An Empirical Examination Of Organisational Trust Recovery: Influences And Implications

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AN EMPIRICAL EXAMINATION OF ORGANISATIONAL TRUST RECOVERY: INFLUENCES AND IMPLICATIONS

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ABSTRACT

Building trust between organisations and their customers has attracted considerable academic research attention. However, research into the trust recovery process, following a trust violation has occurred is limited in comparison. This study investigates the trust recovery process by examining six recovery approaches which organisations can employ to repair trust. Six trust recovery approaches were first examined using canonical correlation. Our research investigates the impact of these six trust recovery approaches following two different types (integrity and competence) of trust violations. We assessed the influence of these approaches on customer loyalty, satisfaction and perceptions of organisational trustworthiness using structural equation modelling. Results suggest that apology and denial are the most effective approaches to repairing trust, and that the effect of these recovery approaches on customer satisfaction and loyalty are mediated by organisational trustworthiness.

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INTRODUCTION

Building and maintaining strong relationships between organisations and their customers is a common strategy employed by sellers to improve firm performance (Martin, 2018). Trust is a critical component of any relationship (Colquitt, Scott, and LePine 2007; Lewicki and Brinsfield 2017; Stevens et al. 2018). Most of the extant literature investigates the initial development of trust in a new relationship or building trust during an ongoing relationship, with little focus on how to recover trust once it has been broken (Haselhuhn, Schweitzer, and Wood 2010). Relationships between firms and customers are often difficult to build, and are likely even more challenging to rebuild following a trust violation (Child and Rodrigues 2004; Simsarian Webber, Bishop, and O'Neill 2012). For organisations to maintain long-term relationships with customers, an understanding of what actions are most effective at repairing trust is required (Bozic 2017). Therefore, organisations should have a trust recovery strategy in place to enable them to respond quickly and appropriately to trust violations if they occur.

There are several views about how organisations can recover broken trust, and some scholars question whether trust recovery is actually possible. Kramer and Lewicki (2010) Schweitzer, et al. (2006) and Tomlinson and Mayer (2009) argue that the nature of the violation and customer disposition and propensity to forgive are directly linked to the likelihood of recovery. Bachmann, Gillespie, and Priem (2015) criticise the trust repair literature and claim it mainly focuses on the micro level and argue that there is no single mechanism that can be relied upon to repair trust. Others proposed multiple paths to organisational trust repair. For example, Grover et al. (2014) explore trust violation and

restoration from leadership perspective, see also (Bozic 2017). Moreover, Kim et al., (2009) argue that trust recovery depends on the nature of the violation, i.e. competence or integrity-based, and customers form negative and positive responses accordingly. They find that customers are less likely to forgive integrity-based violations.

Although the concept of trust has been conceptualised extensively in the extant literature, academic studies focusing on trust repair has generally categorized trust violations, and the resulting repair efforts, into two distinct categories: competence-based and integrity-based trust violations (see literature review in Table 1). This is largely based on the fact that "numerous researchers have observed that competence and integrity represent two of the most important qualities for determining trustworthiness" (Kim, Dirks, and Cooper 2009, p. 412). Following this trend in the literature, this research also focusses on these two categories of trust violation and repair.

Competency-based trust is defined as "the [customer's] perception that the [organisation] possesses the technical and interpersonal skills required for a job" (Kim et al. 2013, p. 3), and that it has the capability to consistently meet customer expectations (Schweitzer, Hershey and Bradlow, 2006). This is conceptually different from integrity-based trust, which is defined as the [customer's] perception that the [organisation] adheres to a set of principles that the [customer] finds acceptable (Kim and Harmon 2014). Kim et al. (2009) highlight different strategies employed by organisations to address trust violations. These include four specific actions: apologies, denials, promises and excuses. Their review finds that different approaches to trust repair are needed depending on the type of trust violation, specifically whether the violation is competence or integrity-based. Our research extends their work by examining six trust repair approaches.

In this research, we propose a conceptual model that examines the effect of six trust recovery approaches in response to two types of trust violation – competence-based and integrity-based. We examine the impact of these approaches on customer loyalty, satisfaction and perception of organisational trustworthiness. The remainder of this paper is organized as follows: the next section provides a theoretical background of trust violation and trust recovery. This is followed by the conceptual development and hypotheses concerning the role of the trust recovery approaches and their effect on loyalty, satisfaction and perceptions of organisational trustworthiness. Next, we present the research context and empirical tests of the conceptual model. Finally, we discuss the findings, implications for managers and theory, and the limitations of the research.

Trust Violation

Trust violation can be defined as a situation in which a trustor perceives that a trustee has failed to meet their relationship obligations. This is typically caused by a perceived negative situation in which one or more parties perceive the conditions to be unacceptable, unethical, illegal, or simply as falling below their expectations (Janowicz-Panjaitan and Krishnan 2009; Weun, Beatty, and Jones 2004). Trust violations may occur due to a number of factors, some of which result directly from organisational actions, such as faulty products, breaching confidentiality or breaking the law. These direct organizational actions may cause the organisation to be perceived as dishonest (Choi and Choi 2014; Martin 2018). Other violations may be the result of indirect organisational activities (for example poor working conditions for staff) which may also influence a customer's perception of the organisation (Gillespie and Dietz 2009). Whatever the cause of the violation, its effect on the organisation and its customers is typically negative, and can result in damaged brand equity (Xie and Peng 2009), and decreased financial performance (Simsarian Webber, Bishop, and O'Neill 2012).

