

Organizational Reintegration and Trust Repair after an Integrity Violation: A Case Study

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ABSTRACT: This paper presents a holistic, contextualised case study of reintegration and trust repair at a UK utilities firm in the wake of its fraud and data manipulation scandal. Drawing upon conceptual frameworks of reintegration and organizational trust repair, we analyze the decisions and actions taken by the company in its efforts to restore trust with its stakeholders. The analysis reveals seven themes on the merits of proposed approaches for reintegration after an integrity violation (including open investigations, accurate explanations, apologies, penance, and systemic reforms), and novel insights on the role of organizational identity, “changing of the guard” and cultural reforms alongside procedural modifications. The case further supports the dynamic nature of stakeholder salience across the reintegration process. The study both supports propositions from existing frameworks and suggests novel theoretical extensions for future research.

KEY WORDS: reintegration, trust repair, case study, organizational fraud, stakeholders

LEGITIMATE ORGANIZATIONS are perceived by stakeholders as being trustworthy (Suchman, 1995). Yet, as scandal after scandal engulfs corporations and public bodies around the world, organizational legitimacy and stakeholders’ trust are at a premium (Moran, 2013). Corporate wrongdoing has been witnessed prominently in banking (e.g., Barclays; Goldman Sachs; JP Morgan; Merrill Lynch; Royal Bank of Scotland; Societe Generale; UBS), but also in manufacturing (e.g., BAE Systems; GSK; Olympus; Siemens); the extractive industries (e.g., Anglo-American; BP; Shell; Trafigura); the media (e.g., News International), and organized religion (e.g., child abuse scandals). When organizations engage in wrongdoing, stakeholders may withdraw support and resources, hindering the organization’s chances of survival and success (Elsbach, 2003). Society as a whole also suffers when there is a deficit of legitimacy and trust in organizations (Moran, 2013; Putnam, 2000).

This raises the pressing need for a practical understanding of the processes by which a shamed organization can recover its legitimacy and repair trust with stakeholders angered by its malfeasance. The business ethics community has long been concerned with these issues (Brenkert, 1998; Flores & Solomon, 1998; Husted, 1998; Wicks & Berman, 2004). Yet only recently have theoretical frameworks been proposed for holistically understanding the stages and processes of this complex endeavour. Two conceptual frameworks, both published in the *Academy of Management Review*, address the question from different perspectives. Pfarrer, DeCelles, Smith, and Taylor (2008) outline a process of “reintegration” with stakeholders after a corporate fall from grace (i.e., a corrupt or unethical act). They draw primarily on stakeholder theory, image management, organizational justice and crisis management, and define reintegration broadly as the process of rebuilding legitimacy in stakeholder relationships damaged by the organizations’ wrongdoing. Gillespie and Dietz (2009) propose a process for restoring trust following an organization-level failure, drawing on trust, crisis management, strategic change, systems and multilevel theory. There are clear parallels between the frameworks: both focus on closely connected concepts (legitimacy and organizational trustworthiness, respectively), and both are deliberately normative, outlining a four-stage process with complementary actions. Yet each emphasizes different aspects of the process and makes unique propositions. Both frameworks are in their infancy in terms of empirical tests and field examinations of their propositions.

In this paper, our research question focuses on explaining *how* organizations can effectively repair trust and reintegrate with its key stakeholders (e.g., employees, regulators, investors, and customers) following a major integrity violation. We examine these processes holistically over time, through the analysis of a rich and complex case study. In so doing, we respond to calls for in-depth contextualised case studies to answer the “how?” question (Eisenhardt & Graebner, 2007). We use the reintegration (Pfarrer et al., 2008) and organization-level trust repair (Gillespie & Dietz, 2009) models as our analytic frameworks, applying and examining propositions from both to interrogate and extend existing theoretical insight.

Our chosen case is a British water utility that faced allegations of fraud and deception. In July 2008, Severn Trent (hereafter ST) became the first utility to be prosecuted at the Old Bailey law courts in London. The Serious Fraud Office had accused the company’s water business, Severn Trent Water (hereafter STW), of “knowingly or recklessly” providing false information to the industry regulator, Ofwat, with respect to its customer service and operational performance data. The deceit itself covered a six-year period (2000–2005), and was described in the trial as a “sustained and successful campaign of dishonesty” involving “the deliberate concealment of the company’s true [operating performance] position as shown by information in the company’s own possession.” Severn Trent pleaded guilty to two criminal charges of data misrepresentation, and was fined £2.2m. This came on top of an earlier £35.8m fine imposed by the regulator for the deceitful collection and reporting of other performance data. When the company accepted the fine, it sought to draw a line under a traumatic period in its history. The following year,

in recognition of the “journey” undertaken in recovering its legitimacy, STW was named by its industry peers the 2009 “Utility of the Year.”

Following a brief summary of our two analytic frameworks, we describe our methodology and recount a detailed factual narrative of the case. We then analyze the case using the two frameworks, to develop a more nuanced understanding of the complexities and dynamics of the reintegration and trust repair process at each stage. The analysis provides support for several extant propositions and prescriptions, and also identifies important challenges to extant theory, and several novel propositions.

THE REINTEGRATION MODEL

Pfarrer et al. (2008: 731) outline a four-stage model of “the organizational actions that potentially increase the speed and likelihood that an organization will restore its legitimacy with stakeholders following a transgression,” which “requires a number of complex and sequential actions that are designed to address changing stakeholder questions and concerns.”

A significant aspect of their framework is the proposition that an organization is more likely to reintegrate if it responds to the demands of its *most salient* stakeholder groups: those that have “the most power, legitimacy or urgency of claims” (see also Mitchell, Agle, & Wood, 1997). The authors group stakeholders into three categories: “Elite and active” stakeholders, with the most interest and influence to shape the narrative of the scandal, followed by the “Attentive and aware,” and then the “Latent and inactive.” Stakeholders in each category may change depending on the type of transgression and the stage of reintegration. As the various stakeholder groups learn about the transgression, a discourse between them develops, which serves to prompt key questions and demands, shape opinions and eventually leads to a condition of “concurrency”: “a generally shared opinion amongst stakeholders regarding the transgression and the appropriateness of the organization’s actions” (Pfarrer et al., 2008: 733). Not all stakeholders have to be in agreement, as long as a “dominant opinion” or “threshold agreement” is reached. If stakeholders deem the organization’s actions to be inappropriate at any stage, they may withhold support and demand further action, whereas concurrency facilitates progress to the next stage.

Reintegration requires the organization to effectively address the critical stakeholder question at each of four stages: “Discovery,” “Explanation,” “Penance” and “Rehabilitation.” Table 1 describes the question and organizational actions related to each stage. We examine the following propositions derived from their model as facilitative of effective reintegration: 1) an open approach to “discovering” the facts of the transgression (voluntary disclosure of wrongdoing, open investigation, cooperating with stakeholders), 2) clearly “explaining” the causes of the transgression (acknowledging wrongdoing, accepting responsibility, expressing remorse), 3) accepting “penance” and punishment (lest the preceding “explanation” be dismissed as “cheap talk”), and 4) making substantive “rehabilitative” reforms to the technical, infrastructural, human and social aspects of the organization’s internal processes and its external image.

Table 1: Key stages and required organizational responses proposed by the reintegration and trust repair models.

Stage	Reintegration Model (Pfarrer et al., 2008)	Organizational Trust Repair Model (Gillespie & Dietz, 2009)
1	<u>Discovery: What happened?</u> →Voluntary disclosure →Launch an investigation →Public cooperation	<u>Immediate response</u> →Launch an investigation →Acknowledge the events, express regret →Where applicable, take preventative measures against <i>known</i> causes
2	<u>Explanation: How did it happen?</u> →Adequate →Honest →Sincere →Free of guile	<u>Diagnosis of the causes of the failure</u> →Accurate →Systemic →Transparent →Timely (including interim reports)
3	<u>Penance: How will the organization be punished?</u> →Accept verdict →Accept punishment without resistance →Accept punishment as equitable	<u>Reforming interventions</u> →Apology with internal attribution (if guilty) →Penance →System-wide changes to organization →Congruence among system elements
4	<u>Rehabilitation: What changes have been made?</u> →Changes to the organizational processes →Consistency between internal actions and external messaging	<u>Evaluation</u> →Accurate →Systemic →Transparent

THE ORGANIZATION-LEVEL TRUST REPAIR MODEL

Gillespie and Dietz (2009) propose a model for repairing trust after an “organization-level failure,” defined as an incident, or series of incidents, that threatens the legitimacy of the organization and undermines perceptions of the organization’s trustworthiness (i.e., its ability, benevolence, and/or integrity: Mayer, Davis and Schoorman, 1995). Organizational trustworthiness is proposed to be generated and enacted primarily by four *internal* components of the organizational system: its leadership and management practices; culture and climate; strategy and sub-strategies; and systems, policies and processes. Signals and cues emanating from these components govern employee actions and decision-making, and hence the organization’s conduct, as well as perceptions of the organization’s trustworthiness. Two external components, governance regimes (e.g., adherence to regulation and legislation) and the organization’s public reputation (e.g., awards, product reviews, public relations), also shape perceived trustworthiness.

Gillespie and Dietz (2009) argue that an organization restores trust by sending repeated, clear and consistent signals of its renewed trustworthiness throughout its response to the failure. This “positive promotion of renewed trustworthiness” occurs “through behaviors and verbal responses that actively demonstrate ability, benevolence and integrity” (134). They define *ability* as the organization’s collective competencies and characteristics that enable it to function reliably and effectively to meet its goals and responsibilities (e.g., consistently meeting key performance indicators); *benevolence* as organizational action indicating genuine care and concern for the well-being of stakeholders (e.g., delivering on customer, investor and employee needs), and *integrity* as organizational action that adheres to moral principles, such as honesty and fairness (128). After a failure, consistent displays of trustworthiness reassure organizational stakeholders that they can anticipate beneficial conduct and desirable actions from the organization in the future, thus restoring trust. In addition,

the organization must demonstrate that it has reformed itself sufficiently to reliably avoid and prevent future reoccurrence of the failure (i.e., “distrust regulation”; 134).

Gillespie and Dietz (2009) assert that effective trust repair requires a four-stage process (see Table 1): 1) a timely “immediate response” that acknowledges the problem, expresses sincere regret and announces a thorough investigation; 2) a systemic, accurate, transparent and timely “diagnosis” of the failure, producing a credible explanation coupled with a sincere apology that acknowledges responsibility, 3) system-wide “reforming interventions,” derived from the diagnosis, that are “congruent” across the four internal system components in preventing a reoccurrence of the failure and demonstrating renewed trustworthiness, and 4) an accurate, transparent, and systematic “evaluation” of the reforms (though this is considered facilitative rather than essential for trust repair).

