmitter, the publicizer

This close circle restriction of gossip is broken when a person that is negatively gossiped about is already widely seen in a negative light. Then negative gossip is no longer dangerous and flows freely. It is then that it may lead to socially fatal reputation effects. This is likely to happen in cases where power asymmetries strengthened the ingroup/outgroup dynamics of gossip and where a publicizer was able to spread negative news about the powerful. For example, in case of Harvey Weinstein, all hell broke loose, once he was branded negatively and it was safe to negatively gossip anywhere about him, creating a cascade of negative news in the “me too” movement. In this case, the ingroup of the inner circle expanded to the world-wide good guys against the bad guys. Another example is Gorbachev's televised speech on November 3rd 1987, in which he attacked Stalin, saying that continued neglect of Stalin's crimes was unacceptable. Stalin was guilty of “enormous and unforgivable” crimes. “Many thousands of people inside and outside the party were subjected to wholesale repressive measures.” (New York Times Nov. 3rd, 1987). Now that a publicizer made Stalin stand

publicly in a negative light, masses of people began to speak out in public about the horrible acts they had experienced under Stalin.

Publicizers have a special role. They are more than normal whistleblowers. They may have to be powerful enough to withstand the counter pressure of those who suppressed reputation effects in the first place. Publicizers expand the reach of reputation effects by breaking the inner circle restriction of gossip. But just how far they are able to expand the reach depends on the kind of publicizer and the news value of the revelation. Powerful politicians (such as Gorbachev) and powerful media (such as the *New York Times*) are probably the publicizers who can achieve the largest reach and also overcome people's reluctance to believe bad things about a person previously in good standing. The power to control the media is thus a mighty weapon against the socially fatal effects of a bad reputation, as every dictator knows so well. But because publicizers mostly focus on people with actual or potential fame and most likely on extreme forms of deviant behavior (such as pedophilia, sexual abuse of women, downright corruption), for "ordinary" people, reputation effects remain often confined to what circulates in inner circles about outsiders, thereby being only loosely related to what people actually did (Anderson and Shirako 2008).

6.11 Conclusion

The importance of reputation effects for social order makes it mandatory for research on this terrain to use all the tools at the disposal of social and behavioral sciences to come to understand their dynamics. This means paying close attention to normative embeddedness (and normative heterogeneity), to structural features beyond networks (ingroup/outgroup dynamics and power differences), and to the dynamics of overarching goals that govern virtually all conditions under which reputation effects are likely to occur. Granovetter (1985) insisted that for a full understanding of reputation effects, we have to consider dyadic and structural embeddedness and all we need as a behavioral theory is the assumption of rational choice. This, we argued, was a grave error. Granovetter thought that structural embeddedness together with rational choice would finally sideline the atomistic explanations of social order on the basis of internalized norms and would also sideline "psychological revisionism" that behavioral economics had increasingly engaged in. He did not think of normative embeddedness, nor did he think of structures beyond social networks, and he completely neglected the importance of overarching goals. Werner Raub is one of the major figures who embraced and advanced Granovetter's embeddedness approach. However, he repeated Granovetter's error, thereby limiting what can be learned about reputation effects from his extended research program.

We show that reputation effects rest on normative embeddedness and that this embeddedness does not just consist of shared norms but also of the dynamics of

overarching goals that affect how and when norms guide behavior. A salient overarching goal governs what we pay attention to and what we ignore, what alternative we consider, what information we are sensitive to, what we like and dislike etc. In short, overarching goals govern the cognitive and motivational processes that are most important for behavior. Attention to these overarching goals is important with regard to virtually every aspect of reputation effects, especially for answering the question how it is possible that people make negative judgments about other people's behavioral tendencies on the basis of one or a few observations.

The "normative" goal to act appropriately, follow norms, be oriented to the collective, is an overarching goal the salience of which shifts with social and institutional circumstances, including structural embeddedness. Even if people have internalized norms, they will not act on the basis of these norms unless the normative goal is salient at the moment, and this saliency, in turn, depends on the structural embedding, so that normative and structural embeddedness interact. Next to the normative overarching goal, there are two competing overarching goals: one focused on resources (gain), and one focused on feeling good (hedonic). If all people permanently had a salient gain goal (that is be rational egoists), then being observed acting egoistically by lying, cheating, not helping etc. would have no news value, would not contribute to one's reputation. A bad reputation is acquired by a presumed tendency not to have a salient normative goal when this is socially expected. By contrast, one does not acquire a bad reputation by having a salient gain goal in a price battle with a competitor. Reputation is based on an incongruence between observed and expected salience of an overarching goal.

Normative embeddedness is not just sharing norms and standards, but also being subject to the conditions that affect the salience of the normative goal, and this also affects the actor, the observer of other people's actions, as well as the transmitter of information or rumors about these actions. Especially important are heterogeneity with regard to norms, ingroup/outgroup dynamics, and power asymmetries. All three affect the salience of overarching goals and thereby the likelihood that people's behavior is constrained by anticipated reputation effects, the likelihood that negative behavior will be talked about, and the likelihood that what is said about people is actually informative or highly distorted. In sum, the study of reputation effects necessitate that we grant center stage to normative embeddedness and its interaction with structural embeddedness. Granovetter is exemplary in much of his work, but his error should be seen as a strong obstacle for the analysis of reputation effects.

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