How companies can restore trust after CEO misconduct

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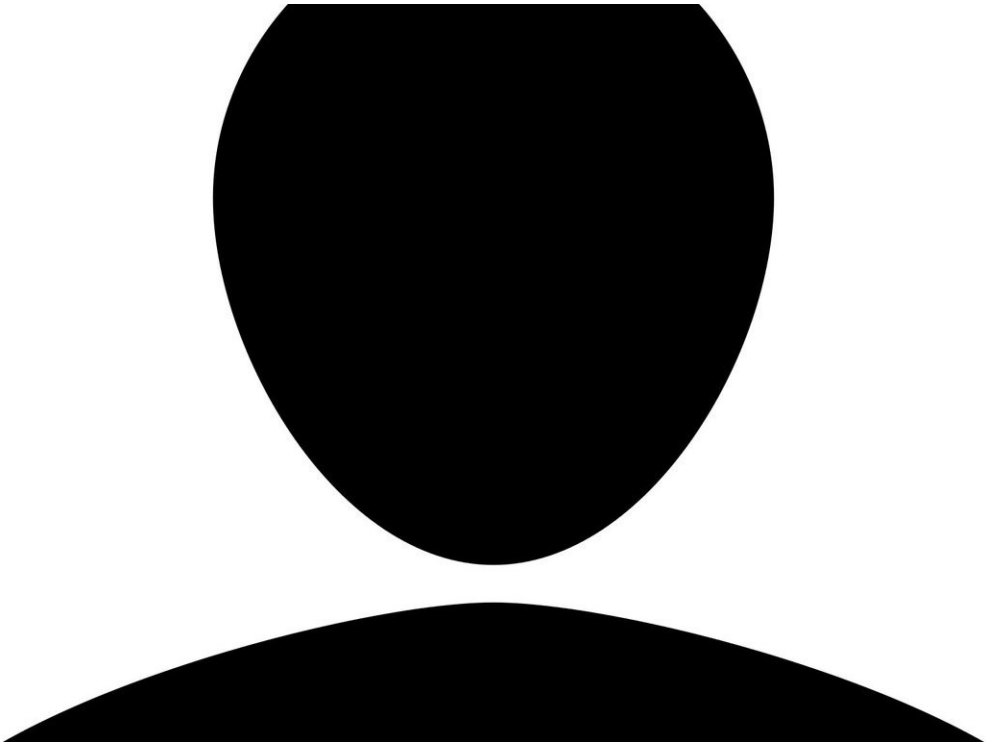

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A new study published today in the *Journal of Trust Research* reveals how boards of directors can proactively address CEO misconduct to increase public trust towards an organization.

Experts assessed how members of the public might react to two different

board-initiated responses to a CEO transgression - dismissing the CEO, or keeping the CEO in place while offering an apology and acknowledgement of the wrongdoing.

They discovered that both tactics increased trust towards the organization, but in different ways. By firing the CEO, the board differentiates itself from the transgressor, leaving the organization's reputation intact. However, in cases where the CEO must stay, a board-requested CEO apology, combined with the CEO's acknowledgement of wrongdoing, encourages others to see the CEO as a 'reformed sinner', helping to repair trust in the organization.

In both cases, the board of directors took initiative to handle these types of crises with authority to restore faith in the organization.

The authors suggest that boards of directors should consider how to best signal that either 1) the guilty CEO is distinct from the rest of the top leadership (which is assumed trustworthy), or 2) that the CEO has learned a lesson from the event and will be a reformed leader in the future.

Co-author of the study, Professor Cecily D. Cooper, commented: "CEO transgressions, such as insider trading, siphoning of corporate funds for personal use, or inappropriate personal behavior, are an unfortunately common storyline in today's business press. We find that actions taken by the board of directors are instrumental when addressing CEO misconduct.

"The board can send different signals via tactics such as firing the errant CEO or forcing him/her to apologize and pay a personal cost. These types of actions are key to repairing trust in the CEO's associated organization, and even the CEO him/herself in cases where the CEO must stay.

"Either of these strategies can address the violation and start to rebuild trust - but if the CEO needs to stay on with the company, the latter strategy (emphasizing CEO repentance) needs to be adopted."

To produce their findings, the researchers set up an experimental study with 87 participants, which replicated a real-life trust violation by a CEO at a leading Fortune-500 company. They then analyzed university students' responses to the two different board-directed tactics, which were tested through a series of videos and newspaper articles.

More information: Donald L. Ferrin et al, Heads will roll! Routes to effective trust repair in the aftermath of a CEO transgression, *Journal of Trust Research* (2018). DOI: 10.1080/21515581.2017.1419877

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