MODEL INTEGRATION AND COMPARISON

The models are complementary in several aspects. Both assume that the locus of control of the failure is internal to the organization, and that an organizational imperative is to regain legitimacy and reintegrate or restore organizational trustworthiness. Both models prescribe a thorough response in all four stages for optimal outcomes. The stages in each model also have overlapping prescriptions, including the need for a thorough investigation (i.e., “Discovery”; “Diagnosis”), the benefits of a transparent account of events (i.e., “Explanation”; “Diagnosis”), apologies and penance (“Penance”; “Reforming Interventions”), and the need for comprehensive organizational reforms (“Rehabilitation”; “Reforming Interventions”). However the labelling and conceptualization of the stages differ, and some prescriptions appear in different stages (see Table 1). For example, there is no equivalent to the “Evaluation” stage in the reintegration model (although the discourse between stakeholders central to the Pfarrer model delivers feedback on the effectiveness of the reintegration process). Additionally, “consistency” is important in both models, although Gillespie and Dietz focus on congruence in the actions taken to reform the organizational system, while Pfarrer and colleagues focus on the consistency among the “rehabilitative” actions internally and externally.

Each model contains distinctive elements not present, or only implicit, in the other. Of most relevance to this paper, Gillespie and Dietz focus solely on repairing trust between the organization and its employees—although their subsequent work suggests the propositions and prescriptions are applicable for repairing trust more broadly with organizational stakeholders (see Dietz & Gillespie, 2011). Pfarrer and colleagues concentrate explicitly on recovering legitimacy amongst multiple stakeholder groups. Second, the concept of timeliness is treated differently. The reintegration model argues that organizations should pass through each stage as quickly as possible: “an increased amount of time in any one stage can jeopardise [reintegration]” (Pfarrer et al., 2008: 734). The trust repair model argues that a timely response at each stage is preferable to one perceived as ponderous, but notes that inaccurate immediate communications, a rushed diagnosis and hastily and poorly

embedded reforms will hinder trust repair. In other words, there is a curvilinear effect between timeliness and effective trust repair.

Both models provide a robust and relevant framework and set of testable propositions for structuring and analyzing qualitative case materials of organizational reintegration and trust repair. Integrating and applying both frameworks, while appreciating their complementarity and differences, holds promise for advancing understanding of this complex and difficult process.

METHOD

We conducted an in-depth case study of STW to produce a detailed narrative account of the fraud scandal and subsequent reintegration and trust repair process. Qualitative case study methods are well suited to the “How?” nature of our research question, and the longitudinal nature of the reintegration process. By accessing participants’ and observers’ lived experiences and reflections on events, and triangulating these accounts with documentary evidence from different sources, single case studies allow researchers to investigate in depth and detail the dynamics of a complex social process over time, in its particular context, to offer holistic explanations (Siggelkow 2007; Yin, 1994).

STW was selected as a particularly suitable case for a number of reasons: first, the magnitude of the scandal and the evident breakdown of trust and legitimacy amongst many of the company’s stakeholders; second, its value as a case which contrasts different approaches to the transgression by two different top management teams, allowing us to examine both effective and ineffective responses; and third, the willingness of the company to participate in interviews and share proprietary company documents provided a rare opportunity to gain rich insight into the rationale behind decisions and actions taken, as well as the tensions and trade-offs experienced during the process. In short, the case offered rich potential for understanding and gaining insight into the holistic process of organizational reintegration and trust repair.

Our data collection drew on a variety of primary and secondary data sources, as recommended by Yin (1994). In-depth interviews were conducted with five senior-level managers in STW, selected from diverse functional backgrounds for their in-depth knowledge and experience of the reintegration process: the managing director/CEO; the general counsel; the corporate affairs director; the director of customer relations; the former group HR director. A sixth interview was conducted with a long-standing employee and senior trade union official who represented the views of the workforce. Half the interviewees were employed at STW both prior to, and during, the scandal and reintegration process. The interviews were semi-structured, with neutrally-phrased questions asking for a detailed account of the interviewee’s observations on the chain of events throughout the scandal and the organization’s responses, as well as the decisions and actions taken at each stage. The interviews ranged from 45 to 90 minutes and were recorded.

The company provided access to fourteen internal proprietary documents: two internal investigation reports; eight press releases; the transcripts of an all-staff message from the CEO (July 7, 2008) and an announcement to all customer-facing

employees (August 1, 2008); a Corporate Responsibility Report (2007), and slides from a presentation at the Institute of Business Ethics in London conducted under Chatham House rules on February 5, 2009. Many of the internal reports were either marked “privileged and confidential” or “not for publication in any form” and therefore are not quoted.

To further understand the reactions of the media and public to the scandal and subsequent organizational responses, we conducted a Factiva search of UK newspapers and media sources over an eight year period including pre-, during, and post- scandal (2004–2011). From this we identified 241 non-redundant reports of direct relevance, including from *The Mail on Sunday* (the newspaper that broke the scandal), *The Guardian/The Observer*, *BBC News online*, and two local newspapers. We also examined press releases, comparative annual industry performance data, and investigation reports from the industry regulator, Ofwat, and the Consumer Council for Water, a press release from the UK Serious Fraud Office, company annual reports (2003–2012) and articles on STW in the trade publication *Utility Week*. These documents were used to construct a rich and accurate description of the case and to triangulate and cross-check with data from interviews.

The interviews and documents were divided up and analyzed separately by two of the authors to create a factual timeline of events in the first instance (cf. Lamin & Zaheer, 2012), followed by a more substantive description of the case with illustrative quotes, in the second iteration. This process involved multiple discussions and fact checking to ensure accuracy. The third round of analysis involved coding the events and actions according to the stages and propositions from the two theoretical models, and identifying prominent themes related to reintegration and trust repair, as well as evidence of the extent to which STW had restored its legitimacy and trustworthiness across stakeholder groups. All three authors were involved in this third round of analysis, with all of the interviews and more than 10 percent of the documents double-coded. Differences in interpretation were resolved through iterative discussion.

THE CASE OF SEVERN TRENT WATER

The case is “a very complicated saga to understand in all its nuances” (interview, Director Corporate Affairs). Here we provide a detailed narrative of the unfolding events, and the process that STW undertook to reintegrate and restore trust with its stakeholders (see the Appendix for a factual timeline of events). Quotes and supporting documentation are interspersed (direct quotes from interviews are not always attributed to protect anonymity). We use the stages of the two theoretical frameworks to structure the narrative.

Case Background

Severn Trent PLC (hereafter ST) provide and treat water in the UK and internationally through two main companies, the largest of which is STW, the focus of our case study. STW serves around 4 million UK households and businesses and accounts for 75 percent of the parent body’s profits. Before the industry privatisation in 1989,

STW had been a typical UK public sector employer, offering stable employment, decent salaries and career opportunities. It was widely viewed as capable, and an enjoyable place to work. However, personal divisional “fiefdoms” had been allowed to build up, and these were jealously protected. Senior managers had become largely detached from the operating staff and, because of a very “directive” style from the top, “bad news did not travel far up the hierarchy.” This was eventually to prove a decisive weakness.

The tone and manner of the business changed after privatisation. Operating imperatives and procedures shifted toward more overt performance accountability, and salaries (particularly top management bonuses) shifted upward in line with other FTSE 100 companies. The culture became more commercially orientated as STW launched several takeovers. But the structure remained fragmented, and the parent company Board operated in what, with hindsight, was a rather superficial manner, in that the “emperors” of the Water business were tolerated as long as they hit their targets. Yet, while STW delivered strong performance results, employees were regularly praised: “We thought we were doing a really good job, leading the way . . . we believed what we were told” (senior union official).

Today, all UK water companies operate as monopolies serving their geographical region, since customers cannot switch suppliers. Therefore, the industry regulator Ofwat sets performance standards and targets for all companies (leakage, customer satisfaction, safety, etc) on behalf of stakeholders. Ofwat specifies how much each company is expected to invest in activities to achieve these targets, and also sets the maximum pricing premium that each firm can charge to its customers. This calculation, known as the “Final Determination,” is revised on a five-year basis. Thus, the water companies’ long-term projected income and investments are, to a great extent, set by Ofwat, albeit after protracted public negotiations. To make its calculations, Ofwat must rely upon the receipt of accurate performance data from the water companies, as it lacks the resources to feasibly conduct its own audits. The entire process is, therefore, reliant on the trustworthiness of the water companies.

Discovery and Immediate Response (#1)

In 2002, an STW employee sent an email to his boss, entitled “Lies, damn lies and statistics,” in which he explained that, in order to be *seen* to meet Ofwat’s performance targets, the employee would have to be “selective” with STW’s data and “economical with the truth” to an extent that, he felt, was “going too far.” It had potential consequences for customers’ bills by causing the regulator to grant higher price rises than might otherwise have been the case. His boss nevertheless signed off on the false figures. This action was in line with a wider cultural norm, perceived throughout the industry,¹ that STW should “play to the referee’s whistle” (the title and theme of a now infamous internal company presentation)—the football metaphor’s implication being that management would tolerate “cheating to win” as long as the “referee,” Ofwat, didn’t see it.

In May 2004, another Finance employee invoked the company’s whistleblowing procedure to protest at an instruction from his bosses to manipulate data on

the company's bad debts and income, and leakage performance, again in order to misrepresent the company's performance to Ofwat. The Board's response was to publicly deny the allegations of deceit and overcharging, while alerting Ofwat and announcing an internal enquiry led by the company's external auditors—on the face of it, an appropriate response, apart from the potentially premature denial. In reality, however, the Board regarded the whistleblower as an irritant: "His whistling was very badly received by the organization." The internal investigation was overseen by a senior Finance manager, alongside the company's auditors who had just signed off on STW's accounts. With the potential for conflicts of interest, biased findings, and a lack of transparency evident, the defensive mindset of the Board "clouded the whole handling" of the allegations. The company even subjected the whistleblower to a formal disciplinary hearing, led by one of the managers he had accused of coordinating the cover-up. As two interviewees conceded, "The initial fortnight was appalling in terms of procedure"; "I got the feeling the Executives were out of their depth when it came to handling a whistleblowing issue that was so big. . . . Basic mistakes were made in the first days of the investigation."

The auditors produced their findings in September 2004, in a report that was "worked over time and time again" by STW's senior managers. The Board sent only the heavily edited, "palatable" summary to Ofwat, omitting key documents and evidence—doing so according to its own legal advice. As one interviewee observed: "The investigations were very legalistic and weren't from a place of, "Let's understand what happened." The reaction was: "Bloody hell, let's cover our arses in all of this," which alienated a bunch of people." The lack of openness was noted by the senior union official: "I didn't even know they'd [the Board] come to the conclusion there was no case to answer." With the redacted investigation report, STW rejected the whistleblower's allegations outright.² Dismayed, and furious at the disciplinary assault on his character, the whistleblower took his evidence to the press.

