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# The Recovery of Trust: Case studies of organisational failures and trust repair

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# Introduction

Trust is a fundamental building block to any successful organisation. Yet trust is at a premium for many contemporary organisations. Surveys point to a persistent and debilitating scepticism among customers, investors and other stakeholders in the trustworthiness of the business world. The Edelman Trust Barometer, conducted on a global basis, found that trust in business plummeted across the globe after the 2007-08 financial crisis. In 2011, under half of the general population said they trust corporations.[1]

Understanding how trust is built, supported and recovered is a critical competency for any organisation, and particularly those that take their ethical values and commitments seriously (see Box 1).

Building an organisation's reputation for trustworthiness can take a long time and requires considerable effort and investment. But what happens when a crisis or scandal hits an organisation and its reputation for trustworthiness comes under sustained threat? Recent examples include BP, News International, Castlebeck Care Homes, several banks (HBoS, Royal Bank of Scotland, UBS, Goldman Sachs) and Foxconn. The process of trust repair and the recovery of reputation can be arduous, but it is achievable.

**Box 1:**

> ### Linking business ethics and trust
>
> Trustworthy conduct is a core principle in ethics. In many respects, to be ethical is to be trustworthy:
>
> - Trustworthiness and ethical conduct share many common themes, including the centrality of values such as integrity, actions matching words, promise fulfilment, trying one's best, showing genuine concern for others and fairness.
>
> - Principles of ethics underlie and inform our expectations of what constitutes trustworthy behaviour.
>
> - To abuse another's trust suggests an 'inauthenticity' in the way we have portrayed ourselves that, in many situations, would be unethical.
>
> - A reputation for trustworthiness and strong trust relationships are founded on a robust ethical culture, supported by leaders, systems and policies that are designed to nurture employees' trustworthiness and trusting relations at work.
>
> Thus, as part of a robust ethical culture, trustworthiness needs to be fostered.

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[1]  Edelman (2012) '2012 Edelman Trust Barometer'. www.edelman.com

In our recent report '*Building and Restoring Organisational Trust*' published by the Institute of Business Ethics (IBE) in June 2011, we showed how trust in organisations can be re-built. We carefully defined the nature of trust, and explained how it is established over time, between individuals and, most of all, at an organisational level. We showed how an organisation's trustworthiness is built and sustained over time and we provided a model and set of best-practice interventions for how organisations can protect and recover a reputation of trustworthiness when faced with a major trust failure or crisis.

This case study Paper supplements our earlier report by examining how six organisations faced a trust failure, and attempted to respond. By describing and analysing the experience and responses of these companies, we aim to share insights into the process of organisational trust repair:

- **Siemens:** Accused of systematic bribery in 2006, the German engineering giant overhauled its structures, leadership, processes and culture.

- **Mattel:** Faced with a series of toy recalls in 2007, the firm's exemplary response has drawn widespread praise, and minimised reputation damage.

- **Toyota:** By contrast, Toyota's initial response to its own product recall crisis in 2009-10 has been widely criticised. However, its subsequent programme of thorough reforms has attempted to recover its lost reputation.

- **The BBC:** The Corporation's phone-in scandals in 2007-08 led to a comprehensive review of its operations, and a series of innovative reforms and interventions, but implementation has not been easy, or necessarily welcome.

- **BAE Systems:** Beset with persistent allegations of corruption and bribery in several arms deals, the company appointed Lord Woolf in 2007 to examine its working practices, and have undergone a major cultural, structural and procedural transformation in pursuit of a more ethical corporate reputation.

- **Severn Trent:** Found guilty of distorting performance data for the industry regulator Ofwat and fined a total of £38m, Severn Trent had, within two years, been voted 'Utility of the Year' by its peers, in part due to its innovative and impressive recovery efforts.

The cases are based on information taken from reliable media sources in the public domain. In the case of BAE Systems and Severn Trent, the desk-top research is supplemented with a series of interviews with senior leaders and employees involved in the trust recovery. For each case we briefly describe the trust failure, followed by a discussion of the organisation's immediate response, the investigation, the reforming interventions, and an evaluation of the consequences of the failure and the effectiveness of the trust repair response. We link organisational responses with ethics and trust repair principles from our model.

Box 2 below provides a recap on what trust is, the drivers of organisational trustworthiness, and our model for organisational trust repair.[2]

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[2] For a full description of the nature of trust and how it is built and repaired, we refer the reader to our earlier report: Dietz, G. & Gillespie, N. (2011) '*Building and Restoring Organisational Trust*', London: Institute of Business Ethics (available at www.ibe.org.uk). See also: Gillespie, N. & Dietz, G. (2009) 'Trust Repair After an Organization-level Failure', *Academy of Management Review*, 34 (1), 127–145.

**Box 2:**

## Understanding trust and trustworthiness

### Organisational trustworthiness

Fundamentally, trust is a judgement of 'confident reliance' in either a person or, in our scenario for this Paper, an organisation.

In the most common model of trust, we judge other party's trustworthiness along three dimensions: their **Ability** (i.e. technical competence), their **Benevolence** (i.e. their motives and interests) and their **Integrity** (i.e. honesty and fair treatment). If the overall judgement is positive, this increases our willingness to take a risk in our dealings with that entity – to trust them. This trusting act might involve buying an organisation's products and services, investing in their stock, or serving as an employee. But, should any of these attributes be called seriously into question, this makes us wary, and reluctant to engage in any risk-taking. Such distrust can hamper collaboration, exacerbate the inefficiencies of monitoring, stifle innovation, and damage relationships.

