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

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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.

[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]

[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.

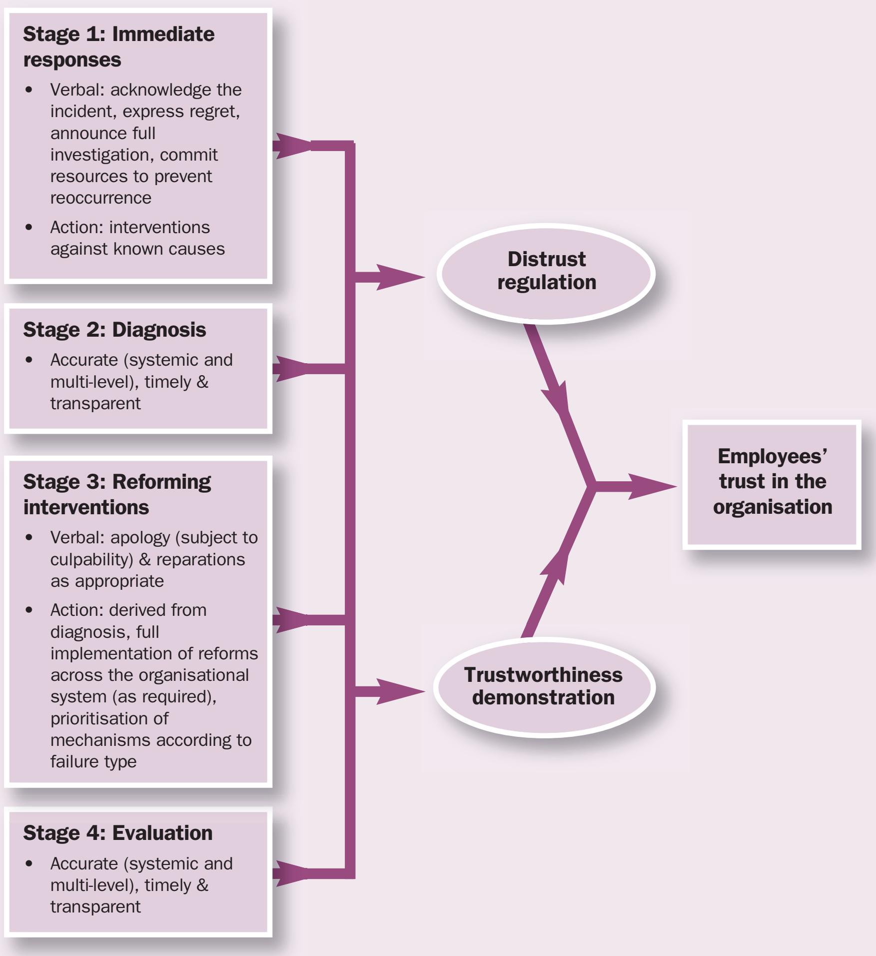
Box 2:
continued

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]



[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.

01

Case Study 1
Siemens

In November 2006, regulatory investigations of the German engineering giant Siemens revealed that hundreds of employees had been siphoning off millions of Euros into *"phoney consultants' contracts, false bills and shell firms"* in order to pay massive bribes to win contracts.[4] A trial judge described it as *"a system of organised irresponsibility that was implicitly condoned"* (senior managers used removable Post-It notes to authorise potentially incriminating documents).[5]

The scandal shamed Siemens, not only in the eyes of furious shareholders and investors but also the German public, and it brought humiliation to thousands of its employees. Its trustworthiness came under intense scrutiny, its integrity was called into question, as well as the benevolence of its senior leaders in appearing to tolerate such practices. One leading group of shareholders questioned the Board's basic competence for its handling of the affair.[6]

Yet Siemens' belated, full response to the scandal has been widely praised by many independent anti-corruption and ethics experts, including the Organisation for Economic Co-operation and Development (OECD), and U.S. Federal authorities.[7] It is instructive, therefore, to analyse its scale and depth for the impact that each intervention had on Siemens' external reputation for trustworthiness, and internal trust levels among its staff.

Immediate response

At the time of the German authorities' first raids, Siemens played down the affair as a matter of a few million Euros. Within a month, its own estimate of the sums involved had spiralled to 420m.[8] Key Executives, including the then recently installed CEO Klaus Kleinfeld (2005-07), repeatedly denied awareness or involvement. Chairman Heinrich von Pierer, CEO during the period under investigation (1992-2005), was *"visibly contrite"* when he faced shareholders in January 2007, citing his *"deep distress"* that his compliance regime had not prevented the alleged misdeeds.[9]

Thus, the firm's first statements appear to be an example of an ill-suited cursory or defensive acknowledgment, attempting – unsuccessfully – to downplay a developing scandal prematurely. This tactic appeared self-serving and did little to protect, let alone enhance, stakeholders' impressions of Siemens' integrity. Many viewed it as incompetent. Indeed, senior Executives made public pledges to restore the firm's battered reputation just a month later.[10]

Diagnosis

As well as four international investigations, Siemens announced their own internal inquiry. Siemens wanted to have in place *"a system that will prevent and detect unethical and illegal conduct and serve as a benchmark for other companies"*,[11] and *"a Harvard Business case on how you do it right"* [12] – quotes suggestive of a commitment to ethical best practice.

4 Gow, D. (2008) 'Siemens boss admits setting up slush funds', *The Guardian*, 27th May.
5 Dougherty, C. (2008) 'Ex-manager tells of bribery at Siemens', *New York Times*, 27th May.
6 Gow, D. (2007) 'Siemens tries to head off shareholder revolt', *The Guardian*, 25th January.
7 Dougherty, C. (2008) Op cit.
8 Dierks, B. (2006) 'Corruption probe reaches ever higher at Siemens', *The Guardian*, 13th December.
9 Gow, D. (2007) Op cit.
10 Ibid.
11 Ibid.
12 Landler, M. & Dougherty, C. (2007) 'Scandal at Siemens tarnishes promising results', *New York Times*, 28th February.

The exhaustive internal investigation was overseen by a New York law firm, Debevoise & Plimpton. Their rigorous approach alienated some Siemens' managers. However, the length, depth and breadth of their investigation seemed to convince most sceptics inside the firm of the pressing urgency of reforms, its thoroughness being a tangible display of ability and integrity.

But this exhaustive diagnosis still met with internal resistance, and it was not until the following year that the most serious revelations came to light. This followed the departures of the CEO and Chairman, and the decision by the newly appointed CEO, Peter Löscher (2007-present), to announce a month-long amnesty for employees to come forward, explicitly excluding former Directors. Forty whistleblowers brought more incriminating evidence, extending the scandal's reach into the previous management Board.[13]

Several systemic elements have been cited as contributing to the scandal, including: an aggressive growth strategy that, arguably, compelled managers to see bribes as a *"tempting short-cut"* to hitting tough performance targets;[14] a complex, de-centralised, matrix-like structure that allowed divisions to effectively run themselves, with minimal oversight from HQ, and *"feeble"* processes on checks and balances and accountability that allowed the payments to be made. But perhaps above all, commentators remarked upon Siemens' corporate culture at the time which seemed openly tolerant of such activities, helping staff to feel that bribes were *"not only acceptable but implicitly encouraged"*, allowing them to be complicit in the deceit. A Professor at the University of Frankfurt said:

"It is hard to believe that something on this scale could be so organised and that no control was in place to catch it".[15]

However, it should be noted that bribes were relatively common practice in German business at the time, and even tax-deductible.[16]

Reforming interventions

Early on, the Board appointed Michael Hershman, co-founder of Transparency International, to serve as its adviser – a shrewd and high-profile act of 'trustworthiness demonstration', via affiliation with a leading anti-corruption expert.

Hershman argued that the challenge facing Siemens was to "*create a culture in which managers do not fall back into easy, and illegal, patterns of behaviour*".[17]

With Hershman's guidance, Siemens rolled out a new set of strict rules and processes on anti-corruption and compliance across the global business, designed to affirm what constitutes trustworthy business, and to impose constraints on operating procedures to make it happen, including a global Compliance Programme with a three pillar system: 'preventing, detecting, responding'. They hired over 500 full-time compliance officers (up from just 86 in 2006), and their new investigation unit would be led by a former Interpol official – a tangible investment in controlling for trustworthy conduct ('distrust regulation').

[13] Gow, D. (2008) 'Siemens prepares to pay $2bn fine to clear up slush fund scandal', *The Guardian*, 25th January.
[14] Landler, M. & Dougherty, C. (2007) Op cit.
[15] Sims, G.T. (2007) 'Siemens struggles to regain equilibrium', *New York Times*, 27th April.
[16] Nash, N.C. (1995) 'German business ethics loses some luster', *New York Times*, 20th July.
[17] Landler, M. & Dougherty, C. (2007) Op cit.

Alongside stricter requirements concerning relationships with 'consultants', Siemens established compliance help-desks and hotlines, and an external ombudsman based worldwide and online. They created a web portal for employees to evaluate the risk in their client and supplier interactions. These interventions are targeted at shaping employees' integrity through improvements in their ability, while treating any potentially compromised employee coming forward with benevolence and fairness.

Yet, as Hershman says*, "there are new processes, new people, new procedures... but that does not make a difference in the world unless there is a change in culture"*.[18] To which, Siemens launched a comprehensive programme of training and education on anti-corruption practices for its employees. By 2008, Siemens had trained more than half its 400,000-strong global workforce on anti-corruption issues, whether on web-based courses or in 'classroom' formats.