On November 21, the *Mail on Sunday* (2004) published a highly damaging report, based on the whistleblower's testimonies, which alleged that STW had deliberately presented manipulated or false data on its bad debts and leakage, accusing them of £75m worth of fraud. This was followed by a spate of "humiliating" articles in the press and on local TV (the *Daily Mail* labelled ST "corporate fraudsters"; *The Observer* implied that the deceit had "fleeced" three million customers, rich and poor alike). The following week, the newspaper reported that the whistleblower had been threatened with a gag order and received a warning from the company that he was not covered by the legal protection for whistleblowers (*Financial Mail*, 2004).

In response, STW "totally rejected" the allegations of deliberate fraud (*Observer*, 2004), but did concede that there was "prima facie" evidence of unacceptable behavior in employees' preparation of performance data for the regulator. It was careful to limit the extent of the failure, noting—correctly—that the matters raised had "no effect on the integrity of [ST's] accounts." Nevertheless, in the mind of one interviewee, the intention behind this statement was "the best possible stalling" position that the company could maintain. Ofwat announced in January 2005 that it would conduct its own separate enquiry into the suspect leakage reporting. Communications to staff at the time were minimal; senior managers felt that it wasn't

part of employees' jobs to know about such things. This was described in interviews as emblematic of the company's culture at the time. The Board claimed a duty of confidentiality constrained its options on communication. However, this was widely seen by employees as "personally convenient."

Around the time of Ofwat announcing its investigation, several members of the STW Board and senior management team left the company. The company emphasised, officially, that none of the departures should be linked to the scandal (*Daily Telegraph*, 2006—indeed, some key players' departures had been announced earlier). In February 2005, a new Board was sworn in with a new chairman, chief executive, and managing director: "the start of the new regime," according to the director of corporate affairs. The new Board wanted to deal with the developing scandal in a thorough, timely and decisive manner, for while the uncertainties persisted the share price was remaining depressed, down-rating the company's value "excessively" (interview, CEO). So, when Ofwat took the unprecedented decision to alert the Serious Fraud Office (SFO),³ in marked contrast to its previous stance, STW "cooperated fully" (BBC News, 2005).

Discovery, Immediate Response and Diagnosis (#2)

While the SFO enquiries were underway, the Board received word, in February 2006, of dubious methods for processing and reporting performance data in the Customer Relations department (separate to the leakage data manipulation). Knowing that Ofwat would also want to investigate this, the company's preference was to take an open and cooperative approach, but to retain control over the process. The new CEO immediately agreed terms of reference with Ofwat for an internal investigation, and committed to full disclosure of the findings:

We wanted to be upfront with Ofwat to go about rebuilding our relationship with them . . . because we felt if we didn't show a level of trust and openness, we'd be slam-dunked. (interviewee)

It was refreshingly honest, it was open, and it was the start of the way that the company now deals with staff in that it tells it like it is. We had proper communications from [the CEO], got proper information about what was going on. (interview, senior union official)

A long-standing senior manager who was perceived to be independent of the Board led the investigation. His authority, competence and experience gave him and his investigative team clout and credibility. The investigative team worked alongside HR (the recognised unions were angered by their exclusion) and independent external assessors to validate their findings. STW's investigation involved thirty interviews over six months with several Customer Relations staff even *volunteering* to be interviewed. All interviewees had the right to be accompanied to ensure fair treatment. The investigation soon discovered a "smoking gun" in the form of a widely distributed internal document detailing how Customer Relations staff should deliberately distort performance data for submission to any external assessors, and that should any external assessors come to inspect, the "fraudulent" procedural manuals were to be swapped for the "official" documents, and the correct procedures carried out.

Effectively the department was keeping two sets of performance data. As soon as the documents came to light, STW shared them with Ofwat, in a spirit of openness.

Explanation and Penance (#1)

Before the internal investigation could report, Ofwat released its own interim findings on the leakage data scandal on 7 March 2006 (Ofwat, 2006), accusing STW of “deliberately miscalculated or poorly supported” bad debt data and leakage, and overcharging its customers. Ofwat cited “poor internal processes and systems of control” as the primary cause of the failure (Ofwat, 2006)—although, interestingly, STW’s MD extended culpability to the company’s “ethics and culture” (quoted in *Guardian*, 2006b). The parent company was cleared of complicity, but criticised for its response to the affair, notably the handling of the external auditor’s investigation. Ofwat ordered the company to cut its customers’ bills by a total of £42m. Although ST disagreed with Ofwat’s assessment of the magnitude of the excess charges, the decision was made to accept the report “in order to move on quickly.”

The company’s public pronouncements were unequivocal in expressing regret and apologizing “unreservedly,” a sentiment repeated in personal communications to the firm’s 3.5 million customers. Public statements and press releases summarised the facts of the case, included a condemnatory quote from Ofwat, and conceded the company’s guilt—“We fully acknowledge and accept that the company is responsible for its failures”; “We deeply regret failures in our internal processes, controls, ethics and culture”—although the statements emphasised that the failings were the fault of the previous administration. Statements highlighted the open collaborative engagement with Ofwat, the company’s own “thorough and lengthy” investigations, and the programme of ongoing reforms, including several disciplinary cases and new “strong financial controls, clear responsibilities and a change in culture [with] a focus on good business ethics” (*Guardian*, 2006a). With their apology, STW also offered proactively to refund every household, reducing by £2.40 their next two years’ bills (amounting to £10.6m in total)—a gesture of penance intended to “ensure the company has not profited in any way” (press release) and to soften its tarnished public image. The CEO’s communications with shareholders were reported as “transparent and honest.” He even shared the investigation’s findings to fully inform these elite and active stakeholders of the scale of the threat to their investment since the uncertainty had held the share price lower than was necessary.

Explanation and Penance (#2)

In April 2006, ST sent an interim report to Ofwat about the Customer Relations investigation, conceding in public statements “prima facie evidence” that “incorrect information” had been included in “previous submissions” to the regulator (*Daily Mail*, 2006). Ofwat handed this dossier to the SFO and in June announced the likelihood of a further fine. STW again offered compensation to any “disadvantaged” customers. In the same week, it posted a 30 percent profit increase.

The Customer Relations investigation team reported to the Board in July 2006. Their report went further than Ofwat’s narrow operational procedure focus, noting

multiple deficiencies, including weak departmental and senior leadership, inappropriate cultural values, and problems with the parent company's corporate governance and oversight. Above all, the view was that the company needed to overthrow the complacent and, arguably, corrupted cultural values that had led some managers to believe that tactics of deliberate deceit were acceptable, and some employees to fear being metaphorically "kneecapped" for speaking up.

Reforms and Rehabilitation

As noted by the internal investigation, reforms would have to tackle process, behaviors and values simultaneously (i.e., procedures *and* culture). To realise this, the Board undertook a comprehensive "root and branch" review and re-organization, "to ensure there can be no repetition of this unacceptable behavior." In interview, the CEO explained that, instead of "leaping at 'Six Sigma' or 'TQM,'" or a "big splash" internal marketing campaign on values—dismissed as "platitudinous: it would not have worked; it would not have fundamentally changed 'the way we do things round here'"—the explicit philosophy was to realise, simultaneously, "lean management" operational processes, with "behavioral modification" through a major culture change.

On the former, a series of benchmarking reviews led to clearer lines of responsibility and accountability; tighter financial controls; investments in leakage detection (£45m) and IT infrastructure for billing; a revised approach to corporate responsibility, and a simplified corporate governance structure. ST's Board would become STW's Board, saving £14m, and several lucrative divestments generated cash and facilitated clarity of focus. Arguably most significant was the creation of twenty key performance indicators linking each Board member's efforts explicitly to the firm's performance *and* its values which, over the longer term, would be extended to line managers. The KPIs represented "what we believe are the key concerns for customers, regulators, employees and shareholders" (Severn Trent [Annual Report], 2007: 6). These reforms were supported with ethics training, leadership development which "majored on ethics and honesty," and "upskilling" employees to take more responsibility. The "process improvement" reforms also included 600 job losses over five years (*Times*, 2007).

Above all, the senior management team, led by the CEO and MD, sought to issue a direct challenge to the organization's dominant *cultural* values. The senior management team undertook a series of "roadshows" throughout 2006, in which they visited sites to explain to groups of fifty employees at a time what had happened, and to communicate the reforms. Employees were fearful of the consequences of the scandal and of senior managers' motives. The roadshows were an opportunity to ease those concerns. But some of the messages were unsettling, and deliberately so: "We said to the workforce, 'we're guilty,' and staff were not used to hearing things like this" (interview, CEO). Many employees vented their anger at the whistleblower, or at the Customer Relations team, seeking to deflect blame and to distance themselves from the scandal. But the CEO saw that the workforce had been, in his words, "institutionalised into doing bad things." For him, STW's ingrained culture

was the root cause of the scandals: “It was too easy for people to be in denial and blame others without realising they were probably subject to the same failings in their own actions.” He made this powerful point by asking if anyone could look their CEO in the eye and say that they *always* carry out standard operating procedure, *exactly* according to requirements, with no errors or omissions or selective content. They couldn’t. For the CEO, confronting resentful employees with their own complicity, or potential for deceit, was vital to challenging the deep-rooted norms and attitudes that had facilitated the trust failure in the first place. However, this challenge was carefully coupled with an emphasis on what was positive about the firm, and what Severn Trent stood for: developing a shared identity as “the best water company in the country, with the highest standards, the lowest charges, and the best people” (interview, CEO). It proved a powerful cultural intervention to induce a shared understanding of the failure, whilst rebuilding a positive sense of what it meant to work at STW.

In the interviews, staff reactions to the messages about a “new ethical culture” were reported as “mixed.” While many were convinced, some failed to accept the company’s sins and reputational damage. Scepticism, even cynicism, was common, because, “the employees had seen plenty of contradictory behaviors regarding transparency and ethics” in the past and few employees “live their lives through what management says or does.”

Explanation and Penance (#3)

The SFO report in November 2007 concluded that three criminal charges could be brought against the company, but not against individuals: “we believe it was a corporate offence” (*Guardian*, 2007b). The whistleblower received a compensation payment in recognition that the company “did not handle [his case] properly.”