Reactions to trust violations are subjective cognitive processes, which means that in some cases the affected party may not be aware of the problem, or may have more tolerance for the violation depending on their individual disposition and level of prior trust (Kim et al. 2013). The effect the trust violation has on a customer's trust, in the extant literature, is ambiguous. Evidence suggests that, following a violation of trust, the affected party has the propensity to re-evaluate the relationship and decide whether or not to continue, or to seek an alternative exchange partner (Dirks, Lewicki, and Zaheer 2009; Kim, Dirks, and Cooper 2009; Yu, Wu, and Lin 2017). The effects of broken trust have been found to stretch beyond the individual relationship, to affect the trust evaluation process of future relationships (Tomlinson and Mayer 2009), as well as other consumers' perceptions through NWOM.

Janowicz-Panjaitan and Krishnan (2009) posit that in the case of competence-based trust violations, customers tend to seek out evidence that the apparent trust violation is unlikely behaviour for the organisation and should be discounted. Therefore, when a competence-based violation is not severe and doesn't occur frequently, it is likely to be considered an anomaly and have little lasting impact on the relationship. Integrity-based violations, however, are seen from the viewpoint that "those with high integrity will refrain from dishonest behaviours in any situation, whereas those with low integrity may exhibit either dishonest or honest behaviours depending on their incentives and opportunities" (Kim et al. 2004, p. 106). Thus, one dishonest act, even a relatively trivial one, may suffice to cast doubt on the integrity of the organisation. Empirical research supports this in finding that, when judging the morality of others, individuals place more weight on negative behaviour than on positive behaviour (Kim et al. 2006).

In line with Kim, Dirks, and Cooper (2009) we presume that trust is composed of both trusting beliefs (a customer's belief about the organisation's competence or integrity that

may lead to intention to trust) and trusting intentions (the customer's willingness to be vulnerable in the presence of risk) and that the latter are influenced by the former (Kim et al. 2004). Trust violations entail incidents that may lower customers' trusting beliefs in, and trusting intentions toward, an organisation. Therefore, trust repair involves improving the trusting beliefs and trusting intentions that have been lowered by the trust violation, typically by addressing the initial assumptions of the customer (Haselhuhn, Schweitzer, and Wood 2010). These assumptions are likely to vary depending on the level of trust that has developed between the customer and the organisation, since the zone of tolerance between partners grows as a trusting relationship develops over time (Gounaris and Prout, 2009; Haselhuhn, Schweitzer and Wood, 2010).

Trust Repair

Regardless of the degree to which individuals or groups may be affected by a violation of trust, organisations should seek to restore any lost trust with customers to ensure that no prolonged negative effects hinder future organisational performance (Holten et al. 2016; Simsarian Webber, Bishop, and O'Neill 2012; Tomlinson and Mayer 2009). Trust repair approaches often focus on displays of trustworthiness in which repair efforts demonstrating the organisation's ability, benevolence and integrity are expected to positively influence perceptions of trustworthiness of the organisation (Gillespie and Dietz 2009; Lewicki and Brinsfield 2017; Simsarian Webber, Bishop, and O'Neill 2012). Yu, Yang, and Jing (2017) found that strong relationships can mitigate the negative effect of trust violations and increase the customers' willingness to reconcile. Furthermore, Eberl et al. (2015) suggest that tightening organizational rules is an appropriate signal of trustworthiness to demonstrate that the organization seriously intends to prevent integrity violations in the future, (see also Brühl,

Basel, and Kury 2018). However, we argue that a more specific approach, tailored to the nature of the trust violation, may be more effective.

A wide variety of research has examined this process and mostly agree that trust recovery strategies should be tailored to the specific situation (Oh, Kim, and Shin 2004). Furthermore, Dirks et al. (2009) suggest that organisations should incorporate some form of reassurance into their recovery actions, geared towards preventing similar violations from occurring in the future. Goodstein and Butterfield (2016) argue the need for moral responsibility by the violator in order to repair the damaged relationship, while Brown et al. (2016) posit that moral salience is important when repairing trust. They argue that if customers notice the moral behaviour of the organisation when repairing trust, they are more likely to forgive the violation. These perspectives rely on customers noticing the strategic changes in the organisation instead of relying on directly addressing the violation of trust.

The effects of trust violation do not necessarily imply an automatic loss of customers, depending on the perceived degree of the violation in the customers' minds (Kim and Harmon 2014). Trust violations do not always indicate a negative outcome, as in the case of a minor product or service failure, which would have a small impact on trust. If the organisation deals with these minor violations effectively, they may actually strengthen their relationships by demonstrating the organisation's commitment and willingness to adapt and resolve problems (Holten et al. 2016; Yu, Wu, and Lin 2017).

Gillespie and Dietz (2009) argue that trust repair requires a four stage process: 1) immediate response that acknowledges the problem, in which the organisation should express sincere regret and announce a thorough investigation; 2) a systemic, accurate, transparent and timely analysis of the failure, followed by a credible explanation coupled with a sincere apology that acknowledges responsibility; 3) system-wide, reforming interventions,

derived from the diagnosis to prevent a reoccurrence of the failure and demonstrating renewed trustworthiness; 4) an accurate, transparent, and systematic evaluation of the reforms. However, while we acknowledge that this approach may be appropriate in some instances our research focuses on trust repair actions that are readily apparent to customers and immediately available to the organisation.

INSERT TABLE I ABOUT HERE

Existing research of trust repair

The existing literature on trust recovery is largely focused on four main strategies: apology; denial; excuses; and reticence (Fuoli, van de Weijer, and Paradis 2017; Kim, Dirks, and Cooper 2009). Each of these strategies has been measured individually within the extant literature for its influence on trust repair. There has been some research conducted into the appropriateness of these strategies to the type of trust violation that has occurred, primarily focusing on integrity and competence-based violations (see trust recovery literature review in Table 1). However, these studies focus primarily on examining the effect of two trust recovery approaches, and most focus on the effects of apology and denial on customer trust in an organisation (Fuoli et al. 2017; Holtz 2013; Kim et al. 2006). This is conceptually valid but does not consider all the available trust recovery strategies for an organisation to adopt, depending on the nature of the trust violation. In addition, there is a lack of examination of the effectiveness of the repair strategies and their effect on customers' future behaviour, such their loyalty to the firm.

Our research (see Figure 1) examines six strategies, including apology, compensation, excuses, reticence, ignorance, and denial, which provide guidance to organisations regarding

a wider range of trust recovery actions. Based on empirical evidence in the literature, we propose each of these six trust recovery strategies as appropriate responses to one of two types of trust violations: competence-based and integrity-based. Without strong theory regarding the appropriateness of each strategic response, we develop research hypotheses regarding the fit of each strategy given a specific type of trust violation. This research examines these six recovery strategies following these two types of violations to evaluate their effects simultaneously.

INSERT FIGURE 1 ABOUT HERE

Competence based recovery approaches: compensation, apologies and excuses

Compensation

Compensation, as a recovery approach, can be monetary, or involve the transfer of something of intrinsic value to the affected party (Goodstein, Butterfield, and Neale 2016). Lewicki and Brinsfield (2017, p. 269) views a compensation strategy as something that "provides direct tangible compensation to the victim for the costs of the violation, with or without any verbal statement". This acts to impose a visible penalty on the violator for their actions, therefore reducing the probability of future violations (Kramer and Lewicki 2010). However, while this may allow the relationship to survive there is little evidence to suggest that this has any positive impact on the recovery of trust, and can be interpreted by the customer as an attempt to buy back patronage (Xie and Peng 2009). Desmet et al. (2011) suggest that the effectiveness of compensation is linked to the means through which the compensation is given. The effectiveness of compensation, monetary or otherwise, is likely to be higher if transferred willingly to the affected party than if an organisation is forced to

provide compensation for a trust violation (see also Choi and Choi 2013). Because we are examining strategies that are voluntarily engaged by the organisation, we expect that:

H$_1$ Compensation is positively related to competence-based trust recovery

Apology

An apology is defined as "a statement that acknowledges both responsibility and regret for a trust violation" (Kim et al. 2004). An apology may also may include emotional content to explain the reasons for the violation and/or promise behaviour change (Lewicki and Brinsfield 2017). In the extant literature, the issuing of an apology is presented as a main method of initiating trust recovery (Gillespie and Dietz 2009; Schweitzer, Hershey, and Bradlow 2006; Simsarian Webber, Bishop, and O'Neill 2012). The use of apologies is considered advantageous to organisations in that apologies allow an organisation to publicly accept accountability for negative actions (Lewicki and Brinsfield 2017), and gain the opportunity to explain or attempt to make amends by reassuring customers of their good intentions (Kim et al. 2013; Kramer and Lewicki 2010; Xie and Peng 2009; Zhang 2012).

However, the effect of an apology could be counterproductive in some cases because the violator must admit responsibility for the violation (see for example, Fuoli, et al., 2017) . The effectiveness of an apology hinges on the propensity of the affected party to forgive the violation. Kim et al. (2013) propose that the issuing of an apology should be considered only when the violation of trust is confined to a competence-based violation. If the violation has in any way affected the perceived integrity of the organisation, research has demonstrated that customer perceptions of the overall trustworthiness of the organisation will be negatively affected by the organization's admission of guilt (Schweitzer et al. 2006). Therefore, we expect that:

H$_2$ An apology is positively related to competence based trust recovery

Excuses

An excuse attempts to minimize an organisation's responsibility for negative events. Schlenker et al. (2001, p. 15) defined excuses as "self-serving explanations, or accounts that aim to reduce personal responsibility for questionable events, thereby disengaging core components of the self from the incident". By offering an excuse, the organisation seeks to reduce their own accountability, claiming that mitigating circumstances were to blame (Tomlinson and Mayer 2009). Brühl, et al. (2018) suggest that an excuse aims to alter the customer's response to a trust violation by suggesting that the cause of the violation is external or uncontrollable.

However, there are some disadvantages to excuses. For example, some evidence suggests that when organisations offer an excuse for a failure, and the excuse is rejected, the organisation is likely to exhibit the same performance deficits in the future, confirming the negative feedback they received. However, overall the literature suggests that excuses are beneficial to competence based trust repair (Brühl et al. 2018; Kim and Harmon 2014). Based on the above, we expect that:

H_3 Excuses are positively related to competence-based trust recovery

Integrity based recovery approaches: denial, reticence and ignorance

Denial

Denial is defined as "a statement whereby an allegation is explicitly declared to be untrue (i.e. the statement acknowledges no responsibility and hence no regret)" (Kim et al. 2004). Some researchers have argued that the use of denial is the most appropriate response to an integrity based trust violation (Eberl, Geiger, and Aßländer 2015). Denial may be an effective response to trust violation when the violation is so severe that the potential negative customer reaction to a denial is still less damaging than the negative reaction to an admission

of significant guilt implied by an apology (De Cremer et al. 2011). Denial avoids any admission of guilt by failing to acknowledge responsibility for the trust violation, but does not suggest any change in the organisation's future behaviour (Kim et al. 2013; Lewicki and Brinsfield 2017). The extant literature suggests that in situations where apology cannot be considered effective and/or appropriate, denial would be the best option for organisations to repair trust, as no admission of guilt or assignment of blame can be made (Bachmann, Gillespie, and Kramer 2012; Kim et al. 2013; Kramer and Lewicki 2010).

Ferrin et al. (2005) argue that denial has a positive effect on trust repair because it rejects admitting liability for the violation, and hence may lead the customer to give the accused organisation the benefit of the doubt. (see also, Lewicki and Brinsfield 2017). Therefore, we propose that:

H₄ Denial is positively related to integrity-based trust recovery

Reticence

Reticence is defined as "a statement in which the [organisation] explains that it cannot or will not confirm or disconfirm the veracity of an allegation, as a means of responding to a trust violation" (Ferrin et al. 2007). The use of reticence as a trust recovery approach is an attempt to influence the affected customer to withhold judgment about the alleged violation. According to Ferrin et al. (2005) accused organisations may consider reticence when the organisation is guilty of the violation but calculates that evidence of culpability will never surface, making it strategically preferable to let culpability remain uncertain. An accused organisation might also use reticence for other strategic reasons, for instance to avoid implicating an ally (e.g., a sister organisation or strategic partner) who was responsible for the violation. In addition, the accused organisation may consider it more appropriate to respond

with reticence than with an explanation that speaks directly to the truth or falsity of the allegation.

H₅ Reticence is positively related to integrity-based trust recovery

Ignorance

Pleading ignorance is not considered an effective or ethical trust recovery approach (Koehn 2013). If the organisation were genuinely ignorant of the trust violation, or of its contributing factors, then pleading ignorance is unnecessary as the customer will assume that the violation could not have been avoided. However, if the organisation bears some responsibility for the violation of trust, pleading ignorance may be perceived by customers as disingenuous and an attempt to deflect blame. This is echoed by Koehn (2013) who proposes that "if [managers are] genuinely ignorant; and if their ignorance was not the result of negligence but of non-culpable involuntary ignorance, then there is absolutely no reason for these speakers to plead ignorance when offering an apology" (p.251). Therefore, we expect that:

H₆ Ignorance is positively related to integrity-based trust recovery

Outcomes of trust repair strategies

There is considerable academic work on antecedents to trust, loyalty and satisfaction (see for example, Kharouf, Lund, and Sekhon 2014), as well as studies that examine trust repair. However, there is a gap in examining the effectiveness of the repair strategies on the organisational outcomes recommended by the literature, i.e. loyalty and satisfaction. To address this gap, we investigate the impact of competence and integrity-based recovery strategies on customer loyalty and satisfaction, mediated by the customer's perception of the organisation's trustworthiness (see Figure 3 below).

INSERT FIGURE 3 ABOUT HERE

Perceived organisational trustworthiness

Perceived organisational trustworthiness is viewed as the perception that an organisation is worthy of customers' trust, and that the organisation will not exploit customers' vulnerabilities (Benedicktus et al. 2010; Sekhon et al. 2014). Lewicki and Brinsfield (2017) viewed trustworthiness as customers judgment of the organisation demonstrated ability, benevolence and integrity. Kharouf et al. (2014) find that higher levels of trust and trustworthiness lead to higher levels of customer loyalty. Tomlinson and Mayer (2009) propose a conceptual model to repair trust based on common sense. Caldwell and Hayes (2007) argue that the decision to trust is largely determined by the trustworthiness of the trustee. When there is a reason to believe that a party is both willing and able to follow through on an expected behaviour (i.e. being trustworthy), the customer is more likely to extend his or her trust (Mayer, Davis, and Schoorman 1995). Tomlinson and Mayer (2009) and Lewicki and Brinsfield (2017) position trustworthiness as a key construct in trust repair. We extend this theory and argue that when repairing trust, perceived organisational trustworthiness is a key factor as the more customers perceive the organisation to be trustworthy the higher the probability of repairing trust. Furthermore, we argue that using the right recovery approach will result in a positive effect on customer loyalty and satisfaction. Therefore, we hypothesise that:

H7 Competence based recovery approaches have a positive effect on perceived organisational trustworthiness

H₈ Integrity based recovery approaches have a positive effect on perceived organisational trustworthiness

Customer loyalty

Loyalty is a well-established relational outcome in the literature, and entails a repeat purchase of services or products (Chiou and Droge 2006; Curran, Sajeev, and Rosen 2010; Wolter et al. 2017). Uncles et al. (2003) view customer loyalty as a means to express feelings or attitudes toward brands, services, store products and activities. Researchers have examined loyalty as an outcome of numerous relational dimensions including service quality (Bell, Auh, and Smalley 2005), trust (Morgan and Hunt 1994) and trustworthiness (Kharouf et al. 2014).

