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Denial outperforms apology in repairing organizational trust despite strong evidence of guilt

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ABSTRACT

Previous work in the areas of organizational trust repair and crisis communication has provided conflicting answers to the question of whether denial can be more effective than apology in repairing stakeholder trust in a company following an integrity-based violation. This article reports the results of an experiment designed to (i) test the effects of these two strategies on individuals' trust in a company accused of corruption, and (ii) determine whether and how evidence of the company's guilt influences stakeholder reactions to its trust repair message. The results demonstrate that, when evidence against the company is weak, trust is restored more successfully with a denial than an apology. Contrary to our hypothesis, denial was found to outperform apology in repairing perceptions of the company's integrity and benevolence even in the face of strong evidence, and it was as effective as apology in restoring perceived ability and trusting intentions. These results provide empirical evidence for the 'paradoxical effect' that an open and honest attitude can, in the short term, be more detrimental to organizations than a defensive strategy. More research on the factors that determine the credibility and persuasiveness of corporate denial is called for.

1. Introduction

Trust is a valuable relational asset for business organizations, and an important precondition for their legitimacy and long-term viability (e.g. Gillespie, Dietz, & Lockey, 2014; Ingenhoff & Sommer, 2010; Pirson & Malhotra, 2011). But trust is also a fragile commodity; it takes a long time to build, and just moments to destroy (Slovic, 1993). The past few years have witnessed a number of examples of organizational trust failures – from the Enron and WorldCom scandals in the early 2000s to the more recent JP Morgan, BP, and Volkswagen controversies. These and other events have contributed to creating a climate of widespread distrust of business (e.g. Adams, Highhouse, & Zickar, 2010; Bachmann, Gillespie, & Priem, 2015; Kramer & Lewicki, 2010), which may hinder organizational success as well as socio-economic development.

This situation has prompted a recent upsurge of scholarly interest in organizational trust repair. Researchers working in this area seek to better understand how trust in organizations can be restored after it has been violated, and to determine the most appropriate strategies for companies to rebuild stakeholders' trust in them after a crisis (Bachmann et al., 2015; Eberl, Geiger, & Afländer, 2015; Gillespie & Dietz, 2009; Gillespie et al., 2014; Kramer & Lewicki, 2010; Janowicz-Panjaitan & Krishnan, 2009; Pfarrer, Decelles, Smith, & Taylor, 2008; Poppo & Schepker, 2010). One issue that has attracted considerable attention and some controversy in the literature concerns the effects and appropriateness of two basic response strategies that are commonly used by organizations in

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situations where trust is at stake, namely apology and denial (Gillespie et al., 2014: 400).

Studies adopting a normative approach emphasize the importance of openness and transparency in the process of organizational trust repair, and caution against the risks of a defensive response to alleged wrongdoing (Gillespie & Dietz, 2009; Gillespie et al., 2014; Pfarrer et al., 2008). According to this perspective, accepting responsibility and apologizing for the violation are necessary steps towards organizational trust repair. Denial, on the other hand, can be used as a means of obfuscating the truth and may therefore inhibit this process. This view is supported by research in the neighboring field of crisis communication, where, as noted by Coombs and Holladay (2008: 253), apology has generally been regarded as the best strategy for restoring a company's image.

However, experimental studies on interpersonal trust repair have consistently found that, in certain situations, apologizing leads to a greater loss of trust than denying (Ferrin, Kim, Cooper, & Dirks, 2007; Kim, Ferrin, Cooper, & Dirks, 2004; Kim, Cooper, Dirks, & Ferrin, 2013). While apology has been shown to be more effective than denial in the case of competence-related violations, where the alleged breach of trust is attributed to the trust breaker's lack of adequate skills, denial has been found to be comparatively more effective in response to integrity-based violations, that is, when the trusted person is accused of having abused the other party's trust deliberately for personal gain. In such cases, people seem to be inclined to give the accused party the benefit of the doubt.