Siemens also signalled a shift in strategy, in terms of commercial opportunities, announcing early on (February 2007) that it would avoid competing in certain known hotspots for corruption or unethical practice such as Sudan – a simple gesture, though not materially punishing to the company's finances. More substantial was the announcement to voluntarily suspend their applications for funding from the World Bank for two years. Siemens and the World Bank also agreed to a fifteen-year programme which binds Siemens to pay $100 million to non-profit organisations fighting corruption (both are forms of 'penance', suggestive of remorse and renewed benevolence). Finally, the firm has taken over 900 internal disciplinary actions, including dismissals ('distrust regulation').

Neither Kleinfeld nor von Pierer survived the furore, both being pushed to resign during one week in April 2007. Kleinfeld's replacement, Peter Löscher, has declared, "*Highest performance with highest ethics – this is not a contradiction, it is a mus*t". As well as the amnesty, he supplemented the previous reforming interventions by replacing Siemens' dauntingly complex matrix structure with a more streamlined structure comprising just three divisions, whose MDs sit on the Board. Löscher called for *"clear lines of responsibility, a high level of transparency and maximum speed"* to enhance communications between managers and direct reports.[19]

Evaluation

The firm continued its review of millions of bank account statements, documents and transactions throughout 2008, and has been praised for its efforts to identify unacceptable practice and to prevent reoccurrence ('distrust regulation' via a systematic evaluation).

Overall, the scandal cost Siemens 2.5bn, including 2bn of fines, as well as the cost of an exhaustive analysis of its financial transactions, bail payments for indicted Executives, and fees (around 63m) to outside advisers. The firm was also barred from dealings with certain clients. The cost to employees of two long years of shame under intense and hostile public scrutiny, especially in Germany, is difficult to calculate.

Löscher, the current CEO, has been commended for his approach to ending corruption within Siemens, but he has argued that changing the corporate culture to one driven by ethical standards *"is a marathon for us, not a sprint"*.[20] By June 2008, however, some company Executives were sufficiently

[18] Dougherty, C. (2008) 'The Sheriff at Siemens, at work under the Justice department's watchful eye', *New York Times*, 8th October.
[19] Dougherty, C. (2007) 'Chief of Siemens pledges to streamline operations', *New York Times*, 5th July.
[20] Dougherty, C. (2007) Ibid.

confident to declare Siemens *"the most squeaky clean company"*.[21] The Executive charged with overseeing its compliance and ethics, Peter Solmssen, said in October 2008: *"We are quite confident we have eliminated anything systemic... But it's never over"*.[22]

Insights on ethics and trust repair

- Unethical behaviour can be very costly.
- Premature dismissals of developing scandals can appear self-serving and incompetent, and a further violation of trust compounding the original problem. The trustworthy course of action is to acknowledge the accusations and to share any known facts, and to initiate a full, urgent and independent enquiry.
- Independent, ideally external, investigations are the most credible indicator of trustworthiness. The painful rigour of such an investigation can be resented, but it must be endured, until the full extent of the failure is laid bare (see also Severn Trent).
- Discovering the true scale and depth of a trust failure may only be possible when senior leaders leave, and an amnesty is offered to staff to encourage them to come forward (see also Severn Trent).
- The time-scale for a major ethics overhaul is long - measured in years not months - as it invariably involves cultural change (see also BAE Systems, Severn Trent). Have Siemens 'declared victory' prematurely?
- Structural, procedural and cultural interventions should be adopted concurrently. For example, strengthening compliance monitoring and codes of conduct (a form of 'distrust regulation') must be backed up with senior leaders' exhortations and training investment ('trustworthiness demonstration').
- Voluntary penance is often necessary for effectively restoring trust. It helps to demonstrate that the organisation has learnt from the experience, and the willing submission to punishment implies remorse and concern for damaged relationships (see also Severn Trent).

[21] Gow, D. (2008) 'Scandal-hit Siemens now "squeaky clean"', *The Guardian*, 24th June.
[22] Dougherty, C. (2008) Op cit.

02

Case Study 2
Mattel

Mattel's multiple product recall crisis in 2007 highlights *"how quickly a problem in the global supply chain can erupt into a fiasco of such magnitude that it threatens the reputation"* of a company.[23] It is an instructive lesson in the vulnerabilities that can flare up even in firms with long-standing and thorough ethical processes. It is also an admirable case study, for the depth and vigour of the senior leaders' response.

Mattel was first alerted to a potential problem with the toy giant's Chinese suppliers on the 6th July 2007 when a European retailer discovered Fisher-Price products containing illegally high levels of lead-tainted paint.[24] If ingested, the lead paint could lead to serious health effects. When subsequent investigations uncovered concerns with other products sourced from China, Mattel realised it had a systemic problem.

A month later, Mattel had to issue a separate voluntary global recall of 18.2 million other toys because their small, powerful magnets could bond together in the intestinal tract if swallowed. So Mattel had two different but concurrent issues with trust and trustworthiness; dangerous production methods among its suppliers in China, and potential hazards from its own design flaws. The fear of a child fatality was palpable. The company's reputation as a capable, benign and honest toy manufacturer was under serious threat. And, as with any organisation mired in a potential scandal, its integrity was on the line, depending on how it handled the failure.

Immediate response

Mattel's reputation for trustworthiness, forged by its ground-breaking and widely-admired code of conduct for overseas production and business ethics, bought the company time and space to respond in their own way, without significant external interference: *"Independent analysts and even watchdog groups say Mattel may be the best role model for how to operate prudently in China... it is not just lip service"*.[25]

The day they were alerted to the possible problem, Mattel ceased production in the named facility, promised full cooperation with the national regulatory authorities, and initiated a thorough investigation – an exemplary, precautionary act of 'distrust regulation'.[26] Within a month the Executives had enough data to launch a massive global recall. They cancelled all toy deliveries from the Far East, stopped the affected toys (vehicles from the *Cars* movie) in its distribution centres and alerted major retailers to the problem. They then began inspecting every toy themselves. In doing so, the company claimed to have prevented two-thirds of the toys reaching consumers, as well as showcasing a significant investment in its benevolence and integrity.[27]

[23] Warner, J. (2007) 'Mattel's blues: Lessons from a global crisis management effort', *NACD Directorship*, 1st December.
[24] Story, L. (2007) 'Lead paint prompts Mattel to recall 967,000 toys', *New York Times*, 2nd August.
[25] Barboza, D. & Story, L. (2007) 'Toymaking in China, Mattel's way', *New York Times,* 26th July.
[26] Warner, J. (2007) Op cit.
[27] Story, L. (2007) Op cit.

Recognising that Mattel staff worldwide would be alarmed and anxious too, Bob Eckert, CEO, was careful to inform and involve them about the company's response on a regular basis. As soon as the regulator made the first recall public, he hit 'Send' on a pre-prepared all-staff email, explaining to employees what had happened, and how the company was going to react with honour. This set the tone for subsequent communications (Eckert's own regular 'What's-On-My-Mind' email briefings, bulletins, Town Hall-style meetings at HQ every quarter) aimed at maintaining employee confidence in the rigour and trustworthiness of the company's response.[28]

Mattel launched a huge public information campaign to urge parents to stop their children using the affected toys. Executives delivered a message of contrition and commitment to resolving the problems, demonstrating benevolence and integrity. Eckert reiterated that *"absolutely nothing is more important than the safety and well-being of our children"*. He and the company took full responsibility for the issues and he indicated his own anger at the events. Eckert apologised upfront for the failure. He then outlined specific steps to ensure product quality and product inspection: *"I can't change what has happened in the past, but I can change how we work in the future…"* [29]

However, while the apologies were well received among Mattel's Western audiences, and did much to maintain consumer and investor trust, their implied criticism of the company's Chinese partners drew a hostile reaction from Beijing, forcing Mattel into an unprecedented apology to *"the Chinese people"* in September 2007. This did not go down well back in the U.S.[30] which highlights the challenge of managing different trust relationships simultaneously.

A much-praised section of the company's website provided clear instructions on returning the toys and getting compensation in the form of a *"replacement toy of equivalent value"* (a small, affordable act of immediate penance, but perhaps one unlikely to be taken up by many customers).

This set of prompt, pre-emptive and proactive measures, demonstrated diligence, and concern for customers but stopped short of an over-reaction, pending the details of the internal enquiry. It was well received by staff, customers and analysts alike. Eckert received several approving commentaries for taking personal charge of the situation, for the apology, and for being careful in assigning blame – all credible indicators of competence and integrity, and all the more so for being proffered in the full knowledge of the punitive legal consequences.

Diagnosis

The initial investigation found that sub-contractors had used the lead-tainted paint, outside Mattel's strict guidelines. The investigation's remit spread to all Mattel's Chinese vendors, and to older products that no longer passed new standards, demonstrating trustworthiness in the form of diligence and candour.

[28] Warner, J. (2007) Op cit.

[29] An intriguing study from Mediacurves into audience responses to this webcast is available on YouTube – see 'Believability of Mattel CEO Bob Eckert': http://www.youtube.com/watch?v=xH9O8JlvOe4 (September 2007).

[30] Interestingly, the recall for the design flaw with the little magnets was much larger in scale than the lead paint problem (18m to just over 2m), but the 'China-bashing angle' nevertheless dominated the story.

However, as with other case studies we have examined, there are contributing factors elsewhere in the organisational system worthy of attention. Professor Prakash Sethi, Mattel's paid advisor on working conditions at the time (the firm described him as *"an appropriately positioned thorn in our side"*),[31] suggested that the narrow focus on production matters and supply chains missed a wider ethical concern:

"There is something to be said about the pressure that multinational companies put on Chinese companies to supply cheap products".[32]

Sethi does however consider Mattel *"the gold standard"* for the toy industry.[33] Mattel insist that they pay for costs incurred as a result of their production specifications.[34]

Reforming interventions

Appearing before a U.S. Senate committee, Eckert acknowledged that the Chinese contractors had not been monitored closely enough. Mattel issued a new three-point check system in response to the failure, including a mandate on approved paint suppliers worldwide revised testing procedures carried out on all vendors more frequently and at random, and additional checks of selected batches and production runs. Mattel also took the unusual step of naming the suppliers at fault, and severed ties with many suppliers. Chinese authorities revoked several firms' export licenses.