In April 2008, Ofwat fined the company £35.8m—3 percent of turnover—for the Customer Relations “deliberate misreporting” (Ofwat, 2008). Reflecting on the seriousness of the scandal, Ofwat’s CEO noted:

In a monopoly industry where the majority of customers have no choice of supplier, the only protection customers have is from the regulator. Reliable, accurate, and complete information is fundamentally important if Ofwat is to be able to protect consumers. By deliberately misrepresenting its performance, Severn Trent Water prevented Ofwat from identifying failures in the company’s customer service and taking action to improve that service. (Ofwat, 2008)

In private, many people in ST deemed the punishment “completely and utterly outrageous,” yet the Board declined to publicly contest the fine. Explained one: “The facts of what we had done wrong wouldn’t have changed, and our ‘audiences’ [i.e., customers, the regulator] were unlikely to have been sympathetic. . . . Plus, the longer you prolong [the scandal], the more people learn about it, and the more problems are created.”⁴ Internal communications about the fine continued the overarching theme of “let’s put this behind us.” For one director the tone was, “This now brings a close to the ‘legacy issues’—that was the past, and we never want to go there again.” To

reinforce this, there was, again, no full disclosure of the Ofwat case or of the company's deliberations in response, a stance that was well received by employees, who wanted to put this behind them and restore a sense of pride. In public, the company reiterated that those responsible had long since left. The senior leaders apologized again, citing an "overly bureaucratic culture" which "lacked sufficient controls and procedures. . . . What happened under previous regimes was unacceptable and it is our duty to make amends" (CEO, cited in *Times*, 2008).

Three months later, in July 2008, the SFO trial led to a further £2m fine plus £220,000 in costs (BBC News, 2008a). It was reduced from £4m on account of the company's early plea and cooperation (it could have been unlimited). In communications, the chairman highlighted the judge's remarks that STW had

pleaded guilty at the first opportunity. . . . [T]he present senior management team had adopted a proper and responsible attitude [to the transgression and its aftermath] . . . cooperated [with authorities] . . . had a large number of structural and organizational changes in place [and] had learned its lessons and put its house in order.

These were all cited as "powerful mitigating factors" for the halving of the fine. Again, the company declined to appeal. The official press statements and interviews all restated the theme of moving on (e.g., "putting this organization back into the positive position our customers, regulators and staff deserve"). It also reiterated the company's "deep regret" for the "indefensible shortcomings" of "the previous regime" and made explicit the perceived breach of trust: "On behalf of our customers and staff we deplore the breach of the essential trust between Severn Trent and our stakeholders" (BBC News, 2008a). As well as confirming the £10.6m voluntary penance, STW announced that it would contribute more to its hardship fund for customers struggling to meet their bills—another act of penance—and called for reforms to the industry to open up competition, and even trading in water.⁵ The overall "one-off" cost for the improvements to processes, including staff training, was cited as £13.9m (BBC News, 2008b).

Evaluation

By the company's AGM in August 2008, the CEO felt able to draw a line under the scandal, almost four years after it had first become public. His two-page message to staff began, tellingly, with: "At long last it's done." He then reminded staff of the seriousness of the affair, and chastised any shoulder-shrugging at the relatively small fine: "This was a very serious matter, and we should never have our Company in that position again." Then came the familiar refrain: "Now we move on."

The following year, in the 2009 Annual Report, he highlighted how the substantial reforms had delivered on promises made to stakeholders:

We said to our customers that we would make fewer mistakes, deal with their calls more effectively and reduce the number of causes of complaint in our business. We said to Ofwat and the Environment Agency that we would meet our leakage targets, deliver improved security of supply and reduce pollution incidents. We said to our investors that we would continue to deliver operating (opex) and capital (capex) efficiencies and maintain our

progressive dividend. We said to our stakeholders that we would operate to the highest standards of governance. We said to our people that we would continue to improve what it's like to work for Severn Trent. We said we would do these things and we have done them. (Severn Trent Annual Report, 2009: 3)

That year, STW won Utility of the Year in recognition of its reforms, and its greatly improved KPI performance relative to its peers. The award judges—a cross-section of independent figures from consumer organizations, the industry, trade journalists and institutional investors—commended STW for its “professionalism, willingness to engage and good practice in dealings across the spectrum from customers to the supply chain” and “the company’s ability to learn the lessons of difficult years and use them to transform performance” (Working with Water, 2009). The industry award was seen by many as tangible evidence of the company’s effectiveness at restoring its legitimacy and reputation with stakeholders, and a valuable “milestone on its journey of continuous improvement” (Severn Trent press release, 15 December 2009):

It’s a start at re-establishing the company’s credibility, not just with the staff, but with the customers as well. (interview, Senior Union Official)

As performance improves, we can celebrate it and people’s pride comes back. We’re starting to get back a sense of excitement about the future of this company. (interview, CEO)

However, a few saw the industry award as “a distraction” from the company’s challenges: “People forget quickly” was the ominous warning from one experienced senior employee. In interview, the CEO insisted that he is under few delusions, and his background in organizational development attests to his understanding about the scale and the necessarily long time frame of the culture change programme.

Further Evidence of Renewed Organizational Trustworthiness

To further evaluate how well STW restored its reputation for trustworthiness among its most salient stakeholders, we operationalized organizational trustworthiness using the following indicators: *Ability*—meeting its key performance goals, delivering above market returns to shareholders, and demonstrating competence in its response to the scandal and organizational reforms; *Benevolence*—proactive efforts to address the interests and concerns of stakeholders; and *Integrity*—upholding standards of honesty, transparency and fairness in its actions, and fulfilling promises. Table 2 summarizes the key actions the new regime took at each stage of the reintegration process and their effect on restoring organizational trustworthiness. Table 3 details company performance against key indicators for each stakeholder group. Data is reported from 2003 to 2010 to provide pre-, during and post-scandal comparisons.

Ability

With regard to demonstrating renewed ability, we selected fourteen KPIs that spanned across the core stakeholder groups and are accessible to a lay audience (see Table 3). The overall pattern shows that, during the main scandal period (2005–2008), the company was in the upper quartile of the industry in only three of the nine KPIs for

Table 2: Key actions taken by the company (under the new regime) at each stage of the reintegration process to restore organizational trustworthiness and legitimacy.

Stage	Key Actions Taken	Stakeholder Focus	Notes on Restoring Organizational Trustworthiness
Discovery / Immediate Response Violation 1 (V1): Leakage data; October 2005 Violation 2 (V2): Customer Relations; February 2006	Full cooperation with regulatory and SFO investigations of V1. Voluntarily alerted regulator about problems in Customer Relations Department (V2). Agreed terms to conduct own investigation into V2, including commitment to full disclosure.	Regulators	Integrity: openness, transparency, honesty. Regulator's willingness to allow STW to conduct its own investigation into V2 demonstrates the trust established through an open and collaborative stance.
Explanation & Penance (V1) March 2006	Accepted regulator's interim report, conceded guilt. Apologized "unreservedly." Volunteered £10.6m of customer refunds. Communicated facts transparently, highlighting collaborative engagement with regulator and reforms.	Regulators Customers	Integrity: openly acknowledged wrongdoing and apologized; refunded money to affirm no profit made from wrongdoing. Benevolence: concern to ensure no customers disadvantaged. Ability: major reforms underway to ensure future competence.
Diagnosis (V2) February 2006	Credible lead for internal investigation appointed, plus independent external assessors for validation. Staff informed of internal investigation and process. Provided employees the right to be accompanied during investigative interviews. Immediately shared incriminating evidence with regulator (the "smoking gun").	Regulators Employees	Integrity: openness, honesty, transparency. Benevolence: fair treatment of employees. Ability: competent, rigorous investigation with required expertise and independence.
Explanation & Penance (V2) April–July 2006	Proactive release of interim report to regulator. Public statements admitting wrongdoing. Compensation to disadvantaged customers. Release of full internal report; thorough in identifying multiple systemic deficiencies; sets out extensive reforms.	All	Integrity: openness, honesty, transparency—followed through on promise of full disclosure. Benevolence: concern to ensure no customers disadvantaged by company's wrongdoing. Ability: competent, rigorous investigation with expertise.
Rehabilitation / Reforming Interventions February 2005–end 2006	<ul style="list-style-type: none"> Appointed new Board and SMT. "Root and branch review" and benchmarking resulted in the following reforms: <ul style="list-style-type: none"> clearer lines of responsibility and accountability tighter financial controls simplified corporate governance structure revised corporate responsibility policy 	All	Signalled a break with the past and a new approach to dealing with the scandal. Integrity: new policies on ethics, and compliance. Ability: multiple signals of enhanced competence to "prevent anything like this happening again", plus a determination to manage costs.

Stage	Key Actions Taken	Stakeholder Focus	Notes on Restoring Organizational Trustworthiness
Rehabilitation / Reforming Interventions February 2005–end 2006	<ul style="list-style-type: none"> Designed and implemented 20 KPIs linking managers' behavior to firm performance and values. KPI performance publicly available in annual reports. <p>Senior management roadshows designed to:</p> <ul style="list-style-type: none"> acknowledge the organization's responsibility discuss employee concerns engage employees in the reforms, and develop a positive shared organizational identity. <ul style="list-style-type: none"> Ethics training Leadership development Up-skilling of employees Revised whistle-blower policy Disciplinary hearings with culpable staff Upgrading technology and billing systems. Increased investment in leakage control (£45m) 	All Employees Employees Customers Regulators Employees Customers Regulators Employees	Integrity: transparency: evaluating managerial adherence to values signals genuine commitment. Benevolence: all stakeholders' interests incorporated in KPIs. Ability: clarity of purpose and a focus on performance; evidenced by improved performance data from 2008. Integrity: admitted mistakes, and engaged in honest and confronting dialogue. Benevolence: investment in face-to-face group discussions to help staff work through feelings and concerns. Ability: investment in comprehensive, coordinated reforms. Integrity: training on ethics signals commitment to it. Benevolence: investing in employee development. Ability: a more skilled workforce enhances competence. Integrity: clear sanctions for unethical behavior. Benevolence: signalled desire to protect future whistle-blowers. Ability: enhanced capability and efficiency in meeting targets evidenced by improvement in customer service and leakage results. Integrity: admitted and rectified wrongdoing.
Penance November 2007 April–July 2008	<ul style="list-style-type: none"> Compensation to whistle-blower, plus acknowledgement of mistreatment Accepted Ofwat fine of £35.8m (declined to appeal); further public apologies Accepted £2m SFO fine (declined to appeal) Communications of deep regret for trust breach Confirmed £10.6m voluntary penance, and further contribution to customer hardship fund Confirmed £13.9m spent on internal reforms 	Employees Regulators Customers Shareholders	Integrity: acceptance of punishment signals contrition and determination not to let it happen again which is reinforced by additional voluntary penance and investment in reforms. Benevolence: towards customers; substantial investments in improvements. Ability: signals certainty to shareholders, enables firm to move on with reputation recovery; enables "closure".
Evaluation July 2008–December 2009	<ul style="list-style-type: none"> Market analysts applaud improvements made to internal processes and relations with the regulator Judges independent assessment that STW had "put its house in order" The Consumer Council for Water praises STW for putting customers first. KPI performance tracked and publicly communicated in Annual Reports (ongoing) Public statement that STW fulfilled promises to stakeholders; "closure" of affair for employees Utility of the Year award, 2009 	All	Integrity: promise fulfilled; transparency and ongoing evaluation of managerial adherence to values and performance signals commitment. Benevolence: multi-stakeholder interests addressed by KPIs Ability: clear improvements in KPIs over time whilst reducing costs; independent positive evaluations by industry bodies, market analysts and legal judgement of company's competent response.

which comparisons were available, yet in the two years post-scandal (2008–2010), STW was in the upper quartile in eight out of the nine KPIs. Focusing on leakage (treated water that is lost from the company's distribution network and consumers' pipes)—a central KPI for the regulator—STW failed to hit its Ofwat target between 2003 and 2007, but then after providing Ofwat with an agreement to meet leakage control targets for the next three years, underpinned by an extra spend commitment of £45 million, it consistently met these targets as well as improving its pollution ratings (Table 3). For shareholders, STW demonstrated its ability to deliver increased shareholder returns (earnings per share and dividend) and improved operational efficiencies (e.g., cost per property) relative to the industry. ST also significantly outperformed the FTSE100 from 2007 onwards (Annual Report, 2010).⁶ Taken together, the company's performance since the reintegration and trust repair effort was embedded shows a clear improvement.

