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**The Role of Trust in Multinational Financial Institutions:  
An Intercultural Business Model for Europe**

Symposion

*The Power of Trust: Facilitating Inter- and Transcultural Performance and  
Efficiency in Connected Banking Systems*

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**O n l i n e P a p e r**

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## **The Role of Trust in Multinational Financial Institutions: An Intercultural Business Model for Europe\***

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### **1. The philosophy of trust**

“Trust in troubled times” – the title of a book on an earlier era<sup>1</sup> – could be the motto for a reflection on the basic principles of transnational banking in the face of today’s global financial crisis. Unexpectedly for many, the question of “trust” has gained new urgency in a situation where the global system of finance as such is put into question – due to what many people interpret as an absence of public (and in particular: consumer) confidence in some of the most influential international financial corporations and their management. However, the question of trust as essential element of economic activity is independent of the particularities of an “accidental” historical constellation; it is of a genuine philosophical nature.

The entire banking system and system of wealth management is based on trust. At the meta-level, trust is indeed the most precious “capital” of a capital-managing institution. Though directly affecting the achievement of a bank’s business goals, it is only deserved – and may only be sustained – if the motivation to “earn” it transcends mere utilitarian

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<sup>1</sup> Brett Sheehan, *Trust in Troubled Times. Money, Banks, and State-Society Relations in Republican Tianjin*. Cambridge, MA: Harvard University Press, 2003. (The book deals with the banking crisis in China during the 1920s and 1930s.)

considerations. Customers have a good sense of this kind of honesty. This “immaterial” aspect of trust is something transnational banking corporations ought to reflect upon under the present global circumstances.

Though often ignored, the nexus between a bank’s business goals on the one hand and principles that go beyond the technicalities of financial management is nothing alien – or new – to the world of finance. The semantics of the term “trust fund” make this rather obvious: trust – or confidence – not only in someone’s (or a certain institution’s) capacity to preserve and augment the customer’s wealth, but in that person’s (or group’s) honesty is the prerequisite for the successful operation of any trust fund. Thus, an element of morality – in the sense of Immanuel Kant’s ethics of conviction (*Gesinnungsethik*) – cannot be denied in an otherwise utilitarian context that is oriented towards a mutual interest in “profit maximization” (whereby *mutuality*, by many, is perceived as best assurance of business success).

Furthermore, trust cannot be separated from truth in so far as it implies (a) the confidence in one’s own correct assessment of the financial partner’s professional capacity, and (b) confidence in the other’s basic honesty. Trust and honesty are indivisible; they are two sides of the same coin. To be perceived as “trustworthy” is indeed the most important aspect – almost an imperative – of a financial institution’s image. Essentially, the meaning of the term revolves around what can be called the economic bonum commune (which is to be distinguished from its traditional meaning in an exclusively political context). When that notion is applied to the realm of finance, it means the preservation and augmentation of capital in the mutual interest of customer and financial institution, which implicitly contributes to the *economic well-being* (and political stability) of the respective local community, country, or region.

“Trustworthiness,” therefore, is to be understood (a) in the sense

of someone's being seen as capable to handle financial matters according to the requirements of the (economic) *bonum commune*, and (b) in a genuine ethical sense – as not being suspected of acting only (or exclusively) in the bank's corporate or a bank executive's personal interests. A basic sense of responsibility (according to the principle of mutuality) is an indispensable corrective of individual and corporate greediness. (Greediness is basically a phenomenon of *individual* behavior. A corporation is not a reality *per se*, it consists of individuals and develops on the basis of the interaction between the participating individuals' interests.)

It is to be hoped that the "home loan crisis" in the United States and other Western countries will be a wake-up call, reminding those involved of the indispensable ethical dimension of the banking business.

The combination of *capability* (in the technical-organizational sense) and *credibility* (in the ethical sense) is also present in Anthony Giddens' general definition of trust as "confidence in the reliability of a person or system, regarding a given set of outcomes or events, where that confidence expresses a faith in the probity or love of another, or in the correctness of abstract principles (technical knowledge)."<sup>2</sup> While this definition is more comprehensive than the functional one offered by Francis Fukuyama – for whom trust simply is "the expectation that arises within a community of regular, honest, and cooperative behavior, based on commonly shared norms, on the part of other members of that community"<sup>3</sup> –, it has to be complemented, in philosophical terms, by the norm of *responsibility* on the part of the one to be trusted. This is of special importance in an era of a global financial crisis, when transnational financial institutions are faced with an ever widening "credibility gap" that cannot be addressed at the level of conventional management and

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<sup>2</sup> Anthony Giddens, *The Consequences of Modernity*. Stanford: Stanford University Press, 1990, p. 34.

<sup>3</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*. New York: Free Press, 1995, p. 26.

efficiency alone, but that requires action at the *meta-level* of ethical considerations about the obligations of the respective institution and its agents in terms of what we have characterized as the economic *bonum commune*. (For those caught in conventional wisdom, this may be a contradiction of sorts since action for the “common weal” is usually seen as a characteristic of [good] politics, while economic activity is associated with profit-seeking – a characteristic of individualism – as predominant motive.)

To be actually trusted by others – and to *deserve* that attitude from the part of others – requires a high sense of (social) *responsibility*, in particular an awareness of one’s duties vis-à-vis the other, combined with the obligation to acquire the knowledge and managerial skills to be able to actually fulfill that responsibility. The “financial well-being” and economic success of the customer must be given equal importance to that of the financial institution itself. In conformity with the essentially Kantian imperative of an “ethics of conviction,” which we referred to earlier, trust must not exclusively be located in the utilitarian realm; it must not be used as a mere “tool” to secure the bank’s profitability – by virtue of the customers’ “surrendering” their power over the management of their wealth, albeit not irrevocably, to the bank as trustee. If trust is exclusively interpreted according to the utilitarian paradigm, its gradual erosion – on the part of the customer – becomes inevitable. In conformity with the point Max Weber famously made on the nature of politics,<sup>4</sup> the “ethics of responsibility” and the “ethics of conviction” go hand in hand also in the realm of economy and finance.

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<sup>4</sup> Max Weber, *The Profession and Vocation of Politics* (1919), in: *Political Writings*. Ed. Peter Lassman and Ronald Speirs. Cambridge Texts in the History of Political Thought. Cambridge / New York: Cambridge University Press, 1994, p. 368.

## 2. Trust in the transnational sphere: the European dimension

Apart from the (essentially ethical) interrelatedness of trust and truth (expressed in the corollary values of honesty and responsibility), there exists a structural connection between trust – defined as relationship of confidence in economic matters – and representation as basic category of politics. In both cases, that of the economy as well as that of politics (with the exception of *direct* democracy), we are dealing with agency on behalf of the other (the client or the citizen respectively). In both areas, legitimate agency depends on the citizen's resp. client's confidence in the capability and integrity of the agent. The very essence of representative democracy lies in the trust accorded by the citizens to their representative(s) who, in turn, solemnly commit themselves to acting on behalf of the common good, and not in favour of any particular interests (whether their own or their party's). Similarly, those who represent their customers' interests have to transcend the narrow confines of their institution's concerns and take "into account," so to speak, the common good in economic terms, which includes the financial interests of all individual customers (as a collective of business partners). In terms of the cohesion and stability of a given community (whether domestic or international), the political and economic (financial) *bonum commune* are two sides of the same coin.

In the era of globalization (or *globality*, if we want to emphasize the global interconnectedness as *fait accompli*), the aspect of *representation*, in tandem with *trust* as quality of economic interaction, has become of crucial importance for the banking system. Multinational banks and financial institutions are among the primary actors at the global level. A "transnational financial space" has indeed been a reality since some time and has become the most visible – and to many worrisome – sign of economic globalization. Unless transnational economic activity – like decision-making in the domain of politics – is subordinated to the well-being of mankind, global financial crises will become almost regular

occurrences. Because of the highly “abstract” nature of some aspects of transnational financial activity – which has become rather obscure not only to customers, but also to financial managers, as recent miscalculations of major transnational banking corporations demonstrate –, trust has become even more essential internationally than at the domestic level.

More specifically, honesty and the commitment to truth are of utmost importance in a transnational regional framework such as that of the European Union which is built – on the one hand – on mutual trust among its peoples (collectively) and citizens (individually) and on a relationship of confidence between the actors at the supranational level and the citizens of all member states combined on the other. In a situation like the present one, an assessment of the principles of economic activity must go beyond the immediate goal of “damage control.” The need for a “moral corrective” along the lines of a “philosophy of trust” is more than obvious.

This is where the European dimension comes into play: When the stability of the global economic system is at stake and when trust in financial institutions *per se* is in jeopardy, regional groupings can play a major stabilizing role. The European Union is undoubtedly the most advanced and complex form, to date, of intergovernmental co-operation and transnational decision-making among sovereign states within a geographical region, providing an entirely new modus of supranational citizenship<sup>5</sup> and a new kind of transnational space for economic competition.

In order to be perceived as legitimate by the citizens, the

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<sup>5</sup> For details see the author’s report: *Decision-making Procedures of the European Institutions and Democratic Legitimacy. How Can Democratic Citizenship Be Exercised on the Transnational Level?* European Studies for Democratic Citizenship, Council of Europe, Directorate of Education, Culture and Sport. DECS/EDU/HE (99) 30, Strasbourg, 17 May 1999. – See also the author’s article “The European Constitution and the Imperatives of Transnational Democracy,” in: *Singapore Yearbook of International Law*, Vol. IX (2005), pp. 87-101.

supranational dimension of the European Union has to be grounded (a) in genuine democratic and economically "just" polities at the national level and (b) in well-established networks of regional (more precisely: sub-regional) co-operation, whereby the latter will be determined according to the specific "political geography," cultural traditions, perceptions of social values, economic interests, etc. of a given region. (In the early 1970s we have launched, from the west of Austria, such a regional "networking" model for the Alpine area; the *Arbeitsgemeinschaft Alpenländer* [Working Group of Alpine Provinces] and *Euregio Alpina* [Study Group for the Alpine Region] were such organizational structures for transborder co-operation within the framework of the larger European region. We specifically understood these initiatives as a contribution to the European integration process within the framework of the then European Economic Community [EEC], an idea that has been implemented in today's "Euroregions" in the organizational system of the European Union.)<sup>6</sup>

The idea of regional sub-units and networks is not only still relevant today, but has become of crucial importance for the sustainability of the European project – under the conditions of today's much more complex political, social and economic integration compared to the conditions that prevailed in the EEC. The banking institutions in several Central and Eastern European countries (within and outside the EU), organized under the roof of Erste Bank Holding, are an exemplary case of transnational economic co-operation and networking within such a regional system and may also be seen as an important *element of cohesion* in the framework of the larger Europe – which is still, we have to admit, an unfinished project. The customers and business partners are indeed jointly sharing the "transnational space" of the co-operating banks' activities.

The impact of sub-regional co-operation networks – such as that

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<sup>6</sup> Hans Köchler (ed.), *Die europäische Aufgabe der Alpenregion*. Innsbruck: Arbeitsgemeinschaft für Wissenschaft und Politik, 1972.



of transnational banking groups covering the territory of several EU member states and including neighbouring states – on the European integration process must not be underestimated. “Europe” will remain an abstract concept unless the Union’s complex intergovernmental, supra- and transnational structures are supported by, and grounded in, advanced forms of regional (specifically: sub-regional) co-operation, eventually also covering territories of neighbouring non-member states. With the increasing number of states that are gradually being integrated into the European space, the need for such networks becomes even more urgent.

More specifically: Advanced transnational economic, and in particular financial, networks are a vital aspect not only of economic, but of political stability at the level of Europe as a global region, making that region’s countries more competitive and enabling the European Union to become an actor on a worldwide scale, eventually establishing it as part of a future multipolar world order and, thus, an essential element of global stability.

Furthermore: the transnational networks multinational banking groups have created – or are going to create – can be seen as essential contribution to multi-layered co-operation within the framework of the larger Europe in a *functional* sense and, consequently, as a kind of “visualization” of a gradually emerging European identity that results from the commitment to a common European destiny. The shared concern for economic security (founded in the mutually recognized self-interest of the citizens as economic actors) transcends, almost naturally, the paradigm of the nation-state. The co-operation among business entities with different socio-cultural backgrounds will also help to gradually create a common identity in the larger European framework.

In such a context of regional and sub-regional co-operation the intercultural (eventually transcultural) dimension of transnational economic activity is of utmost importance – especially against the

background of an increasingly globalized culture and economy. The interaction between people of different cultural traditions, implicit in the day-to-day operation of multinational corporations, is more than an ornament of an otherwise mundane exercise in the collective pursuit of economic interests; it helps to visualize the European goal of achieving "unity in diversity" without which the project of a "Union" will not be sustainable. We must be aware, however, that – in the European context – cultural *diversity* is juxtaposed with (a) civilizational *unity* (in terms of the joint heritage of Western civilization) and (b) *unity* in terms of economic and political purpose. Thus, cultural differences play out within the framework of the same civilization. Inter-cultural co-operation is indeed a form of intra-civilizational "networking," eventually leading to a new transcultural identity of those involved in this interdependent relationship. The common system of values within which this process plays out distinguishes it from the situation Europe is confronted with at the global level, where it has to face the challenges posed by an ever more intense interaction between different civilizations (not merely cultures).

Apart from its positive impact on the European integration project and process (in regard to the common identity it promotes), the interaction between people with different cultural backgrounds is of paramount importance for the creation of trust in the financial system "in turbulent times." Apart from what we said earlier about the ethical dimension, the aspect of "trust" relates to a *structural* – or hermeneutical – characteristic of intercultural co-operation that may, at a certain level of complexity, generate new forms of transcultural practice and awareness. Co-operation among (business) partners with different socio-cultural backgrounds (identities) – on the one hand – requires a specific element and degree of trust (in the sense of confidence in the other's adequate perception of the business environment – in correlation to his unique

“life-world” [*Lebenswelt*]<sup>7</sup>) and generates trust as a result of this interaction on the other. What, at first hand, appears as a paradoxical relationship is, in fact, determined by what we have described as the “dialectic of cultural self-comprehension”<sup>8</sup> – namely the interdependence of self-understanding and understanding of the other. In this hermeneutical context, trust is indeed precondition and result at the same time. Accordingly, trust is a basic element of a mature self-perception within a specific cultural environment, including the *homo oeconomicus*.

The intercultural experience – and transcultural practice – within a multinational (essentially transnational) economic group (as in the case of European banking corporations we have referred to earlier) is an indispensable element of the *creation of trust* in a multidimensional sense: (a) within the respective group (internal aspect); and (b) in regard to *how* the corporations forming the respective multinational group – and the group itself as a transnational entity – are perceived by their customers (business partners) in the different countries (external aspect).

Subsequently, successful operation of this kind of transnational as well as transcultural business model by multinational corporations will have a decisive impact on the citizens’ trust in the “European project” in a comprehensive sense (including the political dimension). This is particularly true in a time of crisis when the confidence of the citizens in the fairness and reliability of transnational mechanisms is increasingly at stake – because of mounting fears over economic security and due to the citizens’ legitimate concern about the sustainability of their standard of living under the conditions of a – highly competitive – globalized economy.

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<sup>7</sup> We use the term in sense of Edmund Husserl’s phenomenology: *Die Krisis der europäischen Wissenschaften und die transzendente Phänomenologie. Eine Einleitung in die phänomenologische Philosophie*. Ed. Elisabeth Ströker. Hamburg: Meiner, 3<sup>rd</sup> ed. 1996.

<sup>8</sup> For details see Hans Köchler, *Cultural-philosophical Aspects of International Cooperation. Lecture*

Summing up: "Trust" in one of the most vital spheres of human security – namely economy and finance – is a cornerstone of any system of regional co-operation, and particularly a comprehensive and far-reaching one such as the European Union. The interconnectedness of the economic and political spheres makes confidence in the financial system a crucial element of regional stability. In the specific case, trust, as the most precious, and at the same time fragile, ingredient of social relations (including the economy), is indispensable not only for the long-term success – and sustainability – of Europe as a global region, i.e. a system of economic, social, cultural and political co-operation aimed at promoting the region's interests under ever more competitive, at times even adverse, conditions, but also for that region's credibility as a pillar of global stability and as a potential actor within the *multipolar world order* of the future.

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