Mattel conducted audits of its subcontractors' factories on a three-year, rotational basis, often using Professor Sethi's independent research team. Unannounced visits were made for sites declared to be unacceptable. When Sethi explained the firm's approach, it exemplifies a productive trust dynamic based on honesty and fair treatment, as well as the trust-enhancing merits of 'distrust regulation':

"If they have told us upfront they have a problem with A or B, and we find that problem, that's OK. We can live with that. We agree on a plan of remediation. But if they say they are in full compliance and we find that they're not, we go through everything, even if it takes four times longer. The companies begin to realise that it simply does not pay to cheat us. That was the first thing we emphasised: you will not be fired for violating the checklist. You will be fired for not being transparent".[35]

Mattel has continued to conduct audits of its subcontractors' factories on an annual, rotational basis, working since 2009 with the International Council of Toy Industries (ICTI) CARE process.[36] The ICTI CARE reports for Mattel's owned and operated facilities are posted on the company's website, increasing stakeholders' trust in the audits through transparency and demonstrating integrity through such openness.[37] No rival does anything like as much. The company has its own certified testing laboratories, and many are ISO-certified for quality, a further demonstration of voluntary 'distrust regulation' that indicates a sincere commitment to improving trustworthiness. The firm also established a new independent 'Corporate Responsibility' function, led by a new senior vice-president, reporting on product quality and factory working conditions directly to the CEO.[38]

31 Dee, J. (2007) 'A toy maker's conscience', *New York Times*, 23rd December.
32 Story, L. (2007) 'Mattel recalls 19 million toys sent from China', *New York Times*, 15th August.
33 Barboza, D. & Story, L. (2007) Op cit.
34 Story, L. (2007) 'After stumbling, Mattel cracks down in China', *New York Times*, 29th August.
35 Dee, J. (2007) Op cit.
36 For more information on ICTI CARE see http://www.icti-care.org/
37 For more information and a summary of Mattel's third party programmes see: http://corporate.mattel.com/about-us/corporate-responsibility.aspx#ResponsibleManufacturing
38 For more information see: http://corporate.mattel.com/about-us/corporate-responsibility.aspx

Finally, American toy manufacturers, including Mattel, took the unusual step of asking the Federal government to impose mandatory safety-testing standards for all toys sold in the United States (such a system already exists in Europe).[39]

Evaluation

By the end of 2007, Mattel had recalled more than 20 million toys from 43 international markets. Costs were estimated at $40m, and the stock price fell 30% in five months by December 2007.[40] Yet the recall crisis seems not to have damaged their corporate reputation. Sales for 2007 finished up 6%, and a poll of American consumers found that 75% approved Mattel's response to the failure.

Mattel has been praised for its handling of the failure, notably for its prompt and efficient immediate response. What they seemed to do particularly well was alert consumers promptly and clearly, as well as engaging openly and candidly with the media. Unusually, they took part of the blame themselves and apologised – a statement of integrity all the more courageous, given the threat of law suits (several have been filed). This honest and contrite stance has been widely commended as refreshing and genuinely responsible. Meanwhile, a *Fortune* article quoted managers saying how proud they felt about Mattel's handling of the failure.[41]

Eckert, who retired at the end of 2011, reflected on the crisis, and his insights are compelling on trust and ethics:

"It's not the unfortunate events that we want to be judged on. We want to be judged on how we addressed the issues... If you can consistently try to do the right thing, life is so much easier. If you live by your basic values, a) you'll get through it and b) you'll feel satisfied that you did the best you could." [42]

"The most important thing is, the people who work for the company feel good about the company. It's important for me that they come to work and feel good about the company they work for. This was more important than the financial results last year".[43]

John DeRubes, a Fisher-Price Director, summed it up rather neatly:

"How you achieve success is just as important as success itself".[44]

[39] Lipton, E. & Story, L. (2007) 'Toy makers seek standards for U.S. safety', *New York Times*, 7th September.
[40] Warner, J. (2007) 'Mattel's blues: Lessons from a global crisis management effort', *NACD Directorship*, 1st December.
[41] Yang, J.L. (2008) 'Mattel's CEO recalls a rough summer', *Fortune magazine*, 22nd January.
[42] Warner, J. (2007) Op cit.
[43] Taken from an insightful presentation by Eckert at the University of Arizona, 'Bob Eckert: Crisis communication 101', Dec 2011. Available on YouTube: http://www.youtube.com/watch?v=-Aed9JqerqY.
[44] Yang, J.L. (2007) Op cit.

Insights on ethics and trust repair

- There are clear benefits from having a positive reputation for ethical principles, systems and conduct among regulators when a potential scandal develops – it helps to buy time and enables the organisation to have greater control of the process. By contrast, firms with antagonistic relations with regulators and the media seem to face greater and more sceptical scrutiny.
- Having strong corporate values embedded in a firm's conscience can also guide it more easily through such a crisis.
- "*A crisis can strike even in places where a company thinks it is covered*".[45] The fact that the problems occurred in a long-standing and trusting relationship highlights the tension between balancing trusting relationships with maintaining control in the form of monitoring.
- It also highlights the networked nature of trust; Mattel trusted their vendor, who in turn might have trusted its suppliers, of whom Mattel knew little. The case points to the importance of re-asserting and affirming company values, and ongoing vigilance and close collaboration, even in long-term relationships with vendors and suppliers (to both nurture trust, and guard against distrust).
- The initial investigation into a trust failure tends to uncover more unwelcome evidence of misconduct, and can be very painful. But a thorough understanding of what happened is essential to enable the organisation to identify targeted reforming interventions matched to the severity of the failure; to demonstrate ability, benevolence and integrity, and to get all the bad news out at once (see also Siemens, Severn Trent)
- The trust-restoring merits of a public apology, to reassure consumer and staff audiences, are powerful, even if it may alarm lawyers and investors.
- Communications to staff reasserting the company's commitment to integrity are invaluable in maintaining internal optimism, morale, pride and engagement, which in turn are vital for effectively dealing with any crisis – depending, of course, on how you respond (see also Severn Trent).
- Lobbying for strengthened external regulation can enhance stakeholders' perceptions of the trustworthiness of an industry, and by default, the leading organisations in that industry.
- A willingness to share one's experience of trust repair candidly can augment one's own reputation, and that of the company.

[45] Warner, J. (2007) Op cit.

03

Case Study 3
Toyota

On the 28th August 2009 the emergency services in San Diego received a terrifying phone call from the back seat of a Toyota Lexus. The car was accelerating out of control. As the emergency services tried to get an understanding of the situation, the caller was heard to cry, *"we're now approaching the intersection! Oh, pray. Hold on and pray!"* Then silence.[46] Everyone in the car was killed. Toyota, lauded for its impeccable reputation for quality and reliability, suddenly faced a huge crisis of trust.

But they didn't react as such. Toyota's belated recalls, belated communications and disclosure, and belated public apologies did far more damage to its reputation than the original tragic accident, losing them sales, market share, and investor and consumer confidence (its pre-eminent reputation for quality plunged from 30% to 19% of respondents to a *Consumer Reports* survey):[47]

"Central to Toyota's problem is its perceived delay in identifying and addressing the situation in the first place... There is a sense that it ignored the problem until it was forced to take action".[48]

Recalls happen every year, and affect every car manufacturer. They are usually considered a bare minimum 'distrust regulation' effort. However, a series of recalls from the same company, for different problems, mounts up to a series of trust violations. Toyota had several (in 2004, 2005, 2007, and 2009-10) for different problems, including with accelerators, engines and braking, totalling more than 8.5 million vehicles. This too, has damaged their trustworthiness.

Immediate response

Two days after the San Diego crash, Toyota issued a statement, acknowledging the accident, expressing concern and showing regret for the loss of life. Toyota promised a full investigation, working with the regulator (the National Highway Traffic Safety Administration – NHTSA), but declined to comment on possible causes, to *"avoid speculation and allow any investigation to run its course".*

On the face of it, this is a good example of an immediate response statement. However, our model also calls for swift and decisive actions against *known* or *likely* causes. Toyota appear to have overlooked this latter intervention, disastrously. In the days after the San Diego crash, the company did not issue a customer warning about its all-weather floor mats, despite these being implicated in fatal accidents two years earlier.[49] Even when the regulator's preliminary investigation into the San Diego crash cited the floor mats as the likely cause, Toyota did not implement a precautionary rectification until five days later when the NHTSA confirmed their analysis, 19 days after the San Diego fatalities. Fortunately no new fatal accidents happened in that time. Yet even with this tardy intervention Toyota dealers were instructed merely to inspect any returned floor mats, rather than issue a direct customer safety warning. NHTSA issued an alert about the floor mats on the 29th September 2009 and that day

[46] BBC (2010) 'Total recall: The Toyota story', *Money Programme*. See also Editorial, 'Toyota's recall woes' (2010) *New York Times*, 8th February.
[47] Bunkley, N. (2011) 'In Detroit, Toyota vows to earn trust', *New York Times*, 10th January.
[48] Hemus, J. (2010) 'Accelerating towards crisis: a PR view of Toyota's recall', *The Guardian*, 9th February.
[49] The company was also in a Los Angeles courtroom in October 2009 accused of failing to recall vehicles equipped with defective steering rods linked to four deaths, which had required a recall in Japan in 2004: see Rhee, J. & Ross, B. (2010) 'Did Toyota wait too long to recall U.S. cars?', *ABC News online*, 11th May.

Toyota issued explicit warnings and advice to customers, and finally announced a recall of 3.8 million affected vehicles – a month after the San Diego crash. (The actual recall began a month later still.)

Diagnosis

All car manufacturers must cooperate with authorities' investigations into fatal crashes, and so the 'diagnosis' phase began immediately. When the NHTSA reported on the San Diego crash (10th September 2009), Toyota USA uploaded a statement, asserting that the findings were consistent with the company's floor mat warning, and that their vehicle was *"among the safest"* on the road. NHTSA countered this apparent denial of culpability, and took the unusual step of condemning the statements as *"inaccurate and misleading"*, embarrassing Toyota further. The American division issued a clarification stating that they had not intended *"to mislead or provide inaccurate information"*, and outlined the company's *"vehicle-based remedy"* to the sticky floor mat problem.[50] For many stakeholders, the obfuscation undermined Toyota's original best intentions, and further dented the fragile trust with its many stakeholders.

In November 2009, Toyota admitted to a defect with the accelerator pedal in some vehicles, promised this was the root cause, and issued a recall of affected vehicles. However, the installation of a 'brake override system', intended to reassert the company's trustworthiness, seemed to highlight a different design defect. Public scepticism meant that Toyota voluntarily commissioned an independent investigation to defend its electronic control systems. These efforts failed, it seems, because of stakeholders' pre-existing mistrust.

Although design faults seemed at the time to be likely causes of the crashes, many argued that the problems in the company went deeper. Commentators pointed to Toyota's aggressive growth strategy, epitomised by a declared ambition to be the world's top automobile company within a decade, involving rapid global expansion of its manufacturing capacity beyond its native Japan.[51] Even the company President, Mr Akio Toyoda, admitted as much: "*growth over speed"* had impaired the company's culture of 'kaizen' (continuous improvement) and 'genchi genbutsu' (inspecting problems at the source).[52]

Its own internal report noted Toyota's tendency to dismiss customer complaints; poor accountability for safety (as the adage goes, *"when everyone is responsible, nobody is accountable"*); poor safety-response procedures, and an *"adversarial"* relationship with regulators.[53] Commentators also cited the company's previously robust and widely admired corporate culture; efficient, systematic and dedicated, but also conservative, rigidly centralised, and mono-national. At the time, the executive board had 29 Japanese male nationals and no foreigners. Japanese reluctance to concede to shame, and Toyota's prized reputation for excellence, may account for the firm's hesitancy in acknowledging the legitimacy of the emerging crisis. The company's hierarchical and centralised structure matched this culture, limiting the speed and accuracy of information flow, stifling the agility of the corporation's response. Even its vaunted lean production techniques came in for criticism, with junior employees reportedly fearful of raising concerns.

50 Toyota USA press release. Toyota (2009) 'Toyota's Statement Regarding NHTSA News Release', 8th November. Available at: http://pressroom.toyota.com/pr/tms/toyota-s-response-to-nhtsa-news-release.aspx
51 Editorial (2010) 'Toyota's recall woes', *New York Times*, 8th February.
52 Toyoda, A. (2010) 'Back to basics for Toyota', *Wall Street Journal* op-ed, 24th February.
53 Bunkley, N. (2011) 'Recall study finds flaws at Toyota', *New York Times*, 23rd May.

Reforming interventions

The diagnosis stage didn't finish fully until March 2010, but Toyota's reforming interventions began during September 2009 with the floor mat safety warning and the belated recall of 3.8 million vehicles. Their recall problems persisted throughout 2010, with a further 1.66million vehicles recalled over other, new problems.[54] Many recalls were voluntary, and timely to prevent future accidents, and Toyota was doubtless trying to demonstrate its ability in tackling latent risks, its integrity in disclosing the possible lapses, and its benevolence in prioritising customer safety. However, the confusion from so many recalls seemed to alarm existing and prospective customers. The firm's poor immediate response had done huge damage to its credibility, and set the tone for the story (seized upon by the American media).

The first apology came in early October 2009, when Akio Toyoda expressed his sincere grief regarding the San Diego crash:

"Four precious lives have been lost. I offer my deepest condolences… Customers bought our cars because they thought they were the safest. But now we have given them cause for grave concern. I regret and apologise for this development. I cannot begin to express my remorse".[55]

Interestingly, a Professor of Japanese Studies, Ulrike Schaede, argued that these difficult public apologies *"were meant to send a message to <u>company employees</u> and car buyers"* that the company was planning a new direction (our emphasis added to indicate the trust repair targets in the statement).[56]

Akio Toyoda's op-ed piece in the Wall Street Journal wrote of his commitment to customer safety – his name is on the cars after all – and acknowledged the company's failings (mainly a preoccupation with technical responses to tragedies), and pointed to its recall response and internal and external audits of their vehicles' safety features.[57] A torrent of similar apologies followed, expressing *"sincere regrets"* and commitments to make *"fundamental changes in the way the company operates in order to ensure that Toyota sets an even higher standard for vehicle safety and reliability, responsiveness to customers and transparency with regulators"* to *"restore the trust"* of its customers.[58] The apologies were well received in the media, for the most part. That month, Akio Toyoda travelled to Washington to face Congress, and apologised again in person – although he insisted he had not been aware of the problems until late 2009, several months after the high-profile San Diego fatalities.[59]

In terms of trying to reform Toyota, we found reference to the following key moves:

- A declared reversion to the "basics" of the 'Toyota way'.
- A new safety system, combining five accident-avoidance technologies – although other automakers have offered these safety features for years.
- A major restructuring, including a reduction in Directors from 27 to 11, and the re-organisation of the departments charged with Corporate Planning and Corporate Social Responsibility to quicken crisis responses.

54 Webb, T. (2010) 'Toyota recalls 1.66m cars worldwide amid fears over brakes and engines', *The Guardian*, 21st October.
55 Tabuchi, H. & Maynard, M. (2009) 'President of Toyota apologizes', *New York Times*, 3rd October.
56 Tabuchi, H. & Maynard, M. (2009) Op cit.
57 Toyoda, A. (2010) Op cit.
58 Chang, R.S. (2010) 'Toyota creates quality task force', *New York Times*, 25th March.
59 Clark, A. & McCurry, J. (2010) 'Toyota boss offers 'sincere regrets' for faulty accelerators', *The Guardian*, 25th February.

- A new 50-strong global quality taskforce, based regionally, and led by the company President, to improve quality, increase communication, improve regional response and autonomy, and seek support from outside experts.
- Two quality advisory panels consisting of outside experts to evaluate Toyota's safety and quality control processes, in 20 dedicated facilities worldwide (although one was criticised for being a paid consultant for the company), and the appointment of a global Chief Safety Officer.
- In September 2010, the company settled out of court with the family of the San Diego victims (corporate 'penance').
- Top management's pay was docked 10% to help "*atone*" for the recall problems, and several Executives forfeited their bonuses for two years (individual leaders' 'penance').
- Commitment to working with U.S. regulators *"toward a common goal of creating a safe automobile society"*.[60]

Evaluation

On the 20th May 2010, the President of Toyota USA reviewed progress with the company's reforms to a Congressional committee. In July 2010, Toyota published a report covering its evaluation of measures for improving quality assurance and preventing the recurrence of quality lapses, as well as improving internal and external communications with regard to product quality. The external review panel is scheduled to continue monitoring progress until 2012.[61]

Toyota have taken serious actions to put things right. However, their sluggish and contradictory reaction handling of the crisis incurred retribution in April 2010, when the NHTSA fined Toyota a record $16.4m for *"failing to react"* in a timely manner, despite apparently knowing of the potential risk to consumers. Though they denied the allegation, Toyota accepted this 'penance', to avoid a lengthy dispute.[62] IHS Global Insight, an automotive consultancy, said the company was *"paying the price for not taking the claims seriously at first"*, and attracting unusually negative publicity as a result.[63] Multi-million dollar law suits are still in train.

A bitter irony is that regulatory investigations in August 2010 found "driver error" to be the most likely cause of all but one of 58 examined incidents.[64] That Toyota was unable to recover much reputational credit from this revelation emphasises how much trust and goodwill had been damaged, and how the company surrendered control of the narrative with its tardy initial response. Even recently, sceptics (and lawyers) remain unconvinced of the firm's ethical stance. They point to evidence that the company has known about several design faults for years, and have even boasted of $100m in savings from a limited recall in 2007.[65] One commentator put it:

"Nothing erodes confidence in a company's reputation so much as internal documents subordinating safety concerns to the bottom line".[66]

It remains to be seen how well Toyota recovers.

60 Akio Toyoda, quoted in Greiling Keane, A. & Kitamura, M. (2010) 'Toyota credibility gap on recalls sunk in after President's visit to U.S.', *Bloomberg News*, 10th May.
61 Bunkley, N. (2011) 'Recall study finds flaws at Toyota', *New York Times*, 23rd May.
62 Wearden, G. (2010) 'Toyota to pay record $16.4m fine', *The Guardian*, 19th April.
63 Webb, T. (2010) 'Toyota recalls 1.66m cars worldwide amid fears over brakes and engines', *The Guardian*, 21st October.
64 Clark, A. (2010) 'Driver error caused Toyota's 'runaway' cars, US study suggests', *The Guardian*, 11th August.
65 Maynard, M. (2010) 'Toyota cited $100 million savings after limiting recall', *New York Times*, 21st February.
66 Noyes, T. (2010) 'Toyota shows how to lose trade and alienate people', *The Guardian*, 25th February.

Insights on ethics and trust repair

- Guard against the downgrading or marginalisation of trustworthiness and ethical procedures in the aggressive pursuit of quick growth (see also Siemens, Severn Trent). Too much growth, too fast, can weaken the robustness of organisational systems and values.
- A positive reputation is only as good as the actions that create and sustain it. A reputation for excellence may not be enough if the immediate response to a trust failure contradicts this reputation.
- Early in a developing crisis, avoid reticence and the impression of reluctance to engage proactively with investigating authorities, especially with regard to potentially faulty and dangerous products.
- The benefits brought by Toyota's timely verbal immediate response were offset by their inconsistent and sluggish immediate actions, which generated substantial media scepticism and rendered Toyota's trust repair efforts harder to realise. The contrast with Mattel is striking.
- Centralised corporate structures can paralyse local responsiveness, as with Toyota, but de-centralised structures can lead to ungovernable local autonomy (see Siemens). There is a fine balance to be struck between trust and control.

04

Case Study 4
BAE Systems

For years, BAE Systems had faced allegations of bribery and corruption in its worldwide operations, most notoriously linked to the Al-Yamamah arms deals with Saudi Arabia.[67] The firm had always denied the allegations, in the face of several criminal investigations worldwide. But in February 2010, BAE accepted guilt with regard to charges of 'false accounting' and making 'misleading statements' with respect to the charges levelled against it. In doing so, BAE expressed regret and accepted *"full responsibility for past shortcomings"*. The firm agreed to £285m worth of fines. The settlement would allow it to *"deal finally with significant legacy issues"*.[68]

While that concluded the legal battle, the challenge of recasting the company's culture began in June 2007 when Lord Woolf and a panel of experts were appointed to look into the ethics of the firm's working practices. BAE's response to the "Woolf report" recommendations has seen a huge cultural change programme which has been widely praised (though it has not silenced some of BAE's long-standing critics).

Diagnosis

In an interview, David Harris, BAE Systems' Head of Business Conduct (who was not with the company at the time), explained the rationale behind the Woolf report:

"The Board recognised inadequacies of some of the company's processes and a need for change... An external committee led by a prominent and respected figure was a clear demonstration that the review would be done independently, and was an attempt to remove cynicism about the rhetoric of ethics: you know, 'BAE saying they'll change, but not really being serious'."

In agreement with the company, the Woolf Committee was asked to carry out a comprehensive review of the company's policies and processes and to report its findings, publicly. It had no remit to investigate the allegations levelled against the company's past. This future-oriented agenda, to only recommend actions the company should take, was controversial. Critics dismissed it as a window-dressing PR exercise[69] but, with criminal investigations underway in several different territories, the company had little option, and most of all wanted *"to know what was needed to be changed, and to be told that... It was about drawing a line and moving forward"* (interview, Harris).

The report took nine months to research and produce, at a cost of £1.7m, and was released in May 2008. At the launch, Lord Woolf spoke of the allegations casting *"a shadow of suspicion and doubt over the company"*. BAE had been *"overly secretive, defensive, unwilling to explain its actions and, at best, lukewarm on reputational issues"*. The company had not paid *"sufficient attention to ethical standards and avoid activities that had the potential to give rise to reputational damage"*. But Woolf also wished to stress that the company had since made *"huge improvements"*.[70]

67 Evans, R. et al. (2003) 'BAE faces corruption claims around world', *The Guardian*, 14th June.
68 BAE Annual Report (2009). Available at: http://bae-systems-annual-report-2009.production.investis.com/.
69 Gray, S., Leigh, D. & Evans, R. (2008) 'BAE paid too little heed to ethics, says report', *The Guardian*, 6th May.
70 Gray, S. Leigh, D. & Evans, R. (2008) Ibid.

Among the 100,000 or so employees not directly involved in the deals, Harris felt that most did not see the alleged malfeasance as symptomatic of the company, but nevertheless felt tainted by association: *"You don't like to see the company you work for being accused of that sort of thing on the news"*. In that respect, the workforce was receptive to the Woolf enquiry. As Harris vividly put it:

"We have had the benefit of dousing a burning platform... It's not been difficult for people to see the benefits of the report or the specific recommendations".

Reforming interventions

BAE Systems committed, live on Radio 4, to *"implementing all of the recommendations over a three-year period 'sight unseen'"* before the report came out (interview, Harris), under the inspection of an external auditor. Both moves were designed to demonstrate sincere commitment to change and the 'sight unseen' element is indeed suggestive of integrity, and a demonstration of concern. The 23 recommendations included:[71]

- A strategic commitment to be a leader in ethical standards among global companies, not only within the defence industry (including engagement with NGOs)
- Ethical considerations to inform all decision-making
- Attention to ethical and reputation risk, including:
  - The appointment of a Managing Director for Corporate Responsibility
  - 'Ethical business' to be a standing item for the Board
- Ethics links in appraisals and pay, especially for Executives
- Central oversight and transparency with regard to 'gifts', donations and hospitality, and 'advisers'; a ban on 'facilitation payments' (i.e. bribes)
- Setting up an ethics helpline
- Corporate governance reforms – new roles for a more 'proactive' Board
- Internal investigations into allegations of unethical behaviour
- All-employee training in ethics, with modules for Executives and business leaders
- An independent and external audit of ethics and reputational risk within 3 years, and at regular intervals thereafter.

BAE established a steering committee, comprising senior Executives from across the Group to oversee the work of a dedicated Woolf Implementation Programme team, charged with implementation of the 23 recommendations. Six working groups, each comprising senior managers and functional experts, were established to cover specific areas of work.

The company has a revised 'Operational Framework' which provides clarity on the roles and responsibilities within the organisation and, sitting alongside the code of conduct, guides employees' work and behaviour across the Group. Accessible to all employees, it covers the organisational structure; governance (including Board Charter and various committees); internal controls, risk framework and business conduct; mandated reviews and reports (core business processes) and company-wide mandated policies. The code of conduct is part of the CEO's portfolio of responsibilities.

[71] Full details on all 23 recommendations are available on BAE Systems' website, at: http://www.baesystems.com/CorporateResponsibility/ResponsibleBusinessConduct/WoolfCommittee/index.htm.

Revised policies introduced in 2009 are more concise and user-friendly than previous policy frameworks, being more principles than rules based. It is line managers' responsibility to implement and adapt them to local legislation (within the incontestable parameters of BAE's ethical approach to business), and implement them comprehensively and carefully. Specific reforms to the firm's operations and policies include:

- Within the company's Strategic Framework, 'Responsible Behaviour' now sits alongside Financial Performance, Customer Focus, and Programme Execution as one of the core standards of company performance.[72]
- Ethics – and, by extension, trustworthiness – has formed a significant part of Executives' performance and development objectives. Around 12.5% of their bonus is set aside for safety and business conduct, monitored throughout the year and reviewed by the remuneration committee.
- A key revision to procedures is the requirement to manage reputational/non-financial risk for all projects and programmes, as laid out in the 'Lifecycle Management Framework', which defines how BAE manages its projects stage by stage.

These 'reforming interventions' had to be put in place to constrain employees' actions in certain situations (i.e. 'distrust regulation'), but Harris felt that BAE Systems "*may well have over-engineered the response in some areas... It became a bit product-driven, with policies being a key product...we lacked real focus on the culture change that Woolf's report so often refers to*". From other case studies (not included here), this appears to be a common problem with trust repair; an arguably excessive attention to *policy* overhaul.

Harris' challenge now is to concentrate on robust implementation, to ensure that the changes will stick, to become cultural norms within BAE. This broader challenge for BAE is encapsulated in this observation:

"It's not the case of 'we've got new policies in place now, so everything's fine'. In themselves, they change nothing. It's more about creating and sustaining a values-based culture... [making the changes] *more behavioural... We want our employees to think about the consequences of their actions for themselves, their colleagues, and for the organisation: is it in line with expectations? First, they should look at the guidelines. If they're still not sure, talk to someone such as their line manager, or subject matter experts in the company. That should solve almost all problems, but after that, there is the Ethics helpline, which is confidential and can be used anonymously if the caller so wishes"* (interview, Harris).

These were new ways of working for the firm and so a number of cultural interventions were arranged to drive these values and arguments home. All employees received a 'Town Hall-style' briefing on the global Code of Conduct when it was issued in 2009, which they acknowledged as having received. For Harris, the only way to secure a cultural shift within BAE is through *"considerable and on-going consultation with and participation amongst staff... that's the only way it can work, via buy-in from staff"*.

[72] For more information see: http://www.baesystems.com/CorporateResponsibility/OurApproachtoCR/Ourstrategy/index.htm

Yet, while these briefings will have helped, the main emphasis in the cultural re-orientation is on the series of training programmes. Harris noted how employees often ask ‘Why me?’ when invited to attend ethics training. His job is to explain *“what it gives to them and to the business… and that these are expectations BAE has of them in providing a work environment that is safe and free of ethical concerns, at least that is the aspiration”*. The focus of the training has been on *“‘speaking up’ and challenging what goes on in the workplace. It is dilemma-based, and the idea is for an open discussion led by managers who are there to role-model the appropriate ways of thinking and behaving, and to convince their own staff of the importance of this stuff”* (interview, Harris).

Harris is adamant that the culture change necessary cannot be delivered from the Ethics or the Legal offices. Leaders’ integrity and conviction is vital to demonstrate that trustworthiness is a prized corporate value, because any gap between word and deed can undermine even the best-designed ethical policies:

“Change starts at the top, not just with commitment [to the changes] *but a belief in them. The senior managers need to ‘walk the talk’. If not, employees will see through it in a heartbeat: ‘he’s not doing it, why should I?’ Middle managers are the toughest to reach, support and, where necessary, change as they are squeezed from the top and the bottom. Many of them have seen initiatives like this come and go... So part of my role is to convert some into ‘champions’ of the new way of doing business”* (interview, Harris).

Evaluation

Internal progress is evident:

“We’re getting to the point on projects and contracts where the ‘non-financials’ (i.e. issues impacting on reputation) *are as important as cost, schedules, etc”* (interview, Harris).

Seven of the 40 questions in the staff survey are now linked to business conduct, serving as a persistent check-up on trust matters, especially integrity.

As to the lessons of the Woolf report, Harris sees it as having given BAE the framework for how to do things: *“Other companies can pick up the Woolf report, and can translate it for their own situation, and apply it... Any business will need to do it their way, though, and we are happy to share our learning”.*

An independent review of the business conduct programme at BAE Systems, performed by the Ethical Leadership Group, and external assurance of the Woolf implementation programme by Deloitte both indicate that the company has implemented all that it set out to do, in order to meet the 23 recommendations within the 3 year time period. And whilst work will always continue to improve things some (considered to be) best practice elements have already been put in place.[73]

[73] See Deloitte’s Assurance Statement: http://www.baesystems.com/CorporateResponsibility/ResponsibleBusinessConduct/WoolfCommitteeandProgressagainstRecommendations/index.htm

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- Organisations can delay, but cannot hide from, dealing with allegations of significant widespread trust failures. At some point the organisation will have to deal with its 'legacy issues' (another case in point is News International on phone-hacking).
- An independent external review can be a viable alternative to a delayed 'diagnosis', if legal circumstances preclude the possibility of the latter. But these are likely to be seen as a weaker option, and so to commit in advance to the review's recommendations, 'sight unseen', is a credible indicator of organisational integrity. But this must be realised in the implementation.
- In terms of whether such reviews should specify detailed prescriptions to reformed policies, one perspective is that vague exhortations and overarching principles can be circumvented, or watered down (the 'devil is in the detail'). The counter-position, the one seemingly adopted by BAE, is that a 'thin' set of principles – accessible and workable, rather than so detailed as to be cumbersome – provides clarity and scope for local adaptation, increasing the likelihood of implementation. A communication campaign, led from the top, can foster commitment to the change agenda. General principles give the organisation discretion to translate those aspirations and goals into locally appropriate policy. This bestows trust on local staff, which is – by definition – a risk, and so external monitoring imposed at the same time guards against dilution of the principles.
- Effective implementation requires modification of policy, but also staff engagement, including consultation and briefings, and training programmes. The two approaches – structural/procedural and cultural – reinforce each other; it is likely that the one cannot be realised effectively without the other.

05

Case Study 5
The BBC

The publicly funded British Broadcasting Corporation faced a crisis in 2007 when a series of 'editorial misjudgements' on live or pre-recorded programmes resulted in broadcasts that misled or deliberately deceived the audience. The incidents related to phone-in competitions or features which gave the appearance of, but did not actually allow, viewer participation in programmes. Examples included lying to child viewers *(Blue Peter,* twice*)*, and charity donors *(Children In Need)*. The failure caused significant damage to the BBC's public reputation for honesty (integrity) and broadcasting excellence (ability). In July 2007, 59% of the public felt their trust had been damaged – a massive crash in the Corporation's celebrated reputation.[74]

Though this trust failure was successfully resolved, the political and operational repercussions have proved difficult for the BBC and its staff. Many turned on their culpable colleagues, but also on the senior managers for their response, perceiving it to be a fawning capitulation to industry rivals, and debilitating for working practice. This tension – an appropriate response to the failure set against the risk of an over-reaction – has compelling implications for organisation-level trust repair.

In March 2007, while the BBC was investigating newspaper allegations of a faked broadcast of *Saturday Kitchen*, a viewer reported a similar incident involving the flagship children's TV programme *Blue Peter*. In its live show on 27th November 2006, an *"unavoidable technical difficulty"* meant that no viewer could get through to the studio to take part in a charity phone-in competition. In the *"blind panic"* of a live broadcast, a junior employee – unbeknownst to the programme editor onsite – asked a child visiting the studio at the time to pretend to be the winner. Initially, the programme makers not only covered up what had happened, but the researcher responsible was apparently congratulated by the programme's editor for *"keeping the show on the road"*.[75] The incident was not referred higher up the editorial chain of command. However, when the fake winner's mother raised the alarm, the BBC's Director-General, Mark Thompson, had to respond.

Immediate response

Interestingly, although trust repair theory suggests that apologies prior to a confirmation of the facts can be problematic, *Blue Peter's* presenters did make an on-air apology within a week of the incident becoming public knowledge, and long before the diagnosis was officially reported.[76] Thompson, and other senior managers, and *Blue Peter's* Editor, all issued *"unequivocal"* public apologies in which they acknowledged the seriousness of the impact on viewers' trust, while stressing that the incident had been an error of judgement rather than a deliberate deceit.[77] Thompson announced *"a senior-level independent review".*

74 'Editorial – A better broadcasting culture', *The Guardian*, 28th July 2007.
75 Panorama (2007) 'TV's dirty secrets', Broadcast on 27th March 2007.
76 'Blue Peter sorry over fake winner', *BBC-online*, 14th March 2007.
77 At the time, the industry regulator, Ofcom, was carrying out 23 separate investigations into 'fake' broadcasts on all four UK terrestrial TV channels, while the regulator for the premium phone line industry had 15 of its own investigations underway.

This response is astute for the stage of the failure; an acknowledgement of the incident and the unequivocal display of regret, combined with a demonstrable wish to understand what happened to identify remedial action, are all clear indicators of ability, benevolence and integrity. But, as with Mattel, the BBC also opted for a pre-emptive apology taking full responsibility, perhaps because it felt like the right thing to do, but also perhaps because litigious repercussions were unlikely.

Diagnosis

The interim diagnosis report published in May 2007 was sent to the BBC's independent governance committee, the BBC Trust, and released on the BBC website. It accounted in detail the timelines of the reported incidents then set out 14 'pan-BBC' "reforming interventions", including:

- The suspension of all live phone competitions on 30-minute broadcasts
- Interim guidelines on editorial policy and training for interactive broadcasting, including the nomination of senior persons responsible for their use
- A review into premium rate telephony tariffs for BBC Children's programmes, and the use of 'text voting'
- A review of current measures against vote rigging
- Liaison with telephony service providers to close phone-lines promptly.[78]

Thompson also announced an extended internal investigation into a million hours of output since January 2005, and the BBC Trust announced its own separate enquiry into broadcasting standards, to be chaired by a respected senior BBC journalist. *Blue Peter's* editor was "moved" from his post to an Executive Producer position, because he had failed to report the incident with appropriate candour.

On the 8th July 2007, the industry regulator Ofcom published its own enquiry into the *Blue Peter* incident, finding the BBC guilty of two breaches of the Broadcasting Code, and imposing a £50,000 fine on the BBC, the Corporation's first ever in 80 years. In the same week, an incident came to light in which a sub-contractor, RDF Media, edited a documentary about the Queen to imply misleadingly that she had stormed out of a photo shoot. The BBC's marketing then fed contentious spins about the footage to the papers, leading to the Queen being depicted as stroppy and arrogant – another incident, similar to Mattel, of trust in a supplier becoming *too* loose. The BBC launched an immediate investigation into that incident as well, and senior managers apologised the day after the story broke.

An all-staff email from Thompson on the 13th July 2007 damned these known incidents before reiterating a recent demand for any contentious incident, no matter how *"sketchy"*, dating back to January 2005 to be declared *"as a matter of top priority"*.[79] A week later, the BBC Trust reported on its extended 'diagnosis', which had discovered six further serious incidents of audience deception, including two incidents on the country's biggest charity telethons. What is instructive here, as with other cases, is that despite appeals for candour and even an amnesty for staff, these initial diagnoses failed to uncover all of the dubious incidents; indeed, the BBC had to concede several more before the year was out.

78 Thompson, M. & Willis, A. (2007) *'Premium rate telephony and associated issues: Final report from the BBC Director-General to the BBC Trust, May 2007'*, London: BBC.
79 Holmwood, L. 'BBC staff told to report staff 'deception', *The Guardian*, 12th July 2007.

Reforming interventions

An extensive set of reforming interventions were put in place,[80] including:

- Communications to all staff (bulletins, meetings) reasserting core BBC values and a policy of no tolerance for deception
- Suspension of *all* phone-related and interactive competitions
- Mandatory training on editorial ethics for all 16,500 staff involved in content
- Full, independent enquiry into the RDF/ *The Queen* incident; suspension of all new commissions from RDF
- All publicity materials to be subject to formal editorial compliance
- Revised employment and supplier contracts to clarify ethical obligations
- Ongoing work on telephony issues
- Sector-wide discussions on 'best practice'
- Several senior and junior employees were disciplined, and left
- The creation of 'Audience Councils', and a drive to communicate more effectively with viewers and listeners on *"decisions made on their behalf"*.[81]

These measures are notably strong on 'distrust regulation', concerned with procedural solutions and preventative restrictions, although there are 'trustworthiness demonstration' interventions (e.g. the communications and training).

Thompson appeared on the 18th July 2007 in an "unprecedented" internal televised broadcast to all BBC staff, in interviews on national media outlets, and followed up with an internal email to all staff.[82] The communications reasserted the primacy of audience trust to the BBC, which would be bolstered and strengthened by the Corporation's adherence to its new policies, and engagement with the culture change initiatives, such as the ethical training.

Four further incidents came to light on the 20th September 2007, arising from the second diagnosis.

Evaluation

The BBC asked a polling firm to survey public opinion in August, October and December 2007. Of those who had heard about the crisis, three-quarters of respondents confirmed that they "*trust the BBC to sort out the current situation and do the right thing in the future*" – an early indicator of the successful recovery of public trust.[83] The internal evaluation of the BBC's response to the scandal, released in May 2008, was more cautious, concluding:

"While some [reforming interventions] *are fully in place, others are at the stage of being 'road-tested' and a number are still at a negotiation or planning stage".*[84]

80 Thompson, M. (2007) *'Executive overview of editorial breaches of audience trust – a report from the Executive Board to the BBC Trust'*, Internal BBC report, 18th July.
81 BBC (2007) *'Our promise to you'*, London: BBC.
82 Thompson, M. (2007) *'Untitled'*, Internal BBC communication. 18th July.
83 Thompson, M. (2008) 'The trouble with trust', *Political Quarterly*, 79 (3), 303-313.
84 Neil, R. (2008) *'Independent evaluation of the BBC's action plan: Editorial controls and compliance – January to March 2008'*, London: BBC. Available at: http://www.bbc.co.uk/bbctrust/research/editorial_standards.html
85 Thompson, M. (2008) *'BBC Annual Report published today'*, Internal BBC communication, 8th July.
86 Plunkett, J. (2008) 'Bannister says anti-fakery regulations are damaging BBC output', *The Guardian*, 1st July.

Yet, by July 2008, when the BBC published its first annual report since the scandal, the Corporation felt bullish enough to downplay the scandal in its internal bulletin to staff, relegating it to two short sentences, and otherwise lauding the year's output.[85] However, subsequent crises have led to tighter operating procedures that some in the BBC have criticised for being excessive and cumbersome, inhibiting creativity.[86]

Insights on ethics and trust repair

- As with Mattel, the BBC benefited from a generally very positive reputation within the industry, and with its consumer base, when the scandal broke.
- There may, for some organisations, be a hierarchy of trustworthiness attributes. The BBC's senior managers, including Mark Thompson, explained to staff that protecting its reputation for benevolence and integrity is a far greater imperative than operational ability. Indeed, the BBC's legitimacy (and funding) rests on its accurate and honest broadcasting: *"If you have a choice between deception and a programme going off air, let the programme go"*.[87]
- A diagnosis is likely to uncover more evidence of wrongdoing, and may require successive rounds of investigation (see also Mattel). As shown in the BBC case, this can be costly, but to do so serves as both 'distrust regulation' (deterrence) and 'trustworthiness demonstration' action (diligence). A thorough investigation also maximises an accurate understanding of the causes of the failure and hence the ability to design effective and durable reforming interventions.
- That said, staff may still feel compelled to conceal their culpability, and this needs to be tackled. Offering an 'amnesty' to staff is an effective tactic to encourage staff to speak up and own past mistakes (see also Siemens).
- Interim reports can be effective in uncovering the scale of any problems, and stimulating further attention to possible reforms. But organisations need to be careful not to attribute blame inappropriately (i.e. inaccurately or indiscriminately).
- As with the other cases, changes to procedure need to be complemented with cultural interventions. In this regard, interactive, dilemma-based ethics training can be effective, and well received by staff (see too BAE Systems; Severn Trent).
- Staff may perceive the scale of reforming interventions to be an over-reaction, particularly when they involve major upheavals of task and process guidelines. These can be seen as needlessly invasive, overly bureaucratic, and inefficient. Communication is central here – senior leaders at BBC used blogs to reflect on the Corporation's response to the faked phone-ins, to challenge staff criticism of the scale of the reforms, and also to encourage and instil pride.
- Strategies for repairing trust internally and externally are inter-connected. The BBC has worked with industry rivals to introduce standards on audience interactivity and leaders have spoken publically about their learning outcomes.
- Internal and external evaluations of progress and stakeholder trust demonstrate a commitment to recovering and augmenting trustworthiness.

[87] Thompson, M. (2007) *'Untitled'*, Internal BBC communication, 18th July.

06

Case Study 6
Severn Trent

Because all water companies are monopolies for their region, the regulator, Ofwat, sets expected performance standards on behalf of the customer, covering leakage, customer satisfaction and safety among others, and specifies levels of investment and the prices that each company can charge its customers. To make their calculations, Ofwat must rely upon accurate data from the water companies, as it lacks the resources to conduct its own audits. The entire process is, therefore, reliant on the water companies' trustworthiness.

In July 2008, Severn Trent became the first utility to be prosecuted. The Serious Fraud Office (SFO) had accused the company's water division of providing false information to Ofwat with respect to its operational performance data over a five-year period. It was described in the trial as a *"sustained and successful campaign of dishonesty".* Severn Trent pleaded guilty, and was fined £2m. This came on top of an earlier £35.8m fine from April 2008, for deceitful reporting in its Customer Service department.

The following year in 2009, partly in recognition of the 'journey' the company had undertaken in recovering its reputation, Severn Trent was named by its industry peers as the 'Utility of the Year'. The story of their swift transformation is valuable for the personal testimonies from senior managers interviewed for this report, and especially for the imaginative combination of cultural interventions with standard procedural adaptations.

Immediate response

In April 2004, an employee invoked the company's whistleblowing procedure to protest at being instructed by his bosses to manipulate performance data, in order to misrepresent the company's performance to Ofwat. The Board's response to the allegations was to alert Ofwat and announce an internal inquiry. On the face of it, this appears to be a textbook example of an appropriate 'immediate response'. However, what happened next was anything but.

Interviewees explained how the Board handled the whistleblower's concerns badly, treating the situation as a litigation issue to prevent disclosure and protect the company's reputation.[88] The initial internal diagnosis was overseen by a senior Severn Trent Water (STW) manager, and conducted with the company's auditors, who had just signed off the accounts (creating potential conflicts of interest). The auditors' report was *"worked over time and time again"* by STW's senior managers (interview, Gavan) to produce a *"palatable"* summary, which rejected the whistleblower's allegations outright. This summary report was sent to Ofwat, omitting key documents and evidence – the Board doing so according to the advice of the firm's legal team. On top of that, the whistleblower was subjected to a formal disciplinary procedure, led by one of the managers accused of coordinating the cover-up – a serious procedural mistake.

[88] Interviewees included: Andrew Smith, Water Services Director; Peter Gavan, ex-Corporate Affairs Director; Tony Wray, Chief Executive; and Martin Kane, Director of Customer Relations. The interviews took place in March and July 2010.

The company's aggressively defensive stance backfired. Dismayed by the response, and furious at the disciplinary assault on his character, the whistleblower took his evidence to the press, at which point the story spiralled out of the company's control and Severn Trent staff faced *"humiliating"* articles in the papers and on local TV condemning them for fraud and fleecing customers.

Diagnosis

Within a month of Ofwat announcing a formal investigation into the irregularities, several members of the Board and senior management team left, although Severn Trent is at pains to emphasise that the departures should not be linked to the scandal. The new Board wanted to deal with the developing scandal efficiently, in a thorough, timely and decisive manner, for while the uncertainties persisted the share price was remaining depressed, down-rating the company's value. For Tony Wray, then Managing Director and now Chief Executive, the strategy was *"to get on with restoring the company's reputation as soon as possible"*, to take a quick and painful hit rather than endure long-term damage. This was not only essential for the firm's relations with its regulator, but to reassure its shareholders and employees, too.

In February 2006, while enquiries from Ofwat and the SFO were underway, the Board received word of suspicions relating to its Customer Relations department. Knowing that Ofwat would want to come in and investigate, Severn Trent's preference was to lead the process themselves. Wray, now Chief Executive, notified Ofwat immediately and set up agreed terms of reference with them for an internal investigation. He committed to full disclosure of the findings. The investigation fell under the aegis of a respected senior STW manager, whose investigative team would be independent of the Board, giving them clout and credibility. The team also worked with independent external assessors. Their investigation involved over 30 interviews and lasted over six months. All interviewees had the right to be accompanied to ensure fair treatment.

The team soon discovered a 'smoking gun' in the form of an internal document detailing how Customer Relations employees should deliberately distort performance data for any external parties. Effectively the department was keeping two sets of performance data. As soon as the document came to light, STW shared it with Ofwat, in a spirit of openness.

Ofwat's interim findings on the leakage scandal in March 2006, cited as the primary cause of the failure "*poor internal processes and controls*". In our research, this rather narrow focus on procedure seems to be a common feature of diagnoses into organisational failures. Ofwat ordered Severn Trent to cut its customers' bills by a total of £42m.[89] Although Severn Trent disagreed with Ofwat's assessment, the decision was made to accept the findings and pay any fine levied (an act of contrition, and voluntary public penance). Severn Trent's public pronouncements were unequivocal, expressing regret and apologising *"unreservedly"*. In one senior manager's words:

"If it's anything to do with customers, you have to apologise with great sincerity, then deal with the issues thoroughly… Customers want to see you being human. People accept things can go wrong, but people don't like to see 'scripts', they want to see people looking human" (interview, Kane).

[89] Note that this *external* diagnosis report came out before the internal team had concluded their enquiries. Thus, when external agencies become involved in investigations, the second and third stages in our model – Diagnosis and Reforming Interventions - can become simultaneous.

To its credit, the internal team's report to the Board, in July 2006, went further than Ofwat's narrow procedural focus. It noted deficiencies in several more areas such as weak departmental and senior leadership, inappropriate cultural values, and problems with the parent company's corporate governance structures and oversight regarding its vital subsidiary. Above all, the view was that the company needed to overthrow the complacent and, arguably, corrupt cultural values that had led some managers to believe that tactics of deliberate deceit were acceptable.

Reforming interventions

The Board felt that their response to prevent a future failure would have to tackle process, behaviours and values, simultaneously. To realise this, they undertook a *"comprehensive review"* and *"root and branch re-organisation"* of STW's operating procedures, to *"prevent anything like this happening again… to ensure there can be no repetition of this unacceptable behaviour"*.[90]

Following on from the findings, the senior management team sought to issue a direct challenge to the organisation's dominant cultural values. The sweeping reforms were indeed comprehensive and targeted all six organisational elements identified in our model for trustworthiness:[91]

- Ethics training, led by the IBE, in which employees had the chance to talk about situations when they felt themselves to be compromised
- Leadership development, which emphasised ethics and honesty
- A revised code of conduct, and whistle-blowing policy
- Tighter financial controls, and clearer lines of responsibility and accountability
- A much clearer corporate governance structure (the Board of STW and its parent, Severn Trent, are now identical, to ensure thorough oversight)
- 'Upskilling' employees to take more responsibility for tasks linked to their work
- 20 key performance indicators to link each Board member's efforts explicitly to the firm's performance and its values, and to make these efforts visible.

Severn Trent's workforce was proud but shamed, and Wray sensed that he needed to tackle both emotions. To do so, the senior management team undertook a series of 'roadshows', where they explained to groups of 50 or so employees what had happened, and what would happen. Many vented their anger at the whistleblower, or the Customer Relations team, but Wray made a powerful point about *"institutionalised"* bad behaviour within the organisation by confronting each group with their own ways of working, asking if any of them could look their CEO in the eye and say that they *always* carried out a given process *exactly* according to requirements, with no errors or omissions or selective content? The answer was 'no' (as it will be in most organisations, of course). For Wray, confronting bitter and resentful employees with their own complicity, or potential for deceit, was vital to challenging the deep-rooted norms and attitudes that had facilitated the trust failure in the first place. The roadshows proved a powerful cultural intervention, to focus staff attention on what it means to be trustworthy.

90 Kollewe, J. (2008) 'Ofwat fines Severn Trent £35.8m', *The Guardian*, 8th April.
91 Dietz, G. & Gillespie, N. (2011) *'Building and Restoring Organisational Trust'*, London: Institute of Business Ethics (available at www.ibe.org.uk).

When the SFO/ West Midlands Police report in November 2007 concluded that three criminal charges could be brought against the company, but not against any particular individuals, Severn Trent's internal communications stressed two important broad themes:

- An explicit distancing of the 'old regime' from how Severn Trent is now (serving the dual purpose of accepting responsibility, while diminishing the sense of culpability for employees remaining at STW), and
- An emphasis on implementing *"all actions we think appropriate"*, including cultural change, governance oversight, and tighter procedures, but the repeated apologies and penance are indicators of the company's character.[92]

In April 2008, Ofwat fined STW £35.8m (3% of turnover) for the Customer Relations scandal. For Andrew Smith, *"the price of how we used to be was a £35m fine"*. With more *"unreserved"* public apologies, STW offered, proactively, to refund every household, reducing their next two years' bills (amounting to £10.6m) – a simple gesture of penance ('benevolence') that helped to *"ensure the company has not profited in any way"* and to soften its tarnished public image (although Ofwat allowed the firm to raise its water bills above the rate of inflation).[93]

Three months later, in July 2008, the SFO trial concluded with a further £2m fine. That this was reduced from £4m (it could have been unlimited) on account of Severn Trent's *"early* [guilty] *plea and cooperation"*, and the company having *"learned its lesson and put its house in order"*, is a clear indicator of the commercial merits of open and honest disclosure with the authorities, sincere contrition and stringent efforts to address internal problems thoroughly.[94]

At the company's AGM in August 2008, Wray could finally draw a line under the whole affair, three long years after it had first come to light. His two-page message to staff began, tellingly, with: *"At long last it's done"*.

Evaluation

Staff reactions to the messages about a 'new ethical culture' have been *"mixed"*. Scepticism and even cynicism was common, because, as in many organisations, *"the employees had seen plenty of contradictory behaviours regarding transparency and ethics"* in the past (interview, Gavan). Wray acknowledges this, but denies ever being *"deluded"*:

"That's why our programme [of organisational reform] *is so deep, and so long, and is based on* [changing] *values and behaviours. This is a long journey, to change fundamental beliefs, and then behaviours… We have to guard against complacency, cynicism and 'change fatigue'".*

A testament to the turnaround came in 2009, when Severn Trent won 'Utility of the Year', in recognition of its greatly improved KPI performance relative to its peers. For Wray, this was a valuable indicator of progress:

"As performance improves, we can celebrate it and people's pride comes back… We're starting to get back a sense of excitement about the future of this company".

92 The SFO allegations are described as relating to *"things that happened in the past. They have nothing to do with what we do now"*; they are *"no reflection on what is happening inside the company today"* – Severn Trent press release, 22nd November 2007.
93 Huber, N. (2008) 'Severn Trent faces £36m fine and admits criminality', *The Guardian*, 9th April.
94 Severn Trent (2008) *'Chairman comments on legacy issues'*, Severn Trent press release, 22nd July.

Insights on ethics and trust repair

- Take whistleblowers seriously; they are an opportunity to fix problems within the organisation and strengthen the organisation's trustworthiness.
- Credibility in the investigation team is vital for the results to be perceived as accurate, and actionable. Pick senior managers with plenty of experience and internal credibility, but independent of the Board. Involve HR too, and externals for additional depth of analysis, and validation of findings. Make the investigation fair; give people a chance to be accompanied to any interviews.
- Severn Trent was able to negotiate the terms of its own internal investigations when they adopted a more cooperative stance toward the industry regulator. Early cooperation and proactive openness with regulators can allow companies to control, to a degree, the extent of investigation into the failure.
- Leaders who communicate with candour and honesty can help staff recover trust in their employer quickly.
- Making investigation reports public can resolve uncertainty, provide evidence of both wrongdoing (for sceptics), and prompt commitments to remedial action. This can help re-establish trust with stakeholders. Given transparent information about the scale of the problem, investors can be reassured.
- Contrite apologies and offers of penance are effective tools for rebuilding trust. When early penance is manageable in terms of implementation and cost, it should be considered as an effective indicator of remorse, regret and benevolence, to begin the repair in a timely manner. A union official at Severn Trent interviewed for this report appreciated these sincere gestures, as *"the right thing to do"*, as it *"shows honesty and clarity about what the company is about, and shows a determination that this is not going to happen again".*
- Public and internal statements and actions can reinforce or undermine each other. Severn Trent made a point of using the same language and phrases in both communications to ensure consistency.

Concluding Comments

The link between business ethics and trust is clearly demonstrated in each of these case studies. In some cases, trustworthiness was damaged by ethical misconduct (e.g. Siemens, BAE Systems, the BBC). In other cases, it was most damaged by the lack of integrity and competence displayed in the immediate response to the crisis (e.g. Toyota, Severn Trent). Yet, some cases have largely avoided any sustained damage to trust, by embarking on a comprehensive and explicitly trustworthy repair effort underpinned by principles of benevolence and integrity, as well as openness and competence (e.g. Mattel).

What is common to all the cases we have reviewed here is that trust failures typically take years to resolve, and can be both debilitating and very costly. A clear implication is that it pays to invest proactively in designing an organisational system that encourages and supports trustworthy conduct.[95]

Such a system cannot rest on structures, procedures and rules alone, but must also consider the cultural values and routine norms that guide behaviour and decision-making on an everyday basis.

Vigilance in rooting out deviant cultural values and practices is just as important for organisational resilience against trust failures, as dealing with deficient procedures or structures. Indeed, in most of the cases in this Paper, trust repair required a deep overhaul of the organisational culture, which appeared resistant to the perceived threat coming not only from the failure but from the trust repair response, as well. The objective must be to embed ethical values into everyday operations and prevent future failures.

As the Siemens, Toyota, BAE Systems and Severn Trent cases powerfully demonstrate, a trust failure can be a catalyst to strengthening an organisation's reputation beyond its pre-failure state. A crisis focuses and motivates the organisation, providing a strong and necessary impetus for radical change, and unleashing resources and new ways of thinking that are often difficult to leverage under normal circumstances. This is the silver lining of trust failures.

The final positive message is this: organisational trust *can be repaired*. We hope that this analysis of six prominent cases of trust failure and repair serves as a helpful guide to those involved in this challenging task.

[95] For guidance on embedding trustworthiness into an organisation's design, see Dietz, G. & Gillespie, N. (2011) *'Building and Restoring Organisational Trust'*, London: Institute of Business Ethics, Chapter 3 (available at www.ibe.org.uk).

The Institute of Business Ethics

The IBE was established in 1986 to encourage high standards of business behaviour based on ethical values.

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To lead the dissemination of knowledge and good practice in business ethics.

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We raise public awareness of the importance of doing business ethically, and collaborate with other UK and international organisations with interests and expertise in business ethics.

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Occasional Paper 5

Institute of Business Ethics

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

This IBE Paper presents six case studies which describe and analyse the experience and response of companies that have faced a trust failure. Understanding and managing trust – how it is built, supported and recovered – is a critical competency for any organisation, and particularly for those that take their ethical values and commitments seriously. These cases demonstrate how the companies – Siemens, Mattel, Toyota, BAE Systems, the BBC, and Severn Trent – have successfully repaired the loss of trust and provide insight into the process involved.

This Paper supplements the IBE's earlier report on *Building and Restoring Organisational Trust* published in June 2011.

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