Thus, every encounter provides each party in a relationship with evidence of the other's trustworthiness, and hence the potential to nurture or undermine trust.

### Trust repair

An organisation can demonstrate its trustworthiness through the technical competence of its operations, products and services (ability), as well as through its positive motives and concern for its multiple stakeholders (benevolence), and honesty and fairness in its dealings with others (integrity).

But a deficiency or abuse of any of these attributes, in the form of a scandal or failure, can see trust evaporate in an instant.

An effective response to a trust failure requires targeted interventions aimed at both controlling distrust, and demonstrating trustworthiness anew. The first, *'distrust regulation'*, involves imposing constraints, conditions and controls on employees' conduct that are designed to ensure no reoccurrence of the failure. Interventions include new compliance procedures, revised incentives, an overhaul of deviant cultural norms, and the removal of guilty or complicit parties. But this is the minimum expected, and is not sufficient for trust repair.

The second mechanism is *'trustworthiness demonstration'*: statements and actions that provide compelling *new* evidence of the organisation's ability, benevolence and integrity, over and above the distrust regulation reforms. Interventions include apologies, paying penance, transparency, and substantial investments in promoting trustworthy, ethical practice.
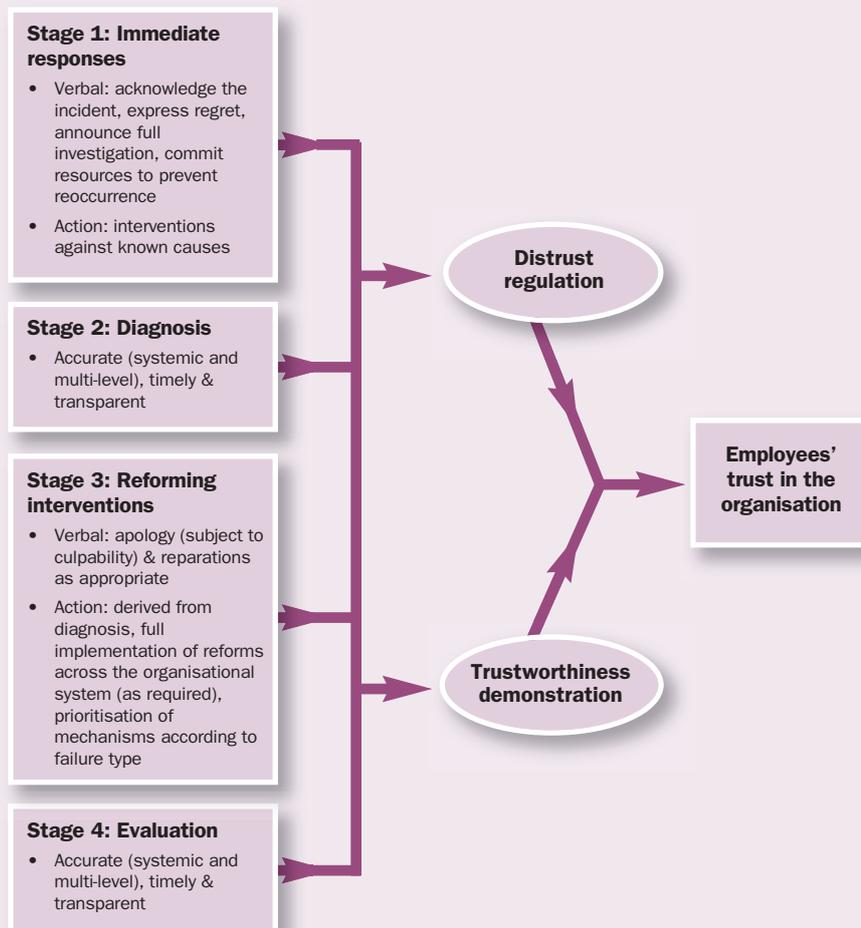
**Box 2:**
*continued*

In the IBE report, we outlined four stages of effective trust repair, which follow a simple chronological sequence:

1) The immediate response (in the first 24-72 hours)
2) A thorough and systemic diagnosis of the causes and facilitators of the failure
3 A comprehensive and targeted series of reforming interventions aimed at producing an organisational system that engenders and sustains trustworthiness
4) Regular evaluations of progress.

Figure 1 depicts this sequential model. Actions at each stage work through the two repair mechanisms to help recover organisational trust.

*Figure 1:* **The four-stage process of organisational trust repair** [3]

**Stage 1: Immediate responses**
- Verbal: acknowledge the incident, express regret, announce full investigation, commit resources to prevent reoccurrence
- Action: interventions against known causes

**Stage 2: Diagnosis**
- Accurate (systemic and multi-level), timely & transparent

**Stage 3: Reforming interventions**
- Verbal: apology (subject to culpability) & reparations as appropriate
- Action: derived from diagnosis, full implementation of reforms across the organisational system (as required), prioritisation of mechanisms according to failure type

**Stage 4: Evaluation**
- Accurate (systemic and multi-level), timely & transparent

**Distrust regulation**

**Trustworthiness demonstration**

**Employees' trust in the organisation**

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[3] For full details see Gillespie, N. & Dietz, G. (2009) 'Trust Repair After an Organizational-level Failure', *Academy of Management Review*, 34 (1), 127-145.