We would also contend that, from the time of the new management regime, STW demonstrated ability throughout the reintegration process, particularly through the diligent investigation, and the design and implementation of a comprehensive set of organizational reforms designed to prevent a reoccurrence of the failure (see Table 2; see also the Postscript below). This was acknowledged by stakeholders as evidenced by the 2009 Industry Award and market analysts applauding STW on its improvements to internal processes and relations with the regulator (*Daily Telegraph*, 2008).

Benevolence

The improvements in customer service evident in Table 3 is testament to the company's renewed benevolence toward customers. ST's ranking rose from the bottom of the industry for customer service satisfaction in 2005–2006, to the top throughout 2008–2010. Over the period, the number of telephone lines busy dropped to just 1 percent of the 2006–2007 level, and written customer complaints dropped to a third of the 2006–2007 level, achieving pre-scandal levels. First time job and call resolution scores also improved. Benevolence is further evident in its proactive payment of reparations to customers and its customer hardship fund. The Consumer Council for Water (CCW), which represents consumers as the self-styled "water watchdog," had published a range of critical articles on STW from 2005 (example headline: "Profits good for Severn Trent shareholders, but are customers getting value for money?": CCWater, 2005) but in 2008 in a clear validation of the company's efforts, the CCW praised ST for "holding down prices while increasing investments [demonstrating] that the company thought of consumers first when drafting their five year business plan" (CCWater, 2008). Subsequent CCW press releases reinforce this view, praising the utility for "sharing the benefits of its financial success with customers. . . . Severn Trent has shown it is listening to its customers as well as shareholders" (CCWater, 2012; 2013). The strong and consistent returns to shareholders, especially dividend payments, are further indicators of benevolence toward them.

For employees, the picture is more mixed. STW's significant investments in employee development and skills training, combined with clearer lines of responsibility, have resulted in improved safety indicators (see Table 3). In addition, fair treatment of employees involved in the investigations, and the investments in face-

Table 3: Company performance against key indicators for each stakeholder group (pre, during, post scandal).

	Pre-scandal	During Scandal and Early Reintegration				Post-Reintegration	
	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010
Customers							
Customer Service Score* out of 38 (Industry Ranking out of 21)	-	38# Joint 1st	4 Joint 21st	4 Joint 21st	20 19th	38 Joint 1st	37 Joint 2nd
All Telephone Lines Busy	12,906	11,089	842,310	1,397,792	252,808	10,054	13,235
Written Complaints	21,013	20,604	36,239	68,874	45,710	27,099	20,895
Written Complaints per 1,000 properties (Industry Quartile)	5.30 (Upper)	5.10 (Upper)	10.04 (Lower)	19.06 (Lower)	10.90 (Lower)	6.44 (Upper)	4.95 (Upper)
First Time Call Resolution (Industry Quartile)	-	-	-	80% (Upper)	85% (Upper)	88% (Upper)	89% (Upper)
First Time Job Resolution (Industry Quartile)	-	-	-	84% (Median)	85% (Median)	96% (Upper)	97% (Upper)
Regulators							
Leakage against Ofwat Target (Megalitres per day)	549/505	505/505	522/505	524/505	491/500	492/500	497/500
Pollution Incidents per 1,000 properties (Industry Quartile)	-	-	-	0.14 (Median)	0.11 (Upper)	0.08 (Upper)	0.08 (Median)
Shareholders							
Earnings Per Share (pence)	58.1	56.1	77.2	82.4	97.8	92.7	122.8
Final Dividend (pence)	28.6	29.3	31.9	38.6	41.2	67.3	72.3
Opex vs. Final Determination (Industry Quartile)	-	-	-	479 (Lower)	481 (Median)	501 (Upper)	492 (Upper)
Cost to Serve Per Property (£) (Industry Quartile)	-	-	-	227 (Median)	237 (Median)	237 (Upper)	231 (Upper)
Employees							
Safety—Lost Time Incidents per 100,000 Hours Worked (Industry Quartile)	-	-	-	0.50 (Upper)	0.61 (Median)	0.43 (Upper)	0.36 (Upper)
Employee Motivation (Industry Quartile)	-	-	-	76% (Upper)	77% (Upper)	83% (Upper)	74% (Median)

Source: Severn Trent Annual Reports 2003–2012 and Ofwat Reports 2003–2012

Notes: Industry quartile comparison is relative to all UK water utilities.

* The customer service contact score consisted of three measures: written complaints, bills for metered customers, and ease of telephone contact, combined to produce an overall score out of 38.

This 2004 rating was based on misleading data from the 2004 annual report.

Customer service scores changed in 2003/2004 and the other metrics with blank data were introduced in 2006/2007.

to-face communications with staff by the senior management team during the reform process (the “road trips”), reinforce the company’s consideration of employees (see Table 2). However, after a 6 percent increase in the company-reported “engagement/motivation” score in 2008–2009, the scores reverted to the 2006–2007 levels (see Table 3). Overall, the company has maintained a generally positive work climate during the reintegration, despite the scandal and significant job losses.

Integrity

In terms of renewed integrity, Table 2 highlights the consistently open, transparent and honest communications, acknowledgement of fault and responsibility, unreserved apologies, fulfilment of promises made to stakeholders and significant investment in reforms to rectify problems, throughout the reintegration process. That Ofwat was willing to let STW conduct its own investigation into the Customer Relations data problem (rather than imposing an external investigation) is a strong behavioral demonstration of the regulator’s trust in the company’s renewed integrity and ability. STW’s effectiveness in restoring its legitimacy in the eyes of authorities is also evident in the actions and words of the SFO trial judge who halved the fine due to the company’s early plea and cooperation and asserted in his summary judgement that STW had “adopted a proper and responsible attitude” and had “learned its lessons and put its house in order.”

In sum, the overall pattern points to an effective reintegration with stakeholders and renewed organizational trustworthiness following the company’s significant repair efforts.

ANALYSIS

We analyzed the case study through the twin perspectives of reintegration (Pfarrer et al., 2008) and trust repair (Gillespie & Dietz, 2009). From our analysis, we identified seven key themes: the first four provide case study support for existing propositions, and the final three propose novel theoretical extensions to existing models. We first discuss the supportive insights.

Supportive Insights on Organizational Reintegration and Trust Repair

1. A Defensive Approach Characterised by Denials and Obfuscation Inhibits Reintegration

There is ongoing debate over the degree to which corporations should be candid, contrite and cooperative when faced with an integrity violation. The STW case is illuminating on this issue. The defensive and legalistic orientation and misleading investigation report during the initial discovery and explanation phase did not deal adequately with the concerns of the whistleblower; nor was it transparent in the eyes of the regulator, investors or employees. This had the clear effect of compounding and escalating the original trust violation (i.e., the data manipulation).

In Pfarrer and colleagues’ (2008) terms, the organization failed to address stakeholders’ need to understand “What happened?” As they predict, this alienated a number of stakeholders and prevented the organization moving forward with the

reintegration process. The inadequate explanation was the direct trigger for the *whistleblower* to withdraw cooperation and go to the media; the *media* in turn published a series of “humiliating” articles that contradicted the company’s explanation; the *regulator* launched its enquiry and a subsequent criminal investigation; and *employees* reported feeling out of the loop. The case illustrates powerfully that an inaccurate and self-serving immediate response and investigation fails to repair trust, and can actively create distrust (Gillespie & Dietz, 2009).

While an aggressive defence of company reputation may seem an attractive option, to contain a scandal, it can have the opposite effect. STW’s lack of credible explanation allowed the media to control the dominant narrative of “what happened” and facilitated quick “concurrence” around corporate corruption and an attempted cover-up. The company lost the opportunity to actively manage the data manipulation problem internally without prominent external control and reputational damage. The “clash of narratives” between STW and its stakeholders ended with the turnover of senior leaders.

2. An Open and Cooperative Approach to the Discovery and Explanation of Wrongdoing Facilitates Reintegration

The difference in approach and mentality between the two regimes is striking. The first regime was characterised by defensive denials and obfuscation, whereas the new 2005 regime immediately adopted an open and cooperative approach, perhaps best illustrated by its response to the second transgression in Customer Relations. The new CEO’s overarching strategy was “to get on with restoring the company’s reputation as soon as possible,” to take a quick and painful hit rather than endure long-term damage. He argues for transparency and unremitting honesty: “You must concentrate on managing the damage to your reputation, rather than the litigation, which is probably going to happen anyway. . . . Be open, be transparent, be regular in your communications: “We will tell you ‘the way it is.’” Was something wrong? Yes. Is it being fixed? Yes. Are we sorry? Yes. Do we know we handled [the failure] perfectly? No.” He viewed this transparent approach as essential for relations with STW’s dominant “elite and active” stakeholder, the regulator. The improved relations and reduced fine in the SFO case is a clear indicator of the commercial merits of open and honest disclosure and cooperation: “We got credit for pleading guilty.” But the CEO also saw transparency as valuable for dealing with another “elite and active” stakeholder, the institutional investors:

As long as the issue is unresolved, uncertainty persists, and shareholders do not know how to quantify the exact risk to the company. In fact, they were assessing the risk as worse than it really was. So you have to be scrupulously honest with shareholders, [admitting] something is wrong, explain what it is, and how we will fix it. . . . We made the reports public to shareholders. [With transparent information about the scale of the problem] investors can value the firm more accurately; their dividends are now more secure.