The extant literature also shows that loyalty has a multifaceted effect on organizations' profitability, as increased customer retention results in both increased sales growth and reduced costs (Sekhon et al. 2014), and results in positive word of mouth (Wolter et al. 2017). Research often discusses loyalty interchangeably with operational definitions that refer to repeat purchases, preference, commitment and retention. Measures of loyalty capture customers' actual re-purchase behaviour (Chiou and Droge 2006), which is a direct indication of increased sales and profits (Helgesen 2006). Therefore, we hypothesise that:

H₉ Perceived organisational trustworthiness has a positive effect on customer loyalty

Satisfaction

In the event of relationship failure organisations employ several strategies to recover customers satisfaction and mitigate any negative future actions (Abney et al. 2017). Satisfaction is referred to as an evaluative outcome, based on past exchanges with the organisation, whereby more recent similar experiences are more influential than former experiences (Fang et al. 2014). Customer satisfaction is viewed as customers' evaluation post-

consumption of products or services (Pansari and Kumar 2017), and occurs if the perceived performance of a product or service meets or exceeds the customer's prior expectations (Choi and Choi 2014; Thakur 2018). Thus, overall customer satisfaction with an organisation's offerings is determined by comparisons between customers' expectations and their perceptions of the products' or services' performance (see, for example, Oliver 1999). Customers' satisfaction with an organisation is often an indication of the organisation's focus on equitable outcomes and the welfare of the customer during their past exchanges, it therefore demonstrates the customer service ethos of the organisation (Fang et al. 2014). Similar to Wolter et al. (2017) we focus on cumulative satisfaction which is an accumulation of customers experiences towards the organisation instead of satisfaction with a single transaction. Thus, we expect:

H_{10} Perceived organisational trustworthiness has a positive effect on satisfaction

Research Design

Sample and Data Collection Procedure

We conducted an online survey of customers to test our conceptual model. The data for this research was collected from a convenience sample of consumers who had shopped with a UK retailer, whether online or in a brick and mortar store, who would therefore have experience interacting with UK retailers. In total, the questionnaire was emailed to approximately 600 customers, 337 of whom responded to the survey. After dropping 16 responses due to missing data, 321 complete surveys were used for the analysis. This resulted in a 56% response rate. The final sample consisted of 173 males and 139 females, with an average age of 36 years.

Scenario development

We designed two scenarios; one integrity-based violation of trust by an organisation and one competency-based. Based on previous research positioning the severity of violations as a result of the customer's perception of the intensity of the organisation's failure and the amount of harm done to customers (Bambauer-Sachse and Rabeson 2015; Ronald and Hess 2008), the scenarios were both designed to have a 'low' level of severity. To ensure that the severity of both scenarios would be perceived at a similar 'low' level, both scenarios included no direct harm to the customer, and described similar outcomes for the customer. Violation type was manipulated within the scenarios by one of two statements regarding the cause of the violation – deliberate neglect (integrity) vs. failure to implement (competence). Each scenario included one of three response strategies in line with our research hypotheses (integrity-based violation – denial, reticence, or ignorance; competence-based violation – compensation, apology, or excuses). An example scenario is presented Appendix 2.

Participants were presented with one competence-based and one integrity-based scenario (two scenarios in total). Each scenario was paired with a description of the organisation's response, based on one of the three response strategies seen in the example above, as well as brief description of any apologies or press releases issued by the organisation. The scenarios were randomly assigned, with randomisation set to even the distribution across scenarios. After reading each scenario, participants responded to several questions regarding the organisation's trust violation and their repair strategy.

Measure development

To judge customer opinion of the appropriateness of the trust repair strategies (research hypotheses 1-6) respondents were presented with a single item measure asking to what degree they would be prepared to trust the organisation again in the future based on

the organisation's response in the scenario. This was measured using a Likert scale ranging from 1 (unlikely to trust again in the future) to 7 (highly likely). This measure is used in phase 1 and 2 of the analysis as described in the Analysis section below. Other measures used in phase 2 of the analysis were captured using multi-item measures previously established in the literature (see Appendix 1). Perceived organisational trustworthiness was measured with 3 items from Sekhon et al. (2014). Customer loyalty was measured with 4 items adapted from (McMullan and Gilmore 2008; Zeithaml, Berry, and Parasuraman 1996). Satisfaction was measured with four items adopted from (Lam et al. 2004). All of the above measures focused on the overall relationship, rather than event-specific perceptions in line with Chiou and Droge (2006).

Analysis and results

Phase 1

The first phase of the analysis aims to empirically establish which repair strategies are most appropriate for competence versus integrity-based trust repair. Because we lacked strong theory to specify which strategies were most appropriate, our first goal is to examine customer responses to these different strategies to provide some evidence as to their efficacy in repairing trust. Therefore, in phase 1 we entered customer responses to the single item measure into a canonical correlation, which enables the study of linear interrelationships between two groups of variables. This technique provides insights into the structure of the different variable sets as they relate to a dependence relationship (Hair et al. 2013). The first dependent variable is *competence-based recovery* with three independent variables: responses regarding compensation, apology and excuses. The second dependent variable is *integrity-based recovery* with three independent variables: responses regarding denial, reticence and ignorance. The independent variables included how customers responded to

each trust recovery approach. Canonical correlation estimates roots of variates, which approximate a latent construct, and calculates correlations between (1) the independent variables and their canonical roots, and (2) the canonical roots. Significant correlations between the independent variables and the estimated canonical roots suggest a good starting point for the measurement model that follows in phase 2 of the analysis.

The canonical correlation generated two significant roots of variates (Wilks test approximate F value = 9.75, Degrees of Freedom (d.f) = 12, sig. = .024). These roots of variates collectively account for 95% of the total shared variance. The effects of independent variables (compensation, apology, excuses, denial, reticence and ignorance) on the dependent canonical roots are all significant, indicating these variables are good explanatory variables of competence and integrity-based recovery approaches.

INSERT FIGURE 2 ABOUT HERE

The canonical correlation supported four of our first six research hypotheses (see Figure 2). For competence-based trust violations, proposition 1 was supported as competence has a positive correlation (β = .76, p < .01) Proposition 2 was also supported as an apology also had a significant positive correlation (β = .61, p < .05). Proposition 3 was not supported as excuses had a negative significant relationship (β = -.31, p < .01). Of the integrity-based recovery strategies, proposition 4 was supported as denial had a significant positive correlation (β = .5, p < .05). Proposition 5 could not be supported however as reticence had a significant negative correlation (β = -.61, p < .01). And finally, proposition 6 was supported as ignorance had a significant negative correlation (β = -.55, p < .01).

The results show that the most effective method of dealing with competence-based violations is compensation, with the least effective approach being excuses. If the violation is integrity based, ignorance and reticence have a high negative effect on trust recovery and denial is the most effective approach. Having established the link between trust-repair strategies and competence versus integrity-based violations, our next goal was to analyse how these repair strategies impact customer loyalty and satisfaction through perceived organisational trustworthiness. We address these links in phase 2 of the analysis.

Phase 2

Confirmatory Factor Analysis (CFA) (Anderson and Gerbing 1988), was used to assess the validity of our measures. To capture the competence versus integrity-based repair constructs (antecedents in figure 3), responses to the three repair strategy questions (competence – compensation, apology, and excuses; integrity – denial, reticence, and ignorance) were treated as multi-item indicators of the latent repair constructs in the CFA (and subsequent SEM). Due to low standardized factor loadings, and assessment of the modification indices, two items were dropped from the analysis, one item from the loyalty scale "*I will say positive things to other people [organisation]*", and one item from the satisfaction scale "*compared to other organisations, I'm satisfied with [organisation]*". The fit indices for the final measurement model were $\chi 2$ = 462.57, d.f. = 114, *p* < .01; Normed Fit Index [NFI] = .89; Comparative Fit Index [CFI] = .92; Root Mean Square Error of Approximation [RMSEA] = .07; Root Mean Square Residual [RMR] = .06, suggesting acceptable levels of fit (Hu and Bentler 1998). The strong loadings (all > .64) of each item on their hypothesized construct support the convergent validity of our measures (Anderson and Gerbing 1988).

To test for discriminant validity, the average variance extracted was calculated for each construct. These values ranged from .65 to .8, which were greater than the shared

variance from any combination of 2 constructs, providing support for discriminant validity (Fornell and Larcker 1981). All constructs with the final set of items, and standardized factor loadings, are included in Appendix 1. Standard deviations, average variance extracted, correlations, and composite reliability are included in Table 2.

Assessment of Measures

INSERT TABLE II ABOUT HERE

Hypothesis Testing

The research hypotheses are tested using SEM, controlling for measurement error by estimating a full SEM model in which all constructs and the hypothesized relationships between them were estimated simultaneously. The structural model shows an acceptable fit according to Hair et al. (2013) where NFI = .91 and CFI = .92, RFI = .92, RMSEA .04 and RMR.06.

INSERT FIGURE 4 ABOUT HERE

The standardized path coefficients (see Figure 4) shows that the four hypothesized paths are positive and significant, providing support for the theoretical framework. Competence based (β = .48, p < .01) and integrity-based recovery (β = .25, p < .01) have a positive impact on trustworthiness in support of H1–H2 respectively. In turn, trustworthiness has a positive impact on customer loyalty (β = .42, p < .01) in support of H3, and on satisfaction (β = .31, p < .05) in support of H4.

Discussion and Conclusion

The results of our empirical investigation offer important insights into recovering customer trust. The first study demonstrates the appropriate trust recovery approaches, depending on the nature of the trust violation. The second study shows the importance of building trustworthiness perceptions when recovering trust, to achieve customer satisfaction and loyalty.

This research extends our understanding of trust recovery by empirically establishing two distinct types of recovery approaches. Existing trust recovery theory argues that trust is restored through the development of competence or integrity approaches (Kim et al. 2006). However, empirical research has failed to: 1) examine the various types of trust recovery approaches; 2) identify appropriate recovery approaches depending on the type of trust violation; and 3) examine the effect of these recovery approaches on relational outcomes, for example, customer loyalty.

The results of the current study provide robust evidence that trust is most effectively recovered through compensation (in the case of a competence-based violation) or denial (integrity-based violation) in customer relationships. By including trustworthiness in the proposed model, we were able to identify approaches through which organizations can build customer satisfaction and, importantly, increase customer loyalty by enhancing the perception of organizational trustworthiness. Future researchers can build on these findings by examining the differential impact of trustworthiness on other relational outcomes.

The results of this study suggest that customers have a higher tolerance towards a competence-based violation over an integrity one. This could be ascribed to the fact that customers more sensitive to violations related to the organisation's honesty and they might

feel cheated consequently, while competence-based violations could be explained from an accidental occurrence of the violation.

Our examinations of the various trust recovery approaches found that, contrary to the literature (for example Schlenker et al., 2001), issuing excuses can have a negative effect on trust recovery and therefore it is not advised as a sole approach. In the case of a competence-based trust violation, organisations may consider excuses in combination with other types of competence recovery approach, such as apology, as the positive effect of an apology can offset any negative effects of an excuse. Because an apology necessitates acknowledgment of the trust violation, and organisations may not wish to acknowledge a violation resulting from business practices that are less than benevolent, we find that the best recovery approach to an integrity-based violation is denial. Similarly, we found that, while ignoring the violation will have a negative consequence on trust recovery, this consequence may be less negative than that resulting from an acknowledgment that the organisation knowingly acted against its customers' best interests.

From a managerial perspective, enhancing perceived organisational trustworthiness is important in the development of customer loyalty and satisfaction, (see for example Pansari and Kumar 2017). The implications of our research for managers is that they should have contingency trust repair strategies in place, in case of a violation of trust, to enable them to implement the most appropriate approach in a timely manner, this has been recommended in service recovery literature (Abney et al. 2017; Stevens et al. 2018). Specifically, this research finds that excuses do not have a positive impact on trust recovery, and reticence and ignorance also have a negative effect on recovering trust following an integrity-based violation. For integrity-based violations, denial has the most positive effect on trust restoration. This suggests that organisations should attempt to avoid using other strategies

such as ignorance. Managers should focus not only on trust repair activity but also on communicating the organization's trustworthiness to customers. Failure to do this effectively may result in lost opportunities to build perceptions of trustworthiness, which in turn could negatively affect loyalty and satisfaction. These results suggest that it would be beneficial for managers to promote a trustworthy image to moderate the impact of a possible violation of trust, while still managing individual customers' trust through traditional relationship marketing efforts.

Regardless of the recovery method employed by organisations to restore trust, the existing literature emphasises that, in addition to recovering trust between partners, there must also be a renewed reassurance that a future violation will not occur (Kramer et al. 2010; Dirks et al. 2009). For organisations this may mean a radical change to their business practices, management or even the entire culture of the organisation (Gillespie et al. 2012). Hearit (1999) argues in general crisis situations organisations should consider new technologies, internes newsgroups. Guarantees and safeguards can also be used to promote reassurance and increase trustworthiness post-recovery (Simsarian Webber, Bishop, and O'Neill 2012; Yu, Yang, and Jing 2017).

Organisations may also choose to employ signals to further reassure customers of their renewed good intentions and commitment towards the relationship. Additional guarantees, in the form of a service promise or product warranty, would aid the organisation in communicating this goodwill (in addition see, Yu, Yang, and Jing 2017). Or engage with their customers to strengthen their relationship (Harmeling et al. 2017). Furthermore, a customer with whom an organisation has successfully recovered trust might also be considered a credible signal of an organisation's competence, integrity and commitment to customers. This strategy would allow other customers to reappraise the trustworthiness of an organisation

more positively and provide the opportunity for an organisation to differentiate itself from competitors, through signalling activities.

Research limitations

This research has some limitations. The study did not consider any cultural implications for repairing trust, as it is still unclear if trust repair differs across multiple cultures. Another factor that this research did not consider is the effect of brand image on customers' responsiveness to the trust repair approaches, as some customers may react more positively towards a brand with which they strongly associate. Similarly, we measured trust repair using hypothetical scenarios that lacked real historical context, therefore our results apply best to a short-term perspective of trust repair (Benoit 1997), and generalizations of our findings to long-term relationships is tenuous.

An additional limitation of the current research is that the structural model in this research was estimated with responses from only one cross-sectional survey. It may be beneficial to test the trust recovery strategies using longitudinal data which could confirm the long-term effect of trust repair efforts. In addition, we did not account for the severity of the violation which could have an impact on the effectiveness of trust recovery effort.

Direction for future research

Future research on trust recovery should examine the severity of trust violations and the degree to which trust has been damaged and investigate which of the trust recovery approaches described in this paper would be more appropriate for different degrees of severity of a breach of trust. Depending on the severity of the violation, customers' disposition to trust others is affected in the long term. This effect has implications for the potential loyalty of that customer post-recovery (Tomlinson and Mayer 2009). Therefore, even if trust recovery efforts are successful, the resilience of the relationship between

exchange partners may be damaged, making the relationship less able to resist both external and internal forces and threats in the future.

We also call for investigation into the use of multiple repair approaches simultaneously to determine the effect of using multiple approaches on the repair effort; for example, an organisation might issue an excuse and compensate affected customers at the same time. Future studies could also investigate the effect of the demographic aspects, for example: income levels, education and occupation on the perceptions of the trust recovery.

An additional area for future research is an investigation into customer reactions to violations of trust by different types of retailers; whether a violation of trust by a food retailer is viewed more negatively than one by a clothing retailer, for instance, and whether different trust recovery strategies need to be used by different types of retailers.

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Appendix 1.		
Constructs	**Measures**	**Item Loadings**
Trustworthiness		
	The [organization] is very dependable.	.83
	The [organization] has high integrity.	.76
	The [organization] is very competent.	.71
Customer Loyalty		
	I will continue to visit [organization] even if the service charges are increased moderately.	.83
	I have strong loyalty to [organization]	.66
	I will keep visiting [organization] regardless of everything being changed somewhat.	.79
	I will recommend [organization] to other people	.74
Satisfaction		
	Overall, I'm very satisfied with [organization]	.64
	Overall, [organization] is a good organization to do business with.	.87
	Overall, [organization] treats customers fairly.	.65
	Overall, [organization] comes up to my expectations.	.90
All Items are measured using a five-point scale anchored by 1 = "strongly disagree" and 5 = "strongly agree".		

Example integrity (competence) scenario:

Last week X-retailer suffered a major data breach that exposed its customers' sensitive financial data including debit and credit card information. The data breach was exposed by a newspaper report stating that X-retailer had deliberately neglected cyber security (X-retailer forgot to install the latest software upgrade). X-retailer issued a denial (apology) statement (promised to address this issue immediately).

Table 1: Trust recovery strategies

Author	Type of Study	Key Findings and proposed repair strategy
Brühl et al. (2018)	Empirical study	Examines trust repair following an integrity-based violation, they focused on three approaches: apology, excuse, and refusal. They found that apology is a double edge tactic. It is seen as more effective than excuses and refusal as it is evaluated as more credible, also less successful than excuses and refusal because it is evaluated as more responsible.
Yu, Yang, and Jing (2017)	Empirical study	Examine the role of third parties tactics (persuasion and guarantee) and characteristics (rational closeness between third-party and [customer] and third-party power) – they found that customers willingness to reconcile correlates strongly and positively with third-parties characteristics and tactics.
Fuoli et al., (2017)	Empirical study	Studies the effect of denial and apology in repairing organisational trust. They found that when there is weak evidence against the organisation trust is restored more successfully with denial. In addition, they found that denial is more effective than apology in recovering perceptions of the organizational integrity and benevolence.
Bozic (2017)	Literature review	Reviews the extant literature on trust repair. Concludes that there are six categories for customer trust repair: verbal response, organisational restructuring, penance, hostage posting and involvement of/use of third parties
Hansen, Lund, and DeCarlo (2016)	Empirical study	Examines the effect of apology and compensation in examining professional buyers to the overall transgression and recovery activities. They found that being customer-oriented helps sales people in the recovery episode.
Basso and Pizzutti (2015)	Empirical study	Investigates the effect of unsuccessful service recovery and its impact on customers' trust. Compensation is not an effective strategy in comparison to an apology (for integrity violation) and a promise for the problem not reoccur in the future for competence-based violation.
Bansal and Zahedi (2015)	Empirical study	Shows the effect of intentional and unintentional trust violation from an online privacy perspective and the consequence on trust. Apology is the more effective for trust recovery than denial and no response.

Haesevoets, Folmer, and Van Hiel (2015)	Empirical study	Explores the type of trust violation and the compensation size, for competence violations compensation is found to be the most effective in recovering trust. For integrity violation compensation is not effective.
Kim et al. (2013)	Empirical study	The judgement of the magnitude of a trust violation was found to be harsher in group environments and subsequently reduce the effectiveness of existing recovery techniques.
Simsarian Webber, Bishop, and O'Neill (2012)	Empirical study	Demonstrates the importance of organisation support for employees during trust recovery as this has been found to positively contribute to the restoration of trust.
Zhang (2012)	Conceptual study	Finds that trust repair efforts are correlated to the individuals' propensity to forgive, and that apologies are most effective in increasing the image of an organisation to the customer(s).
Desmet, Cremer, and Dijk (2011)	Empirical study	Finds that the effectiveness of financial compensation depends on the propensity of the affected party to forgive and the nature of the compensation. If the compensation is voluntarily awarded the effect on trust recovery is more positive than if it is forced.
Gillespie and Dietz (2009)	Conceptual study	Identifies the role of apologies as being effective in response to a competence trust violation. Proposes that denial may be the best option if the organisation is responding to an integrity-based trust violation.
Schweitzer, Hershey, and Bradlow (2006)	Empirical study	Finds that it is possible to recover trust if no deception has occurred or been perceived. Indicates that an apology had no effect on restoring trust on its own but was more effective when combined with a promise.
Kim et al. (2006)	Empirical study	Finds that the use of apologies is more effective at repairing trust when the violation was concerned with a competence-based violation. Suggest that there are times when it is more appropriate for the violator to assume less blame (e.g. when the trust violation is concerned with integrity-based violation).

Table 2: AVE, CR, SD and Correlations

Construct	AVE	C.R	SD	1	2	3	4
Competence based recovery	.71	.72	2.0	-			
Integrity based recovery	.84	.76	3.3	.30**	-		
Trustworthiness	.68	.86	3.6	.36**	.37**	-	
Customer loyalty	.83	.7	2.8	.43**	.43**	.39**	-
Satisfaction	.88	.78	3.1	.33**	.21**	.27**	.27**