The apparent discrepancy between the findings from crisis communication and interpersonal trust repair studies may, at least in part, be due to a factor that has not previously been considered, but that may have a significant influence on individuals' reaction to organizational messages in situations where trust is at stake, namely the perceived strength of the evidence against the company (Gillespie et al., 2014: 400). In this study, experimental methods are used to investigate (i) whether denial is more effective than apology in repairing organizational trust following an alleged integrity-based violation, and (ii) whether and how evidence of the company's guilt influences stakeholder reactions to its trust repair message. The study focuses on short-term stakeholder reactions in the immediate aftermath of a crisis event, when the level of uncertainty and public scrutiny of a company's actions and communications is highest (Dardis & Haigh, 2009: 101).

By tackling the questions above, this study seeks to contribute to the current debate regarding optimal organizational trust repair strategies and, ultimately, to advance our understanding of the process of trust repair in the context of company–stakeholder relationships. Empirically testing the hypothesis of whether denial is more persuasive than apology following alleged integrity-based violations is particularly important, not only for settling the above-mentioned academic dispute, but also for a critical evaluation of currently widespread crisis communication practices. Since denial is among the response strategies that are most frequently used by companies (Kim, Avery, & Lariscy, 2009), and given the fact that it can serve as a tool for obfuscating the truth and evading responsibility, it is crucial to assess its communicative effectiveness. By considering the role played by the evidence of the company's guilt, we address an as yet unexplored variable that may be important in determining how trust in organizations is best repaired after it has been violated.

2. Theoretical background

2.1. Organizational trust

Following Rousseau, Sitkin, Burt, and Camerer (1998: 395), trust can be defined as “a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another”. While trust always originates from individuals, the target of trust may be either another person or an organization (Zaheer, McEvily, & Perrone, 1998). This study focuses on stakeholder trust in organizations. In this context, then, individual stakeholders are the trustors, who make themselves vulnerable to the actions of an organization based on positive expectations (Pirson & Malhotra, 2011).

Trust involves risk and vulnerability as our ability to infer other people's intentions and anticipate their actions is limited, and trusted parties may abuse their position of trust for personal gain (Mayer, Davis, & Schoorman, 1995). When we trust others, we do so in the belief that they will act in a way that is “beneficial or at least not detrimental to us” (Gambetta, 1988: 4). This belief, in turn, hinges upon our assessment of the other party's trustworthiness (Mayer et al., 1995). Trust and trustworthiness are two related yet distinct notions. Trustworthiness is a crucial antecedent of trust; it underpins positive expectations towards the trusted party and provides a basis for trusting them (Mayer et al., 1995).

Based on the above distinction, the concept of trust can be divided into two fundamental, interrelated components: (i) trusting intentions and (ii) trusting beliefs (McKnight, Cummings, & Chervany, 1998). Trusting intentions concern trustors' willingness to make themselves vulnerable to the actions of another person or organization in a situation involving risk. Trusting beliefs, on the other hand, are trustors' perceptions of the other party's trustworthiness. Trusting beliefs inform and influence individuals' trusting intentions. Thus, the more trustworthy people or companies appear to be, the more willing the trustor will be to trust them, and engage in risk-taking behavior.

Trusting beliefs are formed on the basis of the trustor's assessment of the other party's trustworthiness against three main criteria: (i) ability, (ii) benevolence, and (iii) integrity (Mayer et al., 1995). In the context of company–stakeholder relations, ability¹ concerns the collective competencies that enable an organization to meet its goals and responsibilities in an effective and reliable manner. Benevolence refers to the organization's care and genuine concern for the well-being of its stakeholders. Integrity relates to its adherence to socially accepted moral principles, such as honesty, fairness, and sincerity (Gillespie & Dietz, 2009: 128). These three

¹ Throughout the paper, the terms ability and competence are treated as synonyms and used interchangeably. Mayer et al. (1995) favor the term ability, whereas Kim et al. (2004) use the term competence. The way they operationalize the terms, however, is similar.

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