Thus, the case supports the proposition that an open approach to discovery and diagnosis (a thorough investigation, voluntary disclosure, cooperating with stakeholders) and a clear explanation for the transgression (acknowledging wrongdoing,

accepting responsibility, expressing remorse), is a necessary stage in the trust restoration process (Gillespie & Dietz, 2009). It provides the basis for a credible explanation to stakeholders, and the necessary blueprint to guide the rehabilitation and reform of the organization, facilitating reintegration (Pfarrer et al., 2008).

3. Serving Penance and Accepting Punishment Commensurate with the Wrongdoing Facilitates Reintegration

Relationship repair requires restoring the equilibrium in the relationship undermined by the transgression, through “social rituals” such as punishment, acts of penance, and apologies (Dirks, Lewicki & Zaheer, 2009; Goffman, 1967). These acts reinforce to stakeholders that the organization has learnt its lesson (Shapiro, 1991), and are seen as indicators of remorse and concern for affected stakeholders (Bottom, Gibson, Daniels, & Murnighan, 2002; Kim, Ferrin, Cooper, & Dirks, 2004; Korsgaard, Brodt, & Whitener, 2002; Tomlinson, Dineen, & Lewicki, 2004).

The new ST Board accepted its punishments. As the HR director stated: “The price of how we used to be was a £35m fine.” They did so to draw a line under the scandal and to move forward quickly to rebuild its reputation. “I thought, we can either get on and rebuild, or chisel [over the scale of the fines]. And it didn’t feel right, didn’t feel ethical to be chiselling about the price of doing something wrong. . . . Plus, the customers see that you’ve been royally seen to!” (interview, CEO). As one interviewee reflected, the regulator and customers were “unlikely to have been sympathetic” to any appeal. Thus, the case supports Pfarrer et al.’s (2008) and Gillespie and Dietz’s (2009) assertion that organizations should expect to be punished for its transgressions and should pay penance with contrition, to facilitate reintegration and trust recovery.

In addition to accepting punishment, the company made early, *voluntary* offers of penance to customers (e.g., £10.6 million in refunds to households; increases to the customer “hardship” fund). Research indicates that actions to restore trust are more effective at signalling remorse and trustworthiness if they are voluntary rather than externally imposed, because voluntary acts are more diagnostic of the organization’s intrinsic intentions and commitment to reform (Dirks, Kim, Ferrin, & Cooper, 2011; Nakayachi & Watabe, 2005). As one director confirmed: “[Our thinking was that we would] seek to make reparations ourselves, rather than wait for the regulator to tell us what to do.” In particular, the company wanted to demonstrate that it had “not profited in any way”—a clear sign of its desire to restore equilibrium with customers.

According to the Customer Relations director, the accompanying apology had to be genuine and supported with reforms commensurate with the scale of the “crime”: “You have to apologize with great sincerity, then deal with the issues thoroughly. . . . Customers want to see you being human. People accept things can go wrong, but people don’t like to see ‘scripts.’” The trade union interviewee appreciated the apologies and penance. Both were “seen as the right thing to do,” as it “shows honesty and clarity about what the company is about, and shows a determination that this is not going to happen again.” Plus, it “took the heat out of the situation.” This aligns with Gillespie and Dietz’s proposition on the necessity of sincere apologies

and offers of penance, and challenges Poppo and Schepker's rather curious counter-assertion that denials are more suitable (Poppo & Schepker, 2010: 136).

However the decision to accept punishment and pay penance raised tensions between different stakeholder groups. The Executive gave clear priority to the interests of customers and the regulator as the elite and active stakeholders at that penance stage. Yet many employees wanted the Board to defend the organization. A former senior executive argued that pleading guilty to charges would damage shareholders' interests: "Even £2 million is a high price for shareholders to pay to trumpet the new regime's so-called ethical culture" (Duckworth, 2008). By contrast, the CEO argued that uncertainty, not fines, depress the firm's value. Our analysis of the company's share price found no negative effect following the fines, giving weight to the CEO's perspective.

4. Stakeholder Status Is Dynamic during Organizational Reintegration

A clear insight from the case is the danger involved in ignoring the legitimate concerns of a stakeholder—in this case the whistleblower. This was widely acknowledged in the interviews:

If someone raises a difficult issue within an organization, and people who are in receipt of that information go into "defensive mode" rather than "listening mode," and that whistleblower does not feel listened to, the only place that whistleblower can go after that is external. And at your peril do you not listen and engage; if you go into defending the organization, you've lost it. (General Counsel)

In the old regime's hierarchy of stakeholders, the whistleblower was viewed as a low-status "irritant" and the company dismissed his concerns so as not to jeopardise its standing with its most salient and elite stakeholders, the regulator and the investors—as well as arguably to protect themselves. As a consequence, the whistleblower felt compelled to "go external," with the *Daily Mail* serving as the "active and elite" infomediary that gave voice to his concerns and brought the company's transgressions to light (Zavvalova, Pfarrer, Reger, & Shapiro, 2012). With the power of the media behind him, the whistleblower acquired "active and elite" influence over the early narrative of the scandal, powerfully affecting other stakeholders' perceptions of the organization's legitimacy. Media reports in turn activated the interference of the regulator, who in turn brought in the Serious Fraud Office, whose status to the company changed rapidly from "latent and inactive" to "elite and active." Thus, the case supports Pfarrer and colleagues' contention that stakeholders' salience is dynamic over time (see too Clark & Soulsby, 2007) and their advice that organizations try to monitor and effectively manage *all* stakeholders, even those that appear latent, inactive or low in power (as STW initially perceived the whistleblower). This is in line with the view that the poor treatment of one stakeholder can powerfully influence the organization's broader reputation for trust amongst other "unaffected" stakeholders (Gillespie & Dietz, 2009).

The new Board had a greater appreciation of the need for effective stakeholder management, and it is evident from its actions that differential priority was given to stakeholders across the four stages of reintegration (see Table 2). During the

Discovery stage, attention focused on the regulators, who had the most legitimacy, power and urgency to claims regarding the company's misconduct. During the *Explanation and Penance stages*, customers (the stakeholder directly harmed by the transgression) were elevated in status and deemed "active and aware," as indicated by the full explanations, "unreserved" apologies and offers of penance. The regulator remained salient, with the power to determine on behalf of customers what constituted sufficient penance (the General Counsel identified customers and regulators as the "audience" of penance communications). During the *Rehabilitation/Reforming Interventions* stage, employees are essential for achieving the reforms, and the workforce became salient, as evident by senior management "roadshows" and extensive investment in training. In interview, the senior managers felt that the workforce was largely "latent and inactive" until this stage, in contrast to the emphasis on employees in Gillespie and Dietz's model. The case illustrates the dual arguments that reintegration can be facilitated by giving priority to the demands of salient stakeholder groups, whilst recognising that stakeholder salience can change across the reintegration process (Pfarrer et al., 2008).

Theoretical Extensions on Organizational Reintegration and Trust Repair

1. (Re-)Establishing a Positive Organizational Identity Facilitates Reintegration

The case suggests that establishing a positive identity for the workforce can facilitate the reintegration process. Organizational identity captures what is central, enduring and distinctive in an organization (Albert & Whetten, 1985). Scholars argue that an organization's identity is most relevant, and potentially may only be salient, in times of organizational crisis and upheaval, when there is "the potential to alter the collective understanding of 'who we are as an organization'" (Whetten, 2006: 221). As Hardy, Lawrence, and Grant (2005) argue, an employees' organizational identity offers them discursive resources from which they can draw on to enact their work, particularly during crises and change. Organizational identity is understood to be shaped by identity-relevant narratives (Chreim, 2005; Humphreys & Brown, 2002), with leaders acting as "entrepreneurs of identity" that "seek to create an inclusive category which embraces all those they seek to mobilize" (Reicher, Haslam, & Hopkins, 2005: 557).

In the case, the Executive team actively engaged in identity work and narratives with employees in an attempt to instil a shared positive identity in spite of the scandal. In so doing, they sought to provide employees with new discursive resources to reinforce and embed the desired changes to organizational values, norms and behaviors. For the Executive, the various investigations had revealed deficiencies and deceptions, but just as significantly they identified many positive employee attributes and a strong underlying pride in the organization: "We found really good people [in the departments], we could see their capability. . . . They were good people being badly led. . . . They had been institutionalised into doing bad things" (interview, CEO).

The CEO wanted to maintain and enhance these positive attributes, whilst continuing to address the problems with the company's operations and confront employees with their own complicity. STW's workforce was proud but shamed, and the CEO

sensed that he needed to tackle both emotions to forge a renewed organizational identity. As he explained, “What do we need to do to honour the past? We needed to honour the right things. . . . Then we needed to ask ourselves, what do we want to be? Which is, we will be the best water company in the country, with the highest standards, the lowest charges, and the best people. And then we had to find ways of articulating that.”

Thus, successive internal and external communications stressed two important broad themes, both of which illustrate the identity work by the top managers. The first is the explicit distinction and distancing of the “old regime” from the company under its new leadership (see Barker, Patterson & Mueller, 2001). For example, in interpreting the SFO allegations, the Executive emphasised that these are “things that happened in the past. They have nothing to do with what we do now,” and are “no reflection on what is happening inside the company today.” As an example of the dominance of this theme, the distinction between “them” (the old regime) and “us” (STW as it is now) is conveyed four times in the CEO’s two-page internal bulletin in July 2008, and the theme recurs in multiple official communications. The internal attribution of responsibility is “once removed.” The implication is that the problems were caused by “us,” but really it was *them*,⁷ and they have all left. This enabled the organization to accept responsibility, while at the same time diminishing the sense of culpability for remaining employees. For the CEO, this was deliberate, “a critical step in moving on with the ‘new’ relationships,” and is a clear example of identity work. The “us” versus “them” distinction played a key role in facilitating the organization’s trust repair efforts (i.e., to acknowledge, apologize for and take responsibility for the wrongdoing) by overcoming defensive routines (see Brown & Starkey, 2000), at the same time as bolstering the largely innocent workforce’s positive identity. Indeed, a failure need not obscure all that is good about an organization.

The second identity theme centred on STW’s capable, benevolent and honest response to the scandal and affected stakeholders, taking “all actions we think appropriate to ensure the maintenance of both high ethical and professional standards and resilience and effective controls throughout our organization” (Severn Trent press release, 22 November 2007). A comprehensive list of actions (including cultural change, better governance, tighter procedures, the repeated apologies and penance etc.) helped to reaffirm the organization’s renewed identity as a trustworthy and ethical organization.

We argue, then, that the case suggests reintegration and trust repair can be facilitated through the dual processes of creating a shared understanding amongst employees of the reality and causes of the failure (to prevent reoccurrence: cf. Gillespie & Dietz, 2009), whilst also making salient a shared identity around the organization’s positive attributes and strengths, and effective response to the transgression. This is in line with Brickson’s (2007: 881) assertion that “identity processes lie at the heart of the perceived role of the firm, determining how organizations relate to their stakeholders,” and with Brown and Starkey’s (2000) view that critical self-reflexivity combined with identity work enables organizational learning and change. A collective identity heightens commitment and motivates employees to cooperatively invest time and energy in addressing organizational issues (Ashforth & Mael, 1989;

Elsbach & Kramer, 1996; Hardy et al., 2005) and stakeholders' needs (Brickson, 2007). Identity work can also serve as a powerful learning tool for embedding new organizational norms and values (Ashforth & Mael, 1989). Hence, establishing a positive organizational identity in times of failure can provide a foundation of strength and resilience, rebuilding confidence internally and engaging employees in the necessary internal reforms required to rebuild trust and legitimacy. Importantly, it also provides a common set of discursive resources (Brown & Starkey, 2000; Kornberger & Brown, 2007) for reinforcing the organization's renewed trustworthiness with external stakeholders. Brickson (2005) found that internal and external organizational identity orientations correlate highly. Hence, we propose:

Proposition 1: After an organizational integrity violation, (re-)establishing a positive organizational identity speeds up and increases the likelihood that the organization will restore stakeholders' perceptions of its trustworthiness and legitimacy.

2. After an Integrity Violation, a "Changing of the Guard" Facilitates Effective Reintegration

It took sweeping changes at Board level and a new senior management team with a diametrically opposed approach, for Severn Trent to respond convincingly to its transgressions. This raises an interesting question for trust theory: Does there need to be widespread changes in senior personnel for an organization to restore trust after an integrity failure? Is it possible for a top management team (perceived to be) implicated or complicit in a scandal to remain in their roles and effectively carry out the reintegration effort? At STW, the new Board's efforts to distance the company from the scandal by blaming the old regime were only possible because the perceived culprits were no longer present. This suggests a "changing of the guard" (i.e., replacement of top managers) may facilitate trust repair and reintegration efforts.⁸ Indeed, the new CEO argued in interview that trust repair messages are easier for new top managers to make than for the regime in place at the time of the scandal. In their empirical study of top management team (TMT) replacement, Barker et al., (2001: 257) discovered that "very high levels of top management replacement"—86 percent of senior managers—"seemed to happen at firms where there was a large precipitating event that brought difficult issues to a head," reflecting a pattern of major overhauls at the top following organizational crises. This description matches the STW case: the botched response to the original allegations and the regulator's subsequent investigation preceded CEO and Board replacement.

A review of the antecedents of organizational corruption finds that senior leadership decision-making is a common cause or contributing factor (Ashforth & Anand, 2003). It is well accepted that individuals and organizations have "ego defences" that prevent the discomfort and anxiety of self-esteem threats by inhibiting detection, processing and correction of the error, as well as awareness of the defensive action (Argyris, 1982; Brown & Starkey, 2000). These ego defences include denials and rationalizations and have been shown to impede organizational learning (Brown & Starkey, 2000). Furthermore, "threat-rigidity" often occurs where top managers

in troubled organizations suffer from an inability to adjust their decisions to deal effectively with the crisis, and are either unable or unwilling to pursue different strategies to improve performance (Staw, Sandelands, & Dutton, 1981). As Barker and colleagues (2001: 260) note: “Since evidence of misdeeds is a significant threat to the legitimacy of a publicly-traded company, it is little wonder that existing managers would want to distance themselves from something that could lead to stakeholder intervention.”

Thus, after an integrity failure, defensive routines, self-serving biases and threat rigidity may limit the ability of “guilty” or complicit parties in the Executive team to adopt the open and objective approach recommended for reintegration. If senior leaders implicated in a scandal remain in post, the contrite communications, detailed diagnosis and rehabilitative reforms necessary to repair trust are unlikely to be initiated, let alone embedded. This is powerfully evident in the reactions of the former STW Executives even *years* after the scandal broke: they attacked the incumbent management for pleading guilty to the SFO and Ofwat cases, claiming that they would have “vigorously denied accusations of dishonesty” (*Guardian*, 2008a), and also attacked the “so-called ethical culture” programme. Even with time for reflection, and in the absence of any legal or financial liability, an old regime may not shift its perspective.

In contrast, new TMT appointments are freer of the shackles and biases (e.g., “sunk costs” and “escalating commitment,” Whyte, 1986) of decisions taken by their predecessors, and hence more likely to implement new strategies and approaches. Such “discontinuity” with the past, and the new TMT’s “path-independence” in terms of their “values, perceptions and power and vested interests,” is critical in breaking organizational inertia (Yokota & Mitsuhashi, 2008: 310). Executive succession triggers organizational change when the “strategic framing, views, and interests” of the new top team represent a clear departure from those of their predecessors (Yokota & Mitsuhashi, 2008: 310), as evident in the STW case. Furthermore, senior-level departures demonstrate to stakeholders the organization’s seriousness and decisiveness, accountability and a determination to create meaningful change, which in turn facilitates reintegration and trust repair. This view is confirmed by a meta-analysis of CEO replacement which found that the replacement “decision is a signal of both the need for change and the willingness to engage in organizational change” and that successors do indeed implement major organizational change (Hilger, Mankel, & Richter, 2013: 18). We extend this prior work into the domain of organizational trust repair by proposing:

Proposition 2: After an organizational integrity violation, a “changing of the guard” speeds up and increases the likelihood that the organization will restore stakeholders’ perceptions of its trustworthiness and legitimacy.

3. After an Integrity Violation, Reforms to the Organizational Culture are

Required for Effective Reintegration; Structural Reforms Are Not Enough

The deceit at ST was not the mistaken or mistrustful actions of a few rogue employees (the proverbial “few bad apples”; cf. Kish-Gephart, Harrison, & Treviño,

2010); it was understood to be deliberate, overseen by senior managers, enacted and tolerated by employees, and had been going on for years. In the CEO's mind, STW's "barrel"—its culture—was rotten (Kish-Gephart et al., 2010).

The dominant response to corporate scandals is to address the problem through rule-based mechanisms (Michael, 2006). Yet implementing new processes and structures without attempting to change beliefs and behaviors "often results in the same people, differently arranged, facing an unchanged set of problems" (Bate, Kahn, & Pye, 2000: 200). This is because cultural norms and beliefs govern and influence adherence (or otherwise) to organizational rules and structures (Burke, 2002; Schein, 2010). Furthermore, integrity-based failures, such as the fraud at STW, signal to stakeholders that the organization's cultural values and beliefs are misaligned with commonly accepted standards of ethical and moral conduct (Mayer et al., 1995).

The (new) Board squarely identified that the dominant challenge in rehabilitating the organization, and preventing a future violation, lay in expelling the complacent and corrupt cultural values that had led some managers to sanction and condone deliberate data manipulation. Their extensive "root and branch" reforms support the proposition that organizational reforms must be systemic—structural and procedural, but also *cultural* (Gillespie & Dietz, 2009; Hurley, Gillespie, Ferrin, & Dietz, 2013). The CEO explained his OD approach to achieving "an ethical working culture":

You will not find a 'culture change programme' in place. What you will find is a series of interventions, on ethics, on values, on behaviors. . . . The changes are behaviorally-based, and founded in values and beliefs. Then the processes come after that. You cannot separate them [values from processes]; you have to do both. We have to tell our staff, you need to do X properly because it's the right thing to do. . . . But staff need to feel the consequences, so we have interventions that include coaching and mentoring and there are consequences for their pay too, and for new appointments [i.e., promotion criteria]. And, if that doesn't make a difference, then we have to sack them.

In this, the CEO seems to echo the passionate rejection from many commentators of the so-called "separation thesis"—that business and ethical concerns are somehow mutually exclusive—in favour of a commercial orientation grounded in a robust set of moral values (see Harris & Freeman, 2008; Freeman, 1994). For trust repair, Sitkin and Roth (1993) argue that legalistic mechanisms, such as the imposition of formal rules and regulations, are only effective for reliability (e.g., task competence) failures, not for failures of values/integrity. Indeed, in a recent meta-analysis on unethical behavior, Kish-Gephart et al. (2010: 21) found that codes of conduct have "no detectable [preventative] impact," perhaps because of their ubiquity, whereas unethical conduct is much less likely "where there is a climate that focuses employees' attention on the well-being of multiple stakeholders, such as employees, customers, and the community (benevolent climate) or on following rules that protect the company and others (principled climate). Likewise, a strong ethical climate that clearly communicates the range of acceptable and unacceptable behavior (e.g., through leader role-modelling, reward systems, and informal norms) is associated with fewer unethical decisions in the workplace." This is reinforced

by Michael's (2006) analysis of how rule-based approaches cannot substitute for ethical culture and decision-making.

While previous models have suggested that cultural interventions can play a role in facilitating trust repair, we propose that, after an integrity violation, reforms to the organization's culture *are necessary*, and need to be coupled with structural and procedural reforms: neither alone will be sufficient. New rules and processes are unlikely to embed and endure without shifts in values, whereas cultural exhortations will be dismissed as "cheap talk" (Bottom et al., 2002) without substantive procedural reforms. The "congruence" across the organizational system needed to demonstrate renewed trustworthiness and to constrain untrustworthy organizational conduct (cf. Gillespie & Dietz, 2009) after an integrity violation *cannot* be achieved without both. Indeed, other notable cases of apparently successful reintegration after integrity failures have also focused on cultural change as a core and necessary component of reforms (e.g., BAE Systems and Siemens after their bribery scandals—see Dietz & Gillespie, 2011).

Proposition 3: After an organizational integrity violation, reforms to the organizational culture will be required to robustly restore stakeholders' perceptions of the organization's legitimacy and trustworthiness: structural and procedural reforms alone will not be sufficient.

Postscript

The overall pattern of our analysis clearly points to STW's restored trustworthiness and legitimacy following its substantial reintegration effort. However, a cautionary postscript is warranted. In April 2010, Ofwat raised concerns with the parent body, ST over anti-competitive practices in its other business, Severn Trent Laboratory Services (a separate company to STW). Five months later, an audit and subsequent investigation by the Drinking Water Inspectorate alerted ST's Board to significant reporting problems in one of its laboratories, including evidence of "fabricated results . . . logs and records completed retrospectively and serious deficiencies in archived records" (DWI, 2011). The report criticised managers' inaction over workload pressures, but acknowledged the company's rapid full cooperation with the authorities, rigorous internal investigation, and procedural reforms, including two senior-level subsequent sackings in Laboratory Services. In August 2012, ST agreed to sell the business in response to Ofwat's criticisms.

Whilst these failures occurred in a separate business, it highlights the parent body's challenge in transferring the learning and cultural reforms across its company boundaries. Major corporate turnarounds are complex and difficult, and changing an organizational culture can take *years* to embed (Schein, 2010). The STW case highlights that the process of restoring organizational trust may not be a linear process through the four theorized stages, but rather one subject to setbacks (e.g., revelations of further wrongdoing) and requiring multiple successive iterations between the discovery, explanation, penance, and reforms stages. This explains why reintegration and trust repair following integrity scandals are typically complex and protracted endeavours. As one long-standing STW employee remarked, "Manage-

ment can delude itself that, by training and internal communications, they can wave a magic wand over employee behaviors.” The CEO disputed this charge vigorously: “We were never deluded. That’s why our programme [of organizational reform] is so deep, and so long, and is based on [changing] values and behaviors. This is a long journey, to change fundamental beliefs, and then behaviors. . . . We are still in the foothills. . . . We have to guard against complacency, cynicism and ‘change fatigue.’ . . . We have to keep going, again and again.”

DISCUSSION

Through the in-depth case study of a major fraud scandal, this paper analyzed the process by which the organization restored its legitimacy in the eyes of its multiple stakeholders. Our analysis revealed seven broad themes, four of which provide evidence supportive of multiple propositions from contemporary models of organizational reintegration (Pfarrer et al., 2008) and trust repair (Gillespie & Dietz, 2009), and three which advance novel propositions to guide future research. To our knowledge, this is the first detailed longitudinal case study to apply these frameworks.

The study afforded the rare opportunity to analyze the distinct responses of two Executive regimes within the same field case, and to examine their effects on reintegration and trust. The contrast reflects an active debate within the literature and the case reveals strong support for the view that an open, cooperative and conciliatory response to an integrity failure facilitates effective reintegration with salient stakeholders, whereas a defensive approach blocks reintegration and results in active stakeholder distrust. This case study evidence supports propositions advanced by Pfarrer et al. (2008) and Gillespie and Dietz (2009): thorough responses in each of the four stages can result in effective reintegration and trust repair. In contrast, the case analysis challenges the perspective that denying an integrity violation is more effective than apologizing (Kim et al., 2004; Poppo & Schepker, 2010), and the pessimistic notion that any attempts at stakeholder engagement following a transgression might be futile (Lamin & Zaheer, 2012).

We call for future research to further settle this debate and explore the potential boundary conditions on the effectiveness of an open and cooperative approach for responding to corporate wrongdoing. For example, does evidence of the company’s guilt as perceived by stakeholders (e.g., convincing vs. contestable) moderate the relationship? Are there other organizational (e.g., pre-scandal reputation and status), industry (competitiveness) and contextual factors (e.g., media hostility) that moderate the relationship? Is an open and cooperative approach more effective when implemented by a new TMT (i.e., combined with a “changing of the guard”)?

We find support in the case for Pfarrer and colleagues’ proposition that stakeholder salience and status shifts across the reintegration process, and the facilitative effects of attending to the most salient stakeholder at each stage. Lamin and Zaheer (2012) found that “Wall St” (i.e., investors) seem immune to the kinds of ethical/trustworthy responses that are rated highly on “Main St” (i.e., among the public). Their deployment of the “thought worlds” concept—that Wall St and Main St see the world differently—is troubling in the context of reintegration, where organi-

zational leaders face the often competing expectations of not only customers and investors, but also regulators and their own employees. The STW case suggests that if the balance struck goes beyond merely serving one stakeholder group *better* than another, toward serving one stakeholder *at the expense of, or harm to*, others (e.g., protecting investor profits and implicated managers whilst harming the whistleblower, regulator and customers), then the organization has entered the realm of unethical and untrustworthy behavior, and is likely to suffer repercussions. The case testifies to the importance of senior leaders adopting a multi-stakeholder perspective, monitoring the “elite and active” but also those that appear latent, inactive or low in power. Research exploring how organizational leaders balance, categorise and tailor responses to different stakeholder groups during reintegration and trust repair is a rich avenue for future research.

Our three novel propositions collectively propose that, following an integrity violation, reintegration and trust repair is facilitated by (re-)establishing a positive organizational identity amongst the workforce, a “changing of the guard” at the top, and reforms targeting procedures and culture. Each of these insights has a *cultural* dimension and each mechanism facilitates encapsulating and/or embedding the new desired values, beliefs and behaviors, and directly challenging the deficient values, norms and behaviors that facilitated the wrongdoing. These propositions have clear and ready implications for practice yet warrant further empirical examination. We consider each in turn.

Our Proposition 1 on identity suggests a potentially rich and fruitful area for further theorising and empirical research, particularly on the role and mechanisms through which “identity work” can facilitate (and potentially hinder under some circumstances) the reintegration and trust repair process. Practically, it suggests that approaches to reintegration may be most effective when they enable employees to collectively reflect on the causes and contributors to the violation and work through emotions of shame and regret, while also strengthening organizational pride, conviction and discursive resources around renewed trustworthiness. To date there has been little research on the impact of identity work and emotion management on organizational trust repair. Experimental and intervention methods may be particularly useful to isolate the unique effects, as well as explore the underlying facilitative mechanisms (e.g., enhanced motivation, learning, social support and/or resource-based mechanisms). We suspect that identity work may have a greater impact on reintegration with internal than external stakeholders, and this warrants empirical investigation.

Future research to test Proposition 2 could examine whether and how a change in TMT representation following an integrity violation is associated with various indicators of reintegration and trust repair. Such research could usefully employ multiple comparative case studies, meta-analytic and/or experimental techniques to compare the outcomes for organizations that do and don’t replace senior leaders following organizational wrongdoing. Another rich area to explore is whether “changing of the guard” is a more effective reintegration strategy for some stakeholders than others (e.g., investors vs. customers), as well as the longevity of its effects (e.g., short vs. long term). Chen and Hambrick (2012) suspect that conventional—and erroneous—wisdom regarding the durability of new CEO impact, exacerbated by

“romance of leadership” tendencies, can encourage Boards to view replacement as a “ritualistic act,” rather than an opportunity to carefully re-calibrate the firm’s competencies to the new demands of its environment. They highlight that “troubled companies have substantially better performance to the extent that they replace incumbents who are poorly suited to the conditions at hand and when they appoint new CEOs who are well matched to those conditions” (2012: 225). In ST’s case, they appointed a “turnaround expert” in Colin Matthews as CEO, and Tony Wray as MD, whose “good fit” led to his subsequent promotion to CEO. This suggests that the “fit” of new TMT appointments may act as a boundary condition influencing the extent to which a “changing of the guard” facilitates reintegration and trust repair.

Finally, on Proposition 3, the contrasting impacts of different types of reforms—structural and procedural only; cultural only, and structural, procedural and cultural—can be examined through multiple comparative case studies and meta-analytic techniques. Given the time-scales involved in cultural change (Schein, 2010), retrospective or longitudinal research designs will be required. Such research might fruitfully be conducted in the context of an industry-wide integrity failure (e.g., the banks following the global financial crisis; various sporting bodies in the wake of doping scandals), categorising the nature of various organizations’ responses and reforms (e.g., cultural vs. structural and procedural). Top-down culture change has been disparaged by some scholars as costly, patronising, and ineffective (Beer, Eisenstat, & Spector, 1990), suggesting that the content, delivery and reception of cultural interventions may moderate their effectiveness for restoring trust and reintegration.

Limitations and Future Research

We believe our case analysis offers rich generalizable insights on the process of restoring organizational legitimacy following an integrity violation. Yet we acknowledge that the monopoly enjoyed by STW may have influenced the effectiveness and appropriateness of responses (see Wicks & Berman, 2004). Given the evidence, STW opted to concede its guilt; in other scandals, culpability may be less clear-cut (e.g., BP/Transocean/Halliburton and the Deepwater Horizon explosion), in which case protection of corporate reputation may warrant a more cautious response. As noted, a rich area for future research is the examination of these and other potential boundary conditions that govern the effectiveness of the actions advocated by the reintegration and trust repair models.

Access to “live” trust repair efforts is difficult to secure, making retrospective case studies a viable alternative. Our analysis drew on a wide range of data sources, including interviews and proprietary company documents, investigation reports and press releases from the regulator and authority, and hundreds of media reports. Yet the narrow profile of our interview sample (top managers and an employee representative), and the retrospective nature of the interviews, opens the potential for recall and self-serving biases. We do not believe this significantly biased our analysis for two reasons. First, all interviewees were impressively candid and introspective about the decisions, actions, tensions and trade-offs. Second, none of our key themes was based solely on interviewee testimonies, but rather were triangulated with documentary and media

evidence published pre-, during and post the scandal. However, we recommend future research on organizational trust repair directly captures primary data (e.g., in-depth interviews and/or surveys) from a representative cross-section of *all* key organizational stakeholders. Furthermore, where “live access” can be secured, future research adopting a longitudinal design across the lifespan of the reintegration effort—using interview, survey, diary, ethnographic and/or participant observation methods—would be ideal. This is likely to yield a deeper understanding of the dynamics of the reintegration process as it unfolds over time, whilst also addressing potential recall bias.

An ideal for the rigorous testing of reintegration and trust repair is to obtain direct pre-, during, and post-scandal measures of all stakeholders’ perceptions of the organization’s legitimacy and trust. Unfortunately, it is difficult to predict corporate wrongdoing and therefore obtain pre-violation measures in the field. Our analysis therefore used indirect pre-, during and post-violation indicators of renewed organizational trustworthiness across stakeholder groups in a retrospective case study design. Single case studies have considerable merit (Dyer & Wilkins, 1991), particularly for understanding complex social processes (Siggelkow, 2007; Yin, 1994). This method enabled examination of the protracted nature of the reintegration and trust repair process: it took four long years. It also afforded us the opportunity to contrast the distinct approaches and outcomes of the two Boards. Hence, for our aim of examining holistically the full contextualised process of an organization’s approach to reintegration, and using this to extend theoretical insights, the depth and narrative afforded by a single case study was appropriate. However for the purposes of replicating and testing select approaches and propositions, and examining boundary conditions, we recommend multiple case studies and meta-analytic approaches for greater statistical rigor and generalizability (Eisenhardt & Graebner, 2007).

Through a multi-stakeholder mindset and strong organizational design, organizations can guard themselves from corrupt and unethical practices. However, should a transgression occur, how an organization reacts shapes stakeholders’ perceptions not only of the organization but potentially of the broader industry. Additionally, Michael Moran (2013: 47) has argued that the successive scandals of the last decade have fuelled a “widespread but incoherent anger” with capitalism and corporate malfeasance, as testified in polling data on trust (cf. Edelman 2011; 2013). Getting trust repair and reintegration right is therefore a “critical management competency” (Lewicki & Bunker, 1996). The STW case testifies that not only can a serious integrity violation and a botched initial trust repair effort be recovered, but it can be a catalyst for enduring positive organizational change: the potential silver lining of an organizational failure. But it takes substantial investment and a protracted set of actions and reforms to realise this, and to restore organizational legitimacy and trustworthiness.

APPENDIX
TIMