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Donald L. FERRIN
Singapore Management University, donferrin@smu.edu.sg

Cecily D. COOPER
University of Miami

Kurt T. DIRKS
Washington University in St. Louis

Peter H. KIM
University of Southern California

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Heads will roll! Routes to effective trust repair in the aftermath of a CEO transgression

Donald L. Ferrin[a], Cecily D. Cooper[b], Kurt T. Dirks[c] & Peter H. Kim[d]

[a]Lee Kong Chian School of Business, Singapore Management University, Singapore; [b]Department of Management, University of Miami, Coral Gables, FL, USA; [c]John M. Olin School of Business, Washington University in St. Louis, St. Louis, MO, USA; [d]Department of Management and Organization, University of Southern California, Los Angeles, CA, US

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Abstract

CEO transgressions are a common storyline in today's business press. Such incidents result in the need to repair trust for both the CEO and the organisation that the CEO leads. Existing empirical research on trust repair has focused primarily on interpersonal trust, resulting in a body of knowledge that provides many insights to the errant CEO but few insights for those who aim to repair trust in the organisation. Since organisations also need to regain the trust of stakeholders after a CEO transgression, research on organisational trust repair is clearly warranted. Organisations have options for trust repair that are not available to individuals (e.g. dismissing the transgressor), these actions may be initiated by parties other than the culpable party (e.g. the Board of Directors), and the mechanisms underlying organisational versus interpersonal trust repair may differ. However, trust in CEOs and their associated organisations may also be intertwined since the CEO is the symbolic representative of the organisation. To better understand how organisations and CEOs can repair trust in the aftermath of a CEO transgression, we conduct a scenario experiment examining two tactics that are commonly used in practice: CEO dismissal, and CEO apology + penance. We also examine the proposed underlying mechanisms of perceived repentance and perceived disentitativity. Results indicate that both tactics can influence trust in the CEO as well as the organisation, and that perceived repentance and perceived disentitativity mediate the effects of Board responses on trust in the CEO but not on trust in the organisation.

Keywords

apology, entitativity, CEO dismissal, penance, Trust repair, repentance

Unfortunately, leaders sometimes violate the trust of stakeholders, and when such violations occur, the impact can be severe. For example, the last two decades have seen a range of CEO transgressions including inflation of corporate profits and assets (Bernie Ebbers at Worldcom; Hisao Tanaka at Toshiba), siphoning of corporate funds for personal use (Dennis Kozlowski at Tyco; Ramalinga Raju at Satyam), insider trading (Raj Rajaratnam at Galleon; Martha Stewart at Martha Stewart Living Omnimedia), résumé fabrication (David Edmondson at RadioShack), perjury (John Browne at British Petroleum), and inappropriate personal behaviour (Dov Charney at American Apparel; Brian Dunn at Best Buy), to name but a few. When a CEO commits a significant transgression, there is much more at stake than simply the reputation of the CEO. To stakeholders, including employees, shareholders, customers, regulators, and the media, the leaders of an organisation reflect the organisation's distinctive values, and any leader's deviation from these values will harm the perceived integrity of the organisation (Selznick, 1957). The CEO, in particular, is the symbolic representative of his or her company (Pfeffer & Salancik, 1978), and therefore transgressions that call into question the trustworthiness of the CEO are likely to produce concomitant losses in trust toward the organisation.

The question then arises of how to respond in the aftermath of a CEO transgression. One programme of research that sheds considerable light on this question is the interpersonal trust repair literature, which identifies trustee actions and trustor psychological mechanisms that lead an individual to increase his or her trust in another individual after a transgression. Scholars in this burgeoning area have examined a variety of responses that might be employed, including apologies (Kim, Dirks, Cooper, & Ferrin, 2006; Lewicki, Polin, & Lount, 2016; Tomlinson, Dineen, & Lewicki, 2004), denials (Kim, Ferrin, Cooper, & Dirks, 2004), promises (Schweitzer, Hershey, & Bradlow, 2006), justifications (Kim & Harmon, 2014), and substantive acts such as penance, regulation, and reparation (Bottom, Gibson, Daniels, & Murnighan, 2002; Desmet, De Cremer, & van Dijk, 2011; Dirks, Kim, Ferrin, & Cooper, 2011; Lount, Zhong, Sivanathan, & Murnighan, 2008). While this research provides potentially valuable insights into repair strategies available to the transgressing CEO, because of its emphasis on the interpersonal level, implications for repairing trust in the CEO's associated organisation are unclear. A second programme of research on organizational-level trust repair has recently brought more attention to strategies and processes that are relevant to restoring trust in organisations specifically (Eberl, Geiger, & Aßländer, 2015; Gillespie, Dietz, & Lockey, 2014; Nakayachi & Watabe, 2005). This programme of research examines organisational-level failures (e.g. practices of fraud or bribery existing in the broader organisation) to better understand the tactics and processes that enable an organisation to repair trust. While this is also an important line of inquiry, the focus of this literature on organisational failures and responses restricts the ability of this literature to provide insights into the very common yet understudied phenomenon that is the focus of the current paper: how trust toward the CEO and/or the organisation can be repaired after a CEO's transgression. In sum, existing research has tended to focus on an individual's repair efforts after an individual failure, or an organisation's repair efforts after an organisational failure. Our focus is on organisational responses after an individual failure.

When one considers how trust in the organisation might be repaired after a CEO transgression, one realises that the nature and potential mechanisms of trust repair differ in at least three fundamental ways from those of interpersonal trust repair. First, organisations have parties other than the CEO who might respond on the organisation's behalf. For example, the Board of Directors as a governing body can step in when the CEO is no longer acting in the best interest of the firm (Jensen & Meckling, 1976). Consistent with this observation, Gillespie and Dietz (2009) argued that ‘external governance’ can influence organisational trustworthiness, though these ideas have yet to be systematically tested. Second, organisations have options for responding to a violation that are not available to the individual CEO, in particular by dismissing the wayward CEO, a strategy frequently exercised in practice (e.g. Mark Hurd of Hewlett Packard, Dov Charney of American Apparel). Third, CEO transgressions present a further anomaly in that trust in two distinct but related parties (i.e. the CEO and the organisation) is damaged, and therefore tactics to repair trust might vary in favouring one over the other. For instance, strategies such as CEO dismissal clearly reflect an emphasis on repairing trust in the organisation (even at the expense of the CEO's reputation). In cases where the CEO must stay, however, repairing perceptions of both entities is important (e.g. Martha Stewart and Martha Stewart Living Omnimedia).

Thus, the case of the violating CEO represents a crucially important problem in reality, and it also represents an impetus for extending trust repair research to consider two foci simultaneously (CEO and organisational trustworthiness), considering additional agents of trust repair (parties not directly responsible for the violation such as the Board of Directors), and considering additional responses (dismissal of the CEO from the organisation). The shift to consider multiple foci, new agents, and new responses, suggests a need to also consider whether mechanisms already identified in the literature can explain these effects. While prior research on trust repair at the interpersonal level has examined underlying mechanisms (Dirks et al., 2011), different mechanisms may be relevant when examining the effects of responses that could simultaneously influence trust in the CEO *and* the organisation (Dirks, Lewicki, & Zaheer, 2009). Furthermore, assuming that perceived CEO trustworthiness and trust in the organisation are linked, it will be important to understand how trust repair responses might simultaneously, and similarly or differentially, affect these two outcomes.

