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How

Why How We Do Anything Means Everything...in Business (and in Life)

John Wiley & Sons, Inc.

immune to the forces of globalization. In recent years, the Antwerp marketplace—where about 90 percent of the world's uncut diamonds and half of its polished diamonds are sold each year—adapted to a large influx of South Asian diamantaires from the Gujarat region of India.[1] Although marriage and faith (mostly Jain, an ancient ascetic practice) bind the majority of these newcomers, the Indians have been quick to assimilate. Many have learned Yiddish and Hebrew, they close deals with the traditional "*mazel*," and they routinely serve kosher food at social gatherings.

Two tightly knit groups—as different in custom, culture, and practice as one could imagine—deal in billions of dollars' worth of small, easily transported items each year, stones that to the naked eye almost all look the same. Their real currency, however, is trust and trust's sustaining by-product: reputation.

Think how great your advantage would be if you could close every deal with a handshake. While your competitors and their lawyers spend six weeks papering every deal to protect against every possible infraction, you could be moving ahead with the initiative. In Japan, a highly developed and regulated modern economy, business still recognizes the inability to foresee every eventuality, so the system still embraces the agreement between partners to treat each other honorably, and the business moves forward. Like the diamantaires, the Japanese have a business culture that reflects the traditions of their social culture, one of close community connections, long-term familial value, and the importance of personal responsibility to the group, within a modern reality.

REPUTATION IN A WIRED WORLD

Reputation is another of those soft things, like trust, that everyone wants but few think about how to get. For much of our history, the importance of reputation was largely self-evident. When most people lived in smaller, semiclosed communities, the proximity and familiarity of other people placed social pressure upon us to conduct ourselves within prevailing norms. As we moved from towns to cities and our day-to-day communities expanded in size, we maintained many of the closed community structures that kept behavior in check. The great

European and American cities of the eighteenth, nineteenth, and early twentieth centuries stayed organized in neighborhood structures that mimicked the small town and village traditions of feudal times. Multi-generational households were common, and families often stayed rooted in the same general locality for generations. People transacted most of their business on a local level, with known and trusted suppliers. Large businesses benefited from the slow pace of the world and were able to form trusting relationships over time upon which large enterprises could grow.

The last part of the twentieth century saw remarkable changes to the underlying structures of how we live. Increasing affluence, ease of transportation, expanding multinational business practices, and the transformation of economies from manufacturing/agricultural to information/service exerted tremendous pressure on the nuclear cohesion of communities. Families spread out. Neighborhoods whose character had been consistent for 100 years saw influxes of new people, new customs, and new wealth. Ironically, the increased connectivity made possible by advances in communications technologies allowed people to be further apart. Though your new job took you 2,000 miles from the town your family had lived in for three generations, you could still "reach out and touch someone" relatively cheaply.

These transformations broke the bonds of familiarity and tradition that placed high value on reputation. In a new city, or a new job, you could reinvent yourself. Identity became more fluid, opening up new opportunities for change and growth, but also removing some of the external pressures of conformity. More was possible, and so more was possible. Until about 20 years ago, for instance, it remained relatively difficult to thoroughly check someone's background and reputation. Until then, information was more controllable and, to some degree, avoidable. You could often elude that dark spot in your past with a change of locality and make a fresh start.

All that has changed. The world of business is faster, more spread out, more transient, and more fluid than ever before. Information flows. Yet, paradoxically, the overwhelming capacity of technology to connect us and transmit information to us instantly and cheaply binds us together as never before. It creates conditions of interdependence as high as if not higher than when locality bound us in commonality. In some sense, the whole world is now local (or *glocal,* as the current meme goes, both global and local at the same time). What does this mean for individuals and companies? From a reputation standpoint, what is old is new again. Reputation—how others think of you—is now more critical to your ability to build long-term sustained success than ever before.

Reputation is the sum total of your HOWS: What you stand for, what you can be trusted to do, your track record of accomplishment, the esteem you have earned, and how you have been experienced by others. In a transparent world, reputation leads. It enters the room before you do, and remains after you go, either enhanced or tarnished. It records your past, but also creates expectations for the future.

In a fractured world, reputation is also continuity. When people went to work for a company at an early age and had a reasonable expectation that they would continue to work for that company until they retired, public reputation, while valuable for promotion and advancement, was not as critical to career. The embrace of the company and the tradition of employment continuity sheltered individuals from the need to constantly represent themselves to the outside forces of the business world. Being able to say "I'm an IBM man" provided a lifetime of reputational capital. That is no longer the case. External structures, like a company, no longer provide personal continuity; only your reputation can. The average worker entering the job force now will work for an average of 10.5 companies over the course of a career.[2] As more and more members of the workforce become dedicated to knowledge-based work, it takes less to redefine your career. The specific industry or area of specialty is less important. Therefore, when employers evaluate new hires, they rely less on industry-specific job skills and more on personal characteristics and reputation to judge a person's potential. Your reputation and your Rolodex—the network of contacts and supporters—become a far more integral part of your personal package than they ever were before. Both are built over time by your HOWS.

Conversely, the company can no longer assume that its corporate reputation supercedes that of its personnel. In a transparent world, people can see between the lines of what you do and discern HOW you do it. Nuance becomes revealed, and reputation accrues to those companies whose individuals represent those nuances to the world. As we become more interconnected, more responsibility is shifted to frontline personnel, and more personnel are pushed to the front lines. They become the face of the company; through their actions, they have a profound effect on how the organization is experienced by the market. Thus a company becomes the reputational sum of its parts, and its reputation becomes more vulnerable to the actions, both positive and negative, of those individuals. The transgressions of a single actor can bring a company down.

To have a reputation that is worthy of merit, others have to impute something to you, that you are a good leader or a good executive, that you are consistently creative or a reliably hard worker, that you treat people well and fairly, or that you are honest. They only do that if they trust you, because *reputation is a series of mutual connections.* Consider reputation, therefore, as the sum of the trust circles you have developed over time, radiating out from you across companies, industries, and areas of endeavor. You build a good reputation when those who encounter you—employees, co-workers, and customers—trust you.

And whom do we trust? Those who are consistent, to whom we ascribe and impute integrity, those who say what they mean, mean what they say, and always follow through. "The ability to be consistent in life is one of the most precious and powerful things," famed Las Vegas developer and hotelier Steve Wynn told me. "Franchise comes from consistency, whether it's hamburgers or people." Over the course of the last 30-plus years, Wynn has built a series of high-risk projects—including the Mirage, Treasure Island, and Bellagio hotels—each more successful than the last, on the strength of his personal reputation. His personal brand has become so synonymous with a memorable experience that he autographed his latest project, the Wynn Las Vegas resort. "I've been successful because I've consistently given people an experience that is not only exciting, but occasionally unique. Consistency is a measure of predictability and integrity, and you can't make it without integrity." If you have integrity, Wynn is saying, you can generate trust, and if you have the trust, you can build a reputation.

To then extend that reputation—for others to contribute to it with high praise or support—they must in turn put *their* reputations on the line. If I call a manager in our New York office and ask her opinion of someone I am considering entrusting with an important project, her evaluation also reflects on my estimation of her. If she accords that individual high praise but the person does not measure up, that New York manager's reputation is going to take a hit in my book. I will have less confidence in her ability to evaluate talent. Her reputation is dependent on the strength of the trust circles she perpetuates. It may not be a critical hit, but it will be a hit nonetheless.

Acting in consonance with your reputation creates trust. The people you deal with begin their relationship with you aware of your reputation. If the interaction they have with you reinforces, extends, or at least is consistent with your reputation, they can more easily extend trust. Thus, reputation, combined with experiences that support it, propels trust. If, however, you fail to meet the expectations set by your reputation, you introduce dissonance into a relationship. The inconsistency between what is expected and what you deliver creates distraction. Dissonance and distraction, as we know, bring friction into play. Potential partners, confronted with conflicting messages, will raise their defenses and slow down the process of dealing with you in order to gain more time to evaluate the situation and make a wise choice.

Dave Chiu and Didier Hilhorst, young master's students at the Interaction Design Institute Ivrea, an Italian nonprofit organization dedicated to interactive design, recently developed a dream project they called RentAThing. A small, handheld device resembling an iPod, RentAThing "is a tool for negotiation that provides additional information about the reputation of the parties involved and enables smoother transactions." RentAThing represents one visionary step down the road to literally "trading on your reputation."[3] When two people want to transact a piece of business—Chiu and Hilhorst use the example of renting a rake—the person who owns the rake would consult his RentAThing to evaluate the other person's reputation for renting garden tools. Armed with this information, the owner could price the transaction according to relative risk; a lower reputational score would mean a higher rental price, and vice versa. The renter's rake score could be combined with other reputational scores—say, for returning library books on time or responding to phone messages in a timely fashion—in order to achieve a higher overall trust level, resulting in a lower rental price.

Chiu and Hilhorst look forward to a day, in the not-too-distant future, when wireless connectivity will allow machines and individuals to instantly share reputation scores, no different than a credit score, allowing the information in the RentAThing to apply to a variety of transactions. "Instead of silos of reputation, with various services, companies, and individuals developing isolated reputations," they write, "RentAThing provides a centralized means of managing and developing a single reputation."

In his 2003 novel, *Down and Out in the Magic Kingdom*, Canadian author and digital-rights activist Cory Doctorow posits a "post-scarcity" world in which everything is free, available based on a person's reputational score, which Doctorow calls "whuffie." Whuffie is accrued or depleted according to a person's favorable or unfavorable actions, and serves as actual currency in a world without money. Everyone knows everyone else's whuffie instantly (through a chip implanted in the head—isn't that always the case?), and everyone has the ability to increase or deplete someone's whuffie instantly. Conduct a great symphony? The audience loves you and you accrue whuffie from them all. Shove someone as you walk down the street? That dirty look he threw you now carries a cost. Doctorow imagines that because you achieve whuffie only by the evaluation of others, everyone will be more positively motivated to do useful and creative things to benefit others.[4]

Both of these fabulist visions find their roots at the real-life intersection of information technology and personal conduct. Reputation in the virtual world, the world of networked communication, can be calculated with exactitude. Computer science engineers rely on reputation systems to mathematically quantify trust in online communities. Everything from web site security to trading communities like eBay employs reputation-based computational models that evaluate behavior, calculate trust scores, and apply them to everything from security access to insurability. As more and more information about who we are and what we've done moves from the relatively safe confines of personal connections in semiclosed societies to the far more vast network of the Internet, our personal reputations begin to more closely resemble these abstract commercial ones. As the online world has a persistence of memory with no rival, HOW we do what we do—every day becomes far more important and integral to our ability to thrive.

Online, mathematical reputation systems, in fact, provide us with an interesting way of evaluating the value of reputation in life. Researchers at the University of Michigan and Harvard University conducted a study that aimed to do just that. First, they noted that in living, word-of-mouth reputational systems—the kind that work for or against us in business each day—much information is lost or omitted. Humans, as expressive as we are, are imperfect communication systems (ask anyone who ever played the game of "telephone" as a child). Online systems, like the one used on perhaps the most widely known application, eBay, forget nothing. Buyers and sellers on eBay rate each other with a feedback score and a short written comment. Not only does that score and comment remain forever, millions can access it for next to no expense (reputation on the Internet broadcasts your actions simultaneously to merchants in Beijing and housewives in Sweden).[5] To evaluate the precise value of this eBay reputation, the researchers set out to discover just how much a good reputation was worth to sellers in an online marketplace, where the traditional signifiers of a seller's reputation—the cost and appearance of a facility, longevity in a community, connection to known others—are absent. In cooperation with a known and respected dealer of collectible postcards, they sold identical lots of cards through the dealer's high-reputation main identity and through other, newly created, identities that had low reputational scores. They found that buyers, on average, were willing to pay 8.1 percent more to a seller with a good reputation than to a seller without one, for identical merchandise.

The presence of positive reputation was directly quantifiable. Like trust, it is a soft thing we take for granted, which the new conditions of the world have suddenly rendered hard. Who among us couldn't do with an 8 percent raise or an 8 percent premium for whatever we are selling?

REPUTATIONAL CAPITAL

Reputation comes in many forms. It can be, most obviously, the word-of-mouth messages that others receive and pass along about you. It can also be the proxies of your past achievements, like your resume