To address these questions, we draw from signalling and attribution theories to develop and test a framework of how, in the aftermath of a CEO transgression, organisations can signal that they are worthy of trust. Signalling theory is useful in this context since the CEO transgression creates an information asymmetry between the CEO and organisation on the one hand and stakeholders on the other regarding whether future trust is warranted (Spence, 1973). Once signals are communicated via trust repair tactics, stakeholders will make inferences about the signaller's trustworthiness through attributional processes (Ferrin & Dirks, 2003; Tomlinson & Mayer, 2009). Accordingly, the present research aims to contribute to the trust repair literature in four ways. First, we examine the concurrent repair of trust in a CEO and that CEO's associated organisation, representing both an individual- and organisational-level focus, and answering calls in the trust repair literature to unravel 'the dynamics and interplay between micro and macro levels during the trust repair process' (Bachmann, Gillespie, & Priem, 2015, p. 1135). Second, although more research on organisational trust repair has appeared in recent years (e.g. Eberl et al., 2015; Gillespie et al., 2014), little of this work has focused on responses to CEO failures (as opposed to organisational failures), thus our research will help to broaden the scope of the organisational trust repair literature. Third, by extending research beyond interpersonal trust, we are able to consider responses not previously examined in studies of trust repair (e.g. Board responses, CEO dismissal) that might simultaneously impact trust in the individual CEO and the organisation. Fourth, by studying organisational trust repair in the context of a CEO transgression, we can study factors, including psychological mechanisms experienced by trustors, that cause trust toward the CEO to be linked or delinked with trust toward the organisation.

By examining a CEO transgression and Board of Director responses, including CEO dismissal, this research will also make a contribution to the literatures on top management dismissal and corporate governance. Research on top management dismissal (e.g. Flickinger, Wrage, Tuschke, & Bresser, 2016; Haleblian & Rajagopalan, 2006; Wiersema & Zhang, 2011) has focused primarily on the antecedents of dismissal, whereas we examine consequences of dismissal for both the organisation and the errant CEO. For corporate governance research, some of this research has explicitly assumed that trustworthiness plays a role in how CEO actions influence firm financial performance (e.g. Zhang & Wiersema, 2009), but this assumption has yet to be tested. We further contribute to the corporate governance literature by examining whether and why Board-initiated tactics might be effective for dealing with a CEO transgression. In addition, empirical research on the effects of corporate governance has had a 'near universal focus on a direct relationship between corporate governance mechanisms and firm financial performance' (Daily, Dalton, & Cannella, 2003, p. 376). Our study aims to broaden this focus to consider how corporate governance mechanisms may influence non-financial yet still important outcomes, trust in the CEO and trust in the organisation, irrespective of their effects on the firm's bottom line.

CEO transgressions, CEO trustworthiness, and trust in the organisation

We define trust as a willingness to accept vulnerability based on positive expectations of the intentions or behaviour of another (Rousseau, Sitkin, Burt, & Camerer, 1998). Trust judgments stem from perceptions of trustworthiness in terms of ability, benevolence, and integrity (Mayer, Davis, & Schoorman, 1995). The focus of the current research is on an individual's trust judgments regarding a CEO and the CEO's associated organisation in the aftermath of a CEO transgression. The transgression constitutes a violation of trust that is assumed to damage (lower) perceptions of the CEO's trustworthiness and, correspondingly, trust in the organisation. Repairing this trust, thus, entails repairing these damaged perceptions (Kramer & Lewicki, 2010) either partially or completely (Tomlinson & Mayer, 2009). In the present study we focus specifically on individuals' perceptions of the CEO's and the organisation's integrity, for two reasons: (i) the CEO transgressions that seem to be most damaging to CEOs' and organisations' trustworthiness – e.g. misappropriating corporate assets for personal use, moral lapses such as sexual misbehaviour, intentional financial misstatements to hide poor performance, and criminal offenses – appear to be primarily related to integrity (rather than benevolence or ability), and (ii) integrity perceptions are arguably the most frequently-studied of the three individual trustworthiness perceptions identified by Mayer et al. (1995) and also the core focus of the most frequently-used organisational trust measure (Robinson & Rousseau, 1994), which underlines the relevance and importance of integrity perceptions at both the individual CEO and organisational levels.

Although organisational trust has been studied empirically (e.g. Pirson & Malhotra, 2011; Tan & Lim, 2009) as has trust repair (e.g. Kim, Cooper, Dirks, & Ferrin, 2013; Schweitzer et al., 2006), organisational trust repair has received limited empirical attention in the organisational literature (for exceptions, see Eberl et al., 2015; Gillespie et al., 2014; Nakayachi & Watabe, 2005). The dearth of empirical research on organisational trust repair is surprising given that maintaining trust with constituents is critical for organisational functioning and survival, and theoretical discussions of organisational trust repair have repeatedly called for more research on this topic (Bachmann et al., 2015; Gillespie & Dietz, 2009; Kramer & Lewicki, 2010). The level of trust serves as a lens through which the organisation is seen and determines whether and how people will interact with the organisation through investing, patronising, seeking employment, etc. It has long been recognised that firms must manage their legitimacy in order to maintain continued access to resources (Pfeffer & Salancik, 1978).

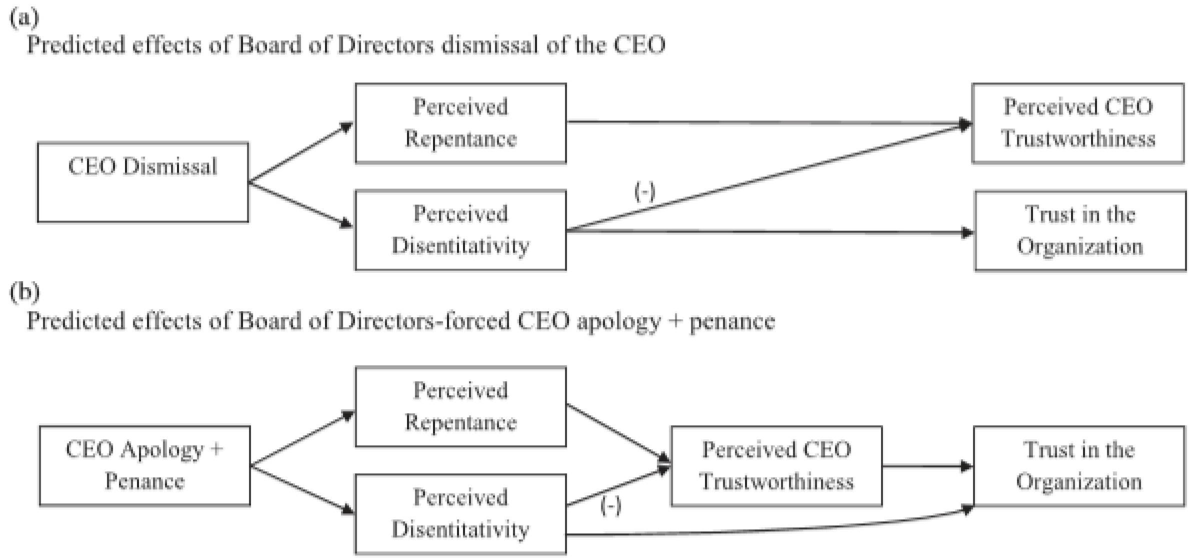
When a CEO transgression occurs, trustors will be uncertain whether the CEO and/or the organisation deserve to be trusted again. Trustors will question whether they have complete information regarding the character and values of these parties. As noted by signalling theory, in situations of information asymmetry, parties (in this case trustors) will observe the signals a firm sends off in order to gather information and make informed judgments (Marcus & Goodman, 1991; Spence, 1973). In this case, the signals can come from the transgressing CEO, or they may come from other members of the upper echelons of the organisation such as the Board of Directors. After committing a transgression, it is possible that a CEO may be motivated to act in the best interests of the organisation and do whatever is possible to repair trust in that organisation (Davis, Schoorman, & Donaldson, 1997). However, if the interests of the CEO and organisation are not aligned, the Board of Directors, as the governing body, may take responsibility for initiating the repair efforts (Jensen & Meckling, 1976).

Thus, when attempting to repair trust in an organisation, the signals can be sent by different parties. Additionally, these parties can send different types of signals. One interesting aspect of moving beyond an interpersonal focus to study organisational trust repair is that ‘organizations have capacities for trust repair unavailable to individuals, such as replacing "guilty" agents with new agents who symbolize a change in values’ (Gillespie & Dietz, 2009, p. 142). CEO dismissal is very common in practice and a literature has focused on examining this phenomenon (Arthaud-Day, Certo, Dalton, & Dalton, 2006; Haleblian & Rajagopalan, 2006; Wiersema & Zhang, 2011). Notably, however, this research falls outside of the trust domain and has not specifically examined trust in the organisation. For this reason, although top management departures are often initiated when trust concerns arise, whether CEO dismissals actually repair perceptions of trust in the organisation remains a lingering question.

Moreover, there are also cases in which the CEO must stay with the firm, or certain factors may discourage the Board from seeking his or her departure (Flickinger et al., 2016; Leone & Liu, 2010; Pi & Lowe, 2011). In such cases, trust repair signals can be offered in ways that do not necessitate dismissal, for instance by the Board asking the CEO to apologise and offer an act of penance. Prior research has found apologies and acts of penance to be effective at repairing trust in CEOs who have committed a transgression (Dirks et al., 2011; Ferrin, Kim, Cooper, & Dirks, 2007). Although this research did not explore the implications of apologies and penance for repairing organisational trust, it is possible that CEO trust repair efforts will also have concomitant effects on trust in the organisation given that CEOs are the chief representative of their organisations.

In the following sections, we elaborate our expectations regarding these alternative trust repair responses while also detailing the underlying mechanisms through which these responses will be transmitted (i.e. via perceived disentitativity vs. perceived repentance). The predictions are summarised in Figure 1.

Figure 1. (a) Predicted effects of Board of Directors dismissal of the CEO (b) Predicted effects of Board of Directors-forced CEO apology + penance.



Bad apple? The dismissed CEO and perceived disentitativity

Organisations have a range of trust repair tactics to choose from that are not available to individuals. Notably, if an organisation violates the trust of constituents, it is possible to pinpoint members of the organisation responsible for the misdeed. The responsible parties often include the CEO or other top managers and these parties can be dismissed as a response to violations. Organisations are often reluctant to discuss executive successions, and this makes dismissals difficult to study (Boeker, 1992). However, research tells us that a variety of events such as financial restatements, accounting irregularities, and investment analysts' recommendations can precipitate a dismissal of an executive by the Board (Arthaud-Day et al., 2006; Leone & Liu, 2010; Wiersema & Zhang, 2011). The literature on such dismissals seems to implicitly assume that these firings benefit the organisation, and this has prompted a tendency to focus on the antecedents of dismissal rather than its consequences. Thus, to our knowledge, research is presently not available to answer the question of whether CEO dismissal will repair trust toward an organisation or how it might do so. And in the context of CEO transgressions, it is also unclear how a dismissal will simultaneously affect perceptions of that CEO.

We expect that dismissing a CEO who has committed a transgression may reflect positively on the organisation by signalling to constituents that the 'bad apple' has been 'discarded from the barrel.' Specifically, the exit may impact trustors' perceptions of the entitativity of the top leadership as a group and whether those remaining in the organisation can be considered sufficiently different from the CEO to be trusted. Perceived entitativity refers to the extent to which others see a group as being unified (i.e. it deals with perceptions other people have of a group; Lickel et al., 2000). Perceived entitativity is thus distinct from cohesiveness, which refers to whether group members are actually unified. Research indicates that individuals (in this case trustors) can see substantial variation across groups in their degree of entitativity, and that they form these judgments by observing properties of the groups such as the degree of interaction among members and the existence of common goals. To the extent that a group is viewed as possessing high entitativity, trustors are more likely to infer that group members are similar in terms of their traits (Crawford, Sherman, & Hamilton, 2002).

Applying the concept of entitativity to the context of CEO transgressions, we expect that if a CEO is dismissed from the organisation, the dismissal will signal disentitativity (i.e. that the CEO is distinct from the group of individuals who lead the organisation), and that the signalled disentitativity will in turn shape perceivers' views of the trustworthiness of the CEO and organisation. A CEO's dismissal from the organisation in the aftermath of a trust violation is likely to be conducted by a member of the Board of Directors to address concerns about the integrity of the organisation's leadership. The sheer act of the organisation's leadership publicly ejecting a fellow leader, by force and in a way that is likely to negatively impact the reputational and financial well-being of the CEO, is likely to be seen by trustors as a clear indication that the CEO will now have fewer (if any) common goals, and fewer (if any) further interactions, with the other organisational leaders. Since common goals and interactions are core indicators of entitativity, the dismissal is therefore likely to send a strong signal of disentitativity of the CEO with the rest of the organisational leadership. In turn, as suggested by research on entitativity discussed above, a trustor who perceives disentitativity (i.e. that the CEO and organisation's leadership are not a unified group) will be less likely to expect that the remaining leadership group members share the same traits and character as the CEO. Instead, trustors will be more likely to believe that the untrustworthy qualities that caused the transgression existed in the CEO and have now departed the company with the CEO. Thus, the perceived disentitativity is likely to lead perceivers to determine that the lack of integrity exists in the CEO and not in the organisation, simultaneously resulting in lower trust in the CEO and higher trust in the organisation.

In sum, we expect that CEO dismissal will increase trust in the organisation and that these effects will be transmitted via perceptions of disentitativity signalled when the Board fires the CEO. At the same time and due to the same mechanisms, the perceived trustworthiness of the CEO should decrease following a CEO dismissal because the dismissal has signalled that the CEO is distinct from the other leaders of the organisation and has negative qualities that are now being purged from the organisation. In essence, the CEO has become a symbol of what was wrong with the organisation (Pfeffer, 1981; Pfeffer & Salancik, 1978).

Hypothesis 1a: After a CEO transgression, CEO dismissal will result in higher trust in the organization than will leadership inaction.

Hypothesis 1b: After a CEO transgression, CEO dismissal will result in lower perceptions of CEO trustworthiness than will leadership inaction.

Hypothesis 2: The effects of CEO dismissal on trust in the organization and perceived CEO trustworthiness will be mediated by perceived disentitativity.

Reformed sinner? CEO apology + penance and perceived repentance

Even CEOs known to be guilty of questionable acts can remain in positions of leadership. The CEO might own the company or be so powerful that he or she cannot be dismissed. Indeed, research indicates that founder CEOs are less likely to be fired (Leone & Liu, 2010), as are more powerful CEOs (Boeker, 1992; Pi & Lowe, 2011) or those who have high status networks (Flickinger et al., 2016). Fortunately, alternative trust repair strategies are available to organisations that must retain an errant CEO. The logic underlying trust repair tactics in which the CEO must stay, however, is potentially different from those discussed above in which the CEO is dismissed. Most notably, for CEO dismissal, organisational trust repair efforts are emphasised at the expense of the errant CEO. In contrast, when the CEO stays, trust repair tactics must focus on repairing trust in the CEO and the organisation concurrently. In this case, trust perceptions toward the two parties remain intertwined. Since the CEO remains as the representative of the organisation and its value system, repairing trust in the organisation must also involve addressing concerns regarding the trustworthiness of the CEO.

A preponderance of research indicates that verbal responses, such as apologies, can be very effective for addressing transgressions at the individual (Ferrin et al., 2007; Kim et al., 2006; Kim & Harmon, 2014;

Tomlinson et al., 2004) and organizational levels (ten Brinke & Adams, 2015). Similarly, substantive acts of penance can also be efficacious for both individuals (Desmet et al., 2011; Dirks et al., 2011) and organisations (Gillespie et al., 2014) trying to overcome a transgression. In the current research, we examine a CEO's response of apology combined with penance and predict that such a response should enhance the perceived trustworthiness of the CEO by signalling that the CEO has repented. Perceived repentance involves the trustor believing that the CEO regrets his or her actions, is intrinsically committed to reform of the personal shortcomings, and has resolved to acting differently in the future (Dirks et al., 2011). To the extent that he/she appears repentant, this CEO will be seen as more trustworthy. An apology is defined as an account that 'conveys an admission of responsibility and regret on the part of the offender for the violation … ' (Tomlinson et al., 2004, p. 169), and in its more comprehensive forms may also include an expression of repentance, an offer of repair, an explanation for why the violation occurred, and a request for forgiveness (Hornsey & Wohl, 2013; Lewicki & Polin, 2012). An apology seems particularly suitable for signalling repentance to trustors as it directly indicates that the violator regrets his or her actions, has reformed, and resolves to act differently. However, because 'talk is cheap,' the sincerity of an apology can be uncertain, and penance – defined as a substantive amend – can provide a useful validation of the information provided in an apology (Bottom et al., 2002; Dirks et al., 2011). Thus, apology + penance represents a potentially powerful combination for influencing a trustor's perceptions that a CEO has repented following a transgression. Finally, since the CEO is seen as symbolising the values of the organisation (Pfeffer, 1981; Pfeffer & Salancik, 1978), any increase in CEO trustworthiness should lead to a concomitant increase in organisational trust.

Hypothesis 3a: After a CEO transgression, CEO apology + penance will result in higher trust in the organization than will leadership inaction.

Hypothesis 3b: After a CEO transgression, CEO apology + penance will result in higher perceptions of CEO trustworthiness than will leadership inaction.

Hypothesis 4a: The effects of CEO apology + penance on perceived CEO trustworthiness will be mediated by perceived repentance.

Hypothesis 4b: The effects of CEO apology + penance on trust in the organization will be sequentially mediated by perceived repentance and perceived CEO trustworthiness.

The hypotheses above describe the effects of CEO dismissal and CEO apology + penance on perceived disentitativity and perceived repentance, respectively. However, we should also consider the possibilities that CEO dismissal may also influence perceived repentance, and CEO apology + penance may also influence perceived disentitativity. First, the act of being dismissed may signal not only disentitativity, but also that the CEO has 'paid the price' (i.e. reflecting penance as defined above) and therefore experienced repentance for the misdeed (following the same logic as above). And consequently, (following the same logic as above), higher perceived repentance is likely to lead to higher trust in the CEO. Finally, if the signal of repentance was stronger than the signal of disentitativity, then CEO trustworthiness might even increase rather than decrease. Nevertheless, based on the logic set out above, trust in the organisation should still increase (see Figure 1(a)).

Hypothesis 5: The effects of CEO dismissal on perceived CEO trustworthiness will be mediated by perceived repentance.

Similarly, although we hypothesised that CEO apology + penance would operate via perceived repentance, we also recognise that in many cases the apology + penance may be forced upon the CEO by the Board, and therefore this response may also elicit perceptions of disentitativity by signalling that the Board has 'acted against' the CEO and hence the CEO is separate from the Board. If this were to occur, the effect of Board-forced CEO apology + penance on trust in the organisation might also be mediated by perceived disentitativity. Moreover, to the extent that this mechanism of disentitativity is signalled rather than the mechanism of repentance, the forced apology + penance could negatively influence trust in the CEO, which in turn could negatively affect trust in the organisation (see Figure 1(b)). Consequently, we propose the following:

Hypothesis 6a: The effects of CEO apology + penance on perceived CEO trustworthiness and trust in the organization will be mediated by perceived disentitativity.

Hypothesis 6b: The effect of CEO apology + penance on trust in the organization will be sequentially mediated by perceived disentitativity and perceived CEO trustworthiness.

The above hypotheses are tested in a controlled laboratory experiment described in the next section. This experimental method is uniquely appropriate for isolating and testing mediating processes that would be difficult, if not impossible, to study in the field.

Method

Few, if any, rigorous empirical tests of CEO or organisational trust repair strategies or the mechanisms underlying CEO or organisational trust repair efforts exist in the organisational literature. This is probably due, at least in part, to the fact that typical ‘real life’ trust violations occur in a way that does not afford the opportunity for a control group design, so that comparisons between alternate tactics are typically not possible. Fortunately, an experimental paradigm exists for examining trust repair tactics of transgressing CEOs that enables researchers to ‘bring reality into the lab’ to compare the effects of individual tactics, and the associated psychological mechanisms, in a controlled setting (see Dirks et al., 2011; Ferrin et al., 2007). Although past research has used this approach to focus on trust implications for the CEO as an individual, we were able to adapt this methodology to also study the implications for simultaneous CEO and organisational trust repair.

Participants and design

The current study employs a 3-level (CEO dismissal vs. CEO apology + penance vs. control) between-subjects experimental design. Participants, who were randomly assigned to one of the three conditions, comprised 87 undergraduate business students at a major university in Singapore who participated in this study for partial course credit. They had an average age of 21.26 years (SD = 1.54), average work experience of 1.37 years, 44% were female, and the sample comprised participants with Chinese (75%), Caucasian, (8%), South Asian (7%), and other (10%) ethnic backgrounds. All were fluent or nearly fluent in English.

Experimental task

Participants observed a CEO transgression and repair effort unfold via two video-taped news segments and one newspaper article. To enhance mundane realism (i.e. a resemblance to real-life events; Aronson, Ellsworth, Carlsmith, & Gonzales, 1990), the script of the news story was closely based on an actual 2003 incident in which Don Carty, then-CEO of American Airlines, persuaded more than 100,000 employees to accept across-the-board pay cuts, but meanwhile had arranged multi-million dollar bonus payments and pension fund guarantees for himself and other top executives; when the payments and guarantees were made public, Carty attempted a range of trust repair attempts (denial, apology, penance), and then ultimately resigned (Wong, 2003). We disguised the incident by utilising fictitious company and CEO names. To further enhance realism, the video segments and newspaper article were designed to replicate an actual news-watching and -reading experience as closely as possible. For the video, we hired professional actors and filmed the video segments in a studio that makes daily news broadcasts to a large metropolitan area. The format and content of the newspaper article were tailored after a major national daily business newspaper.

Taking the role of a general observer, participants were presented with the incident of Wire Services, a medium-sized technology firm coping with some financial difficulties. In the first news clip, CEO Jack Whitfield is shown asking employees to accept a 10% wage cut. When Jack Whitfield is asked whether he would also take a wage cut, he responds that he would do so by eliminating the payment of preferred stock he was due to receive. Whitfield further clarifies that the preferred stock would represent approximately 10% of his compensation, the same amount asked of employees. In the second clip, the news anchor notes that employees agreed to the wage cuts, citing the CEO's offer to also personally participate in the cuts as playing a pivotal factor in their own decision.

Participants were then asked to read a news article, dated about one month later. Three versions of the news article were written in accordance with the experimental design. The first two paragraphs contained identical wording across conditions, first providing background information about the company's financial difficulties, Whitfield's request for a 10% across-the-board pay cut, and Whitfield's promise to take a 10% pay cut himself in exchange for the employees' agreement to the cut. The article then reports Whitfield's transgression as follows, framing the event as a lapse in his integrity:

However, according to individuals within the company who provided information on condition of anonymity, the preferred stock was paid in full. According to the allegations, lawyers found that due to the nature of the original contract in which the preferred shares were issued, the shares are vested with Whitfield and cannot be taken away by the company. The sources reported that Whitfield clouded the truth about the compensation arrangements to protect his own interests.

The article then continues on to detail the response to this incident as initiated by the Board (see 'Manipulations' below). After watching and reading these materials, participants offered reactions via a questionnaire.

Manipulations and manipulation check

In accordance with the experimental design, the remainder of the news article included the Board of Directors' response (the experimental manipulation). In the CEO dismissal condition, Mr. Lowe, Chairman of the Board of Directors, was quoted as stating,

The Board of Directors has demanded and has now received Jack Whitfield's resignation with immediate effect. A search for a new CEO has already begun. It is my hope that Wire Services and its management can move forward with the full confidence of employees, customers, and shareholders.

In the CEO apology + penance condition, Lowe was quoted as stating,

The Board of Directors has demanded and has now received Jack Whitfield's apology to Wire Services employees and shareholders for this event. He has accepted responsibility for this lapse and regrets it. In addition, the Board of Directors has reclaimed the shares of stock paid to Jack Whitfield and has cancelled stock payouts for the future. We have also cut Jack Whitfield's salary by 10%. In total, Jack Whitfield will forgo 20% of his annual compensation, which is twice the amount of the original proposal. You can be assured that nothing like this will happen again. It is my hope that Wire Services and its management can move forward with the full confidence of employees, customers, and shareholders.

Finally, in the control condition, Lowe stated: 'It is my hope that Wire Services and its management can move forward with the full confidence of employees, customers, and shareholders.'

To ensure the manipulations were clear and perceived as intended, a separate sample of 16 participants, drawn from the same population as the main sample, viewed the experimental manipulation and then responded to a multiple-choice comprehension check question. There were no incorrect responses. In order to test hypotheses related to trust and its repair, we also needed to ensure that we were studying the phenomena in a context in which some initial trust was present and was damaged by the CEO's transgression. Such assurance has been provided in the form of a pilot study reported by Dirks et al. (2011 Study 2, pp. 94–95) that assessed initial trust levels and demonstrated that trust levels decreased significantly after the CEO's transgression.

Measures

We used 7-point Likert-type scales, with endpoints of strongly disagree to strongly agree, to measure the mediator variables (perceived repentance, perceived disentitativity, and CEO trustworthiness) and dependent variable (trust in the organisation). Because there was no existing measure of perceived disentitativity suitable for the current study, we constructed a six-item measure based on careful review of entitativity research. One scale item is based on a single-item measure of entitativity already in the literature (Ip, Chiu, & Wan, 2006). Other items were informed by manipulations used in experiments priming entitativity (see Crawford et al., 2002, p. 1080; McConnell, Sherman, & Hamilton, 1997, p. 752; Welbourne, 1999, p. 499) or its conceptual implications (see Lickel et al.'s (2000) discussion of 'interaction'). The scale had good reliability ($\alpha = .85$). Finally, we reversed the valence of the entitativity scale so that it reflected perceived disentitativity.

We measured perceived repentance with a five-item scale based on Dirks and colleagues' (2011) measure ($\alpha = .81$), capturing the three elements of repentance discussed above: regret, reform, and resolve. CEO trustworthiness was measured using five items adapted from Mayer and Davis's (1999) perceived integrity scale ($\alpha = .80$). Finally, we adapted the Robinson and Rousseau (1994) seven-item scale to measure trust in the organisation ($\alpha = .90$). All scale items are reported in the Appendix.

Results

We conducted a confirmatory factor analysis (CFA) of the mediator and dependent variables to assess convergent and discriminant validity. The CFA indicated a good fit for a four-factor model ($\chi^2 = 344.52$ (df = 224), RMSEA = .079, all item-factor loadings >.54). Follow-up discriminant analyses (Bagozzi & Phillips, 1982) demonstrated that the hypothesised four-factor model fit the data significantly better than the best-fitting three-factor model ($\chi^2 = 387.02$ (df = 225), RMSEA = .092; $\Delta\chi^2 = 42.50$ (df = 1), $p < .001$), providing strong support for a four-factor model.

Descriptive statistics (Table 1) indicated that trust in the organisation was significantly correlated with perceived CEO trustworthiness, perceived disentitativity, and perceived repentance. Perceived CEO trustworthiness was also significantly correlated with perceived repentance but not significantly correlated with perceived disentitativity.

Table 1. Variable means, standard deviations, and inter-correlations.

	Variable	Mean	SD	1.	2.	3.
1.	Perceived disentitativity	4.17	1.18			
2.	Perceived repentance	3.20	1.08	.32**		
3.	Perceived CEO trustworthiness	2.03	.86	−.11	.50**	
4.	Trust in the organisation	3.52	1.25	.24*	.40**	.32**

N = 87. *$p < .05$; **$p < .01$.

To test Hypotheses 1 and 3, we conducted univariate analyses of variance (ANOVA) to examine the effectiveness of Board actions – CEO dismissal and CEO forced apology + penance – on trust in the organisation (hypotheses 1a & 3a) and perceived CEO trustworthiness (hypotheses 1b & 3b) (see Table 2 for means and standard deviations by condition). The ANOVAs indicated an overall significant effect of Board actions on trust in the organisation ($F(2, 84) = 15.44$, $p < .001$, $\eta^2_p = .27$) but an effect on CEO trustworthiness that only approached significance ($F(2, 84) = 2.83$, $p = .07$, $\eta^2_p = .06$). Hypotheses 1a and 3a predicted that Board actions would result in higher levels of trust in the organisation than would leadership inaction. Fisher's Least Significant Difference (LSD) tests indicated that the impact on trust in the organisation of CEO dismissal was significantly greater than the control (mean difference = 1.34, s.e. = .28, $p < .001$), as was the impact of a CEO's forced apology + penance (mean difference = 1.42, s.e. = .29, $p < .001$), thus supporting hypotheses 1a & 3a. Hypotheses 1b and 3b predicted that CEO dismissal would result in lower CEO trustworthiness, and CEO forced apology + penance would result in higher CEO trustworthiness, compared to leadership inaction. Fisher's LSD tests indicated that CEO dismissal resulted in higher CEO trustworthiness than the control (mean difference = 0.52, s.e. = .22, p = .02), thus indicating a significant effect but in the opposite direction predicted by hypothesis 1b. The level of CEO trustworthiness was greater in the CEO forced apology + penance condition than the control, but not significantly so as was predicted by hypothesis 3b (mean difference = 0.36, s.e. = .22, p = .11).

Table 2. Means and standard deviations by condition.

	CEO dismissal		CEO apology + penance		Control	
Variable	Mean	SD	Mean	SD	Mean	SD
Perceived disentitativity	4.42	1.14	4.51	.89	3.56	1.26
Perceived repentance	3.71	1.12	3.42	.74	2.41	.91
Perceived CEO trustworthiness	2.25	.98	2.09	.85	1.73	.67
Trust in the organisation	3.93	1.20	4.01	1.22	2.59	.74

We used the PROCESS bootstrapping application in SPSS to test our mediation hypotheses 2, 4, 5 & 6. Following guidance on the use of PROCESS for multi-categorical independent variables (Hayes & Preacher, 2014), we created k-1 = 2 dummy variables to reflect the effects of CEO dismissal and CEO apology + penance, relative to the control group, which served as the dummy coding reference group. PROCESS analyses were based on 5000 bootstrap samples. Table 3 reflects the bootstrapping analyses of direct and indirect effects of CEO dismissal relative to the control group, controlling for the effects of CEO apology + penance. Hypothesis 2 predicted that the effects of CEO dismissal on trust in the organisation and CEO trustworthiness would be mediated by perceived disentitativity, whereas hypothesis 5 predicted that the effect of CEO dismissal on CEO trustworthiness would be mediated by perceived repentance. In support of Hypothesis 2, perceived disentitativity was found to mediate the effect of CEO dismissal on CEO trustworthiness (see third row of results on Table 3), however Hypothesis 2's prediction that perceived disentitativity would mediate the effect of CEO dismissal on trust in the organisation was not supported (seventh row on Table 3). Hypothesis 5 was supported as perceived repentance mediated the effect of CEO dismissal on CEO trustworthiness (second row). In addition, CEO dismissal directly influenced trust in the organisation, providing further support for hypothesis 1a (eighth row). The significant direct and indirect paths are depicted in Figure 2(a).

Figure 2. (a) Effects of Board of Directors dismissal of the CEO (b) Effects of Board of Directors-forced CEO apology + penance.

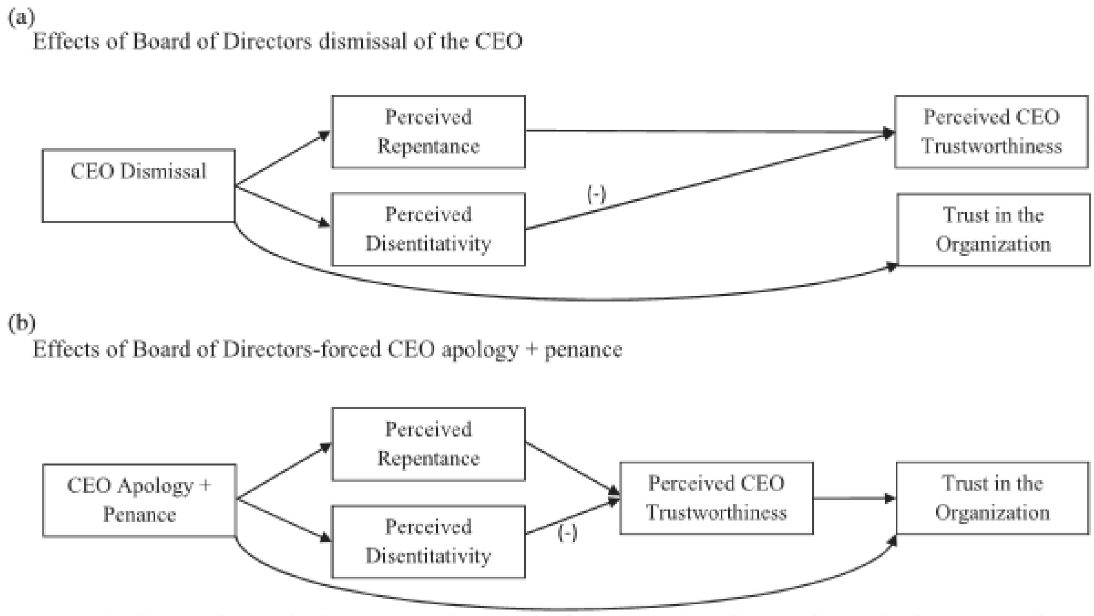


Table 3. Direct and indirect effects of CEO dismissal on perceived CEO trustworthiness and trust in the organisation.

Model components	*b*	SE	LL	UL
Effects on perceived CEO trustworthiness				
Indirect effects				
Total	**.38**	**.18**	**.06**	**.77**
via perceived repentance	**.58**	**.17**	**.30**	**.98**
via perceived disentitativity	**−.20**	**.11**	**−.48**	**−.05**
Direct effect	.14	.22	−.30	.59
Effects on trust in the organisation				
Indirect effects				
Total	.31	.21	−.06	.79
via perceived repentance	.28	.19	−.04	.74
via perceived disentitativity	.03	.10	−.15	.24
Direct effect	**1.03**	**.33**	**.37**	**1.69**

Note: Significant effects indicated in boldface. *b* = unstandardized regression coefficient; *SE* = standard error; *LL* = Lower Limit of the 95% confidence interval; *UL* = Upper Limit of the 95% confidence interval. All analyses included the CEO Apology + Penance dummy variable as a covariate.

Table 4 reflects the bootstrapping analyses of direct and indirect effects of CEO apology + penance relative to the control group, controlling for the effects of CEO dismissal. Hypothesis 4 predicted that the effects of CEO apology + penance on CEO trustworthiness would be mediated by perceived repentance (4a), and the effects of CEO apology + penance on trust in the organisation would be sequentially mediated by perceived repentance and CEO trustworthiness (4b). The analyses yielded support for Hypothesis 4a (see the second row of results on Table 4) and for Hypothesis 4b (ninth row on Table 4). Hypothesis 6 predicted that the effects of CEO apology + penance on CEO trustworthiness and trust in the organisation would be mediated by perceived disentitativity (6a), and the effects of CEO apology + penance on trust in the organisation would be sequentially mediated by perceived disentitativity and CEO trustworthiness (6b). Hypothesis 6a was supported for CEO trustworthiness (third row), and Hypothesis 6b was also supported (tenth row). In sum, perceived repentance and perceived disentitativity both mediated the effect of CEO apology + penance on trust in the organisation sequentially via CEO trustworthiness. Finally, CEO apology + penance directly influenced trust in the organisation, providing further support for hypothesis 3a (eleventh row). The significant direct and indirect paths are depicted in Figure 2(b).

Table 4. Direct and indirect effects of CEO apology + penance on perceived CEO trustworthiness and trust in the organisation.

Model components	*b*	SE	LL	UL
Effects on perceived CEO trustworthiness				
Indirect effects				
Total	.23	.16	−.07	.56
via perceived repentance	**.45**	**.14**	**.21**	**.77**
via perceived disentitativity	**−.22**	**.10**	**−.51**	**−.07**
Direct effect	.14	.22	−.30	.57
Effects on trust in the organisation				
Indirect effects				
Total	.29	.18	−.04	.67
via perceived repentance	.08	.15	−.20	.39
via perceived disentitativity	.08	.09	−.05	.32
via perceived CEO trustworthiness	.04	.08	−.07	.27
via perceived repentance→perceived CEO trustworthiness	**.13**	**.09**	**.01**	**.36**
via perceived disentitativity→perceived CEO trustworthiness	**−.05**	**.04**	**−.19**	**−.01**
Direct effect	**1.13**	**.32**	**.50**	**1.76**

Note: Significant effects indicated in boldface. *b* = unstandardized regression coefficient; *SE* = standard error; *LL* = Lower Limit of the 95% confidence interval; *UL* = Upper Limit of the 95% confidence interval. All analyses included the CEO Dismissal dummy variable as a covariate. Only indirect paths of theoretical interest are reported.

Discussion

Implications for research on trust repair

The primary purpose of this study was to contribute to trust repair research by examining the repair of trust in both the CEO and his or her organisation in the aftermath of a CEO transgression. A burgeoning body of research has studied interpersonal trust repair and thus can speak to the issue of trust repair for wayward CEOs. Additionally, a separate body of research has studied organisational trust repair and thus can speak to the issue of trust repair for organisations in the aftermath of organization-level failures or crises (e.g. fraud, widespread bribery) (Eberl et al., 2015; Gillespie et al., 2014). However, our study appears unique in considering simultaneously how responses to a CEO's transgression might affect trust toward the CEO and trust toward the organisation. In taking this approach, we empirically examine both a micro and macro target of trust repair within a single study (the CEO as well as the organisation). And by considering the organisation alongside its transgressing CEO, we are also able to contribute to the literature by testing the efficacy of trust repair tactics that are available to organisations but not to CEOs, and potential mechanisms that might drive their effectiveness. Finally, CEO transgressions offer a unique context to study the linkage between trust in the CEO and trust in the organisation and how trust in each can be repaired separately or in combination.

Our findings confirmed our expectation that parties other than the culpable party can act effectively on behalf of the organisation to repair trust. Specifically, we found that both Board-initiated responses – CEO dismissal and CEO apology + penance – had direct positive effects on trust in the organisation, and both Board-initiated responses also influenced the perceived trustworthiness of the CEO via perceived repentance and perceived disentitativity. In addition, Board-forced CEO apology + penance had sequentially-mediated effects on trust in the organisation via CEO trustworthiness. Our findings support in several ways, but also depart in some specific ways, from the hypothesised mechanisms. Consistent with our expectations, perceived repentance and perceived disentitativity both mediated the effects of CEO dismissal and apology + penance on perceived CEO trustworthiness. Also consistent with our expectations, the effects of CEO apology + penance on trust in the organisation were sequentially mediated by perceived repentance and perceived disentitativity via CEO trustworthiness. However, whereas we predicted that perceived disentitativity would mediate the effect of CEO dismissal on trust in the organisation, we found that CEO dismissal influenced trust in the organisation directly rather than via perceived disentitativity. And similarly, whereas we predicted that the effect of CEO apology + penance on trust in the organisation would be mediated by perceived disentitativity, we found a direct effect of CEO apology + penance on trust in the organisation.

Consistent with prior research finding strong effects of perceived repentance as a driver of trust repair (e.g. Dirks et al., 2011), our results demonstrated that perceived repentance mediated the effects of both CEO dismissal and CEO apology + penance on perceived CEO trustworthiness, and the effects of CEO apology + penance on trust in the organisation were sequentially mediated by perceived repentance via CEO trustworthiness. Given the increasing evidence of the effectiveness of repentance, future research on trust repair might consider additional ways in which repentance can be signalled, and whether this mechanism is relevant only for interpersonal trust. Additionally, future research might identify the conditions under which dismissal would fail to repair trust in the CEO (as we had initially expected) and examine additional tactics that would specifically benefit organisations.

This study further advances the trust repair literature by introducing the concept of perceived entitativity/disentitativity and by describing and providing evidence of its potential role in trust repair. The present study indicated that the effects of both Board dismissal of the CEO and Board-forced CEO apology + penance on CEO trustworthiness were simultaneously mediated via two distinct mechanisms, perceived repentance and perceived disentitativity. Additionally, this simultaneous mediation transmitted the sequential effect of CEO apology + penance on trust in the organisation via CEO trustworthiness. To our knowledge, no other research has found a separate and simultaneous mediating mechanism alongside perceived repentance. This negative mediating effect of perceived disentitativity suggests that Board actions to address a CEO transgression cause the CEO to be seen as less trustworthy because such actions signal that the CEO is different (in a negative way) from the rest of the organisation's leadership. Given the negative indirect effects of CEO dismissal and CEO apology + penance on CEO trustworthiness and trust in the organisation via perceived disentitativity, it appears that perceived disentitativity acted as a counterweight to the positive indirect effects of perceived repentance. We also note that, contrary to our expectations, perceived disentitativity did not appear to boost trust in the organisation while reducing perceived CEO trustworthiness, but instead facilitated negative indirect effects on CEO trustworthiness and trust in the organisation. Certainly, future trust repair research will benefit from further exploring how perceived entitativity/disentitativity may facilitate – or hinder – trust repair.

We also note that perceived entitativity/disentitativity is a concept from psychology that may be relevant for other areas of study in the organisational sciences. For instance, in the area of trust development, it is recognised that trust perceptions can be influenced by a trustee's affiliations with others ('we are known by the company we keep'; Ferrin, Dirks, & Shah, 2006). The present study extends perceived entitativity research by expanding theory regarding its potential role into a very different external context of CEO violations and trust repair. Further, we developed a multi-item scale to measure perceived entitativity, and presented evidence of its adequate reliability, strong convergent and discriminant validity, and usefulness for studying organisational phenomena.

Implications for research on corporate governance, CEO dismissal, and public relations

Corporate governance scholars are also likely to value the findings from this study. The large majority of governance research focuses on firm financial performance as an outcome (Daily et al., 2003) with some of this research assuming that trust plays a role in the governance-performance relationship (e.g. Zhang & Wiersema, 2009) but not testing this notion. By directly examining and finding that governance actions do in fact repair trust, we are able to contribute further insights to this conversation. By hypothesising mediating effects underlying Board actions, this research also responds to calls in the governance literature to gather process data and test why governance measures work (Daily et al., 2003). Specifically, our findings indicate that Board actions such as CEO dismissal and Board-forced CEO apology + penance can send signals of repentance and disentitativity that influence CEO trustworthiness and trust in the organisation. Clearly, more research is needed on the processes associated with governance effects. We hope that the current study will inspire further efforts in this area and also provide insights into how governance process effects can be examined experimentally. In particular, governance scholars might consider moving beyond field research to also employ laboratory experimental methods, as we have done here, enabling them to more readily isolate and test questions regarding processes.

The current research also complements the literature on CEO dismissal, which has focused almost exclusively on antecedents of dismissal (Boeker, 1992; Leone & Liu, 2010; Wiersema & Zhang, 2011). By looking at dismissal in the context of a CEO transgression, we identify important positive outcomes of this act in terms of increased trust for the CEO and organisation after the CEO leaves. Given the frequency of CEO dismissal in practice, more research is clearly warranted to study dismissal in different contexts, assess additional outcomes and processes, and examine risks associated with dismissal. Additionally, as an alternative to dismissal, another common response to executive malfeasance is voluntary departure, i.e. resignation (Wiersema & Zhang, 2013), as seen for example in resignations of Brian Dunn from Best Buy and Hisao Tanaka from Toshiba. Future research should examine voluntary departure to discern whether CEO dismissal versus resignation is more effective for repairing trust in CEOs and their organisations.

Since this study examined organisational trust in addition to interpersonal trust, our findings might also be informative to the public relations' literatures on corporate reputation (Auger, 2014; Verhoeven, Van Hoof, Ter Keurs, & Van Vuuren, 2012) and crisis management (Coombs & Holladay, 2001; Huang, 2008). Research on corporate reputation and the current research on organisational trust repair possess a similarity in perspective in that both are concerned with how various stakeholders view the organisation. In terms of crisis management, the current research is informative since a CEO transgression is a specific type of corporate crisis that can impact a relationship between an organisation and the general public. In addition, by empirically manipulating information via the 'media' in a controlled setting and examining the impact on stakeholder perceptions, our approach is consistent with contentions in the public relations literature that mass media plays a significant role in reputation damaging events (Rhee & Valdez, 2009; e.g. see Auger, 2014; Coombs & Holladay, 2001; Verhoeven et al., 2012 for a similar methodological approach). Finally, the reputation literature has proposed certain strategies for repairing reputation such as ‘disassociation’ (i.e. structural change to distance the organisation from bad influences; Suchman, 1995); in this paper we test a specific type of disassociation by looking at the reparative effects of CEO departure.

Limitations and directions for future research

Our laboratory experimental methodology enabled us to examine and compare alternative trust repair strategies, assess causality, and explore underlying processes with relatively high internal validity, but naturally raises concerns about external validity. Our design required young adults with limited work experience to evaluate a CEO and company by taking the role of a general observer (i.e. someone external to the firm). Many of the worst CEO scandals have involved leaders and companies that had almost no public recognition prior to the scandal (e.g. Ken Lay of Enron; Dennis Kozlowski of Tyco), and those leaders and companies attempted to repair trust with the general public largely through media statements. University business students watch and read the business press and they are also investors, voters, consumers, and potential employees. Therefore, our design did not ask participants to perform a behaviour that was unfamiliar to them; we only asked them to do so in a controlled setting. To further lessen concerns regarding external validity, we also created experimental materials possessing high levels of mundane realism: We adapted the storyline from an actual CEO transgression, filmed the stimulus materials in a working news studio, hired professional actors, and modelled the newspaper clips after a daily business news publication. All that said, future research studying organizational-level trust repair and responses such as CEO resignation and dismissal in field settings is certainly warranted and would complement the current research.

Our experimental manipulations depicted a storyline in which the Chairman of the Board of Directors ‘demanded’ the CEO's resignation or apology + penance. We used identical wording in both experimental conditions to provide experimental control. However, we also recognised that such wording permits ambiguity about who the agent of trust repair is. In our view, this ambiguity seems inevitable because it is inherent in this context: When a CEO resigns, it is often unclear whether the resignation is voluntary or forced by the Board. And similarly when a CEO apologises, it is often unclear whether the apology is voluntary or forced by the Board. Such ambiguity is itself probably a useful instrument of trust repair (as organisations and CEOs may each exploit such ambiguity to their own advantage in their communications with trustors), and also a phenomenon worthy of future research. As a related point, the wording of our apology + penance manipulation, ‘the Board of Directors has demanded and has now received Jack Whitfield's apology … ’ may have raised doubts in the minds of perceivers about the CEO's sincerity. In fact, a key feature of apologies is that, being relatively costless, their sincerity is often questionable, and consequently apologies are often maligned as ‘cheap talk’ (Dirks et al., 2011; Tomlinson et al., 2004). Nevertheless, extensive research (as reviewed above) confirms that apologies are frequently effective. To the extent that our manipulation reduced the perceived sincerity of the CEO's response, our manipulation should represent a conservative test of the effects of apology.

The approach adopted in this article has been to study the effectiveness of alternative strategies (dismissal; apology + penance) relative to a control condition of essentially doing ‘nothing’ (not providing any corrective or reparative effort). Thus, in our study, the extent to which ‘trust was repaired’ is conceptualised and operationalised as the extent to which CEO trustworthiness perceptions and trust in the organisation were improved relative to doing nothing. This conceptualisation and operationalisation of trust repair reflects the reality of organisations: They are faced with a dilemma of what, if anything, to do in response to a transgression, and they are likely to be interested in the extent to which one strategy is better than an alternative strategy or doing nothing. The experimental design utilised in this paper incorporates an approach that is unavailable to organiations because organisations seldom if ever have the opportunity to pursue multiple trust repair strategies simultaneously to facilitate comparison of their effects (e.g. by simultaneously dismissing the CEO, retaining the CEO and attempting to repair his/her credibility, and taking no action). Thus, we believe that the findings of our study can provide valuable insights to practitioners. That said, we note that the raw levels of CEO trustworthiness and trust in the organisation, across all conditions, ranged from neutral to well below neutral (Table 2). This observation, combined with our results, suggests that while CEO dismissal and CEO apology + penance produced trust levels significantly higher than the control of taking essentially no action, they do not seem to have brought trust to strongly positive levels.

Finally, we note that the conclusions in this paper are based on a single empirical study. Hence, further empirical work is needed to replicate and extend these results.

Practical implications

Of course, we recommend caution in drawing strong implications from a single study. There are, however, some interesting preliminary implications for CEOs and organisations seeking to address the concerns of stakeholders in the aftermath of a CEO transgression. For organisations, first and foremost, we confirm longstanding expectations that perceptions of the organisation are, in fact, inextricably linked to perceptions of the CEO. Thus, in the aftermath of a CEO transgression, the bad news is that organisations need to worry about repairing trust with constituents even if the incident in question was carried out solely by the CEO, as in the scenario used here. The good news, though, is that even if the errant CEO will not voluntarily act to repair the situation, other individuals or entities such as the Board of Directors can initiate the necessary response. Moreover, such responses can be beneficial in repairing trust in both the organisation and the CEO. The fact that the CEO can also regain the trust of constituents is critical for organisations where the CEO plays a central role and cannot be dismissed (e.g. Martha Stewart for Martha Stewart Living Omnimedia).

For Boards, these findings indicate that taking a proactive role in crisis management in the aftermath of a CEO transgression can be effective in helping the organisation regain the trust of constituents. Large organisations often deal with these types of issues in the court of public opinion and, consistent with research in the field of public relations, our study indicates that trust can indeed be repaired.

Finally, CEOs should find these results encouraging. Our theory and findings highlight that in the case of both dismissal and apology + penance, while the CEO may indeed be seen as a ‘bad apple,’ there is also a strong possibility of being seen as a ‘reformed sinner.’ Ultimately, however, we hope that CEOs will avoid transgressions altogether so that they will not need to consult our study to identify how to mitigate the negative effects of their transgressions.

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Notes on contributors

Donald L. Ferrin is a Professor of Organisational Behaviour and Human Resources in the Lee Kong Chian School of Business, Singapore Management University. He earned his Ph.D. from the Carlson School of Management, University of Minnesota. His research focuses entirely on trust, including determinants, consequences, and functions of trust, trust in leaders and co-workers, trust networks within organisations, trust in the context of negotiations, trust violation and repair, trust in e-commerce transactions, and trust across cultures. He is an Honorary Fellow of the First International Network on Trust, and is former Deputy Editor-in-Chief of *Journal of Trust Research*.

Cecily D. Cooper is an Associate Professor of Management in the School of Business Administration at the University of Miami. She holds a Ph.D. from the University of Southern California Marshall School of

Business. Her research focuses on trust, including trust formation as well as the violation and repair of trust, leadership, and humour. Cecily is a member of the Executive Board of the First International Network on Trust and is an Associate Editor of the *Journal of Trust Research*.

Kurt T. Dirks is the Bank of America Professor of Managerial Leadership and co-Director of the Bauer Leadership Center at the Olin Business School at Washington University in St. Louis. He holds a Ph.D. from the University of Minnesota. His research is in the field of Organisational Behaviour, with a primary focus on the determinants, barriers, and outcomes of trust within organisations. Kurt also serves as an Editorial Board Member of the Journal of Trust Research.

Peter H. Kim is a Professor of Management and Organisation at the University of Southern California's Marshall School of Business. He earned his Ph.D. from Northwestern University's Kellogg Graduate School of Management. His research concerns the dynamics of interpersonal perceptions and their implications for negotiations, work groups, and dispute resolution, with particular attention to matters of trust and its repair after a violation. He is currently serving as the 2017–2018 Chair of the Academy of Management's Conflict Management Division, as an Associate Editor for the *Journal of Trust Research,* and as an Associate Editor for the *Academy of Management Review*.

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Appendix

Measures

In the following items, 'Whitfield' refers to the CEO and 'Wire Services' refers to the company in the CEO transgression scenario. Responses were on a 7-point Likert scale with anchors of *strongly disagree* and *strongly agree*.

<u>Perceived disentitativity</u>

1. Whitfield and the members of the Board of Directors are a unified group (R).
2. Whitfield and the members of the Board of Directors seem like a collection of separate individuals.
3. Whitfield and the members of the Board of Directors are quite similar to each other. (R)
4. Whitfield and the members of the Board of Directors coordinate their actions. (R)
5. Whitfield and the members of the Board of Directors are similar in many ways. (R)
6. Whitfield and the members of the Board of Directors have common goals. (R)

<u>Perceived repentance</u>

1. Whitfield felt remorseful.
2. Whitfield regrets what he did.
3. Whitfield has learned a valuable lesson from this experience.
4. Whitfield has become a better person as a result of this experience.
5. Whitfield will work hard to correct the limitations he has that caused this incident.

<u>Perceived CEO trustworthiness</u>

1. I like Whitfield's values.
2. Sound principles seem to guide Whitfield's behaviour.
3. Whitfield tries hard to be fair in dealings with employees.
4. Whitfield will stick to his word.
5. Whitfield has a great deal of integrity.

<u>Trust in the organisation</u>

1. I fully trust Wire Services as a company.
2. Wire Services as a company is open and upfront.
3. Wire Services as a company has high integrity.
4. Wire Services' motives and intentions are good.
5. As a company, Wire Services is not always honest and truthful. (R)
6. I don't think Wire Services is fair. (R)
7. I can expect Wire Services as a company to treat its employees, customers, and shareholders in a consistent and predictable fashion.

(R)=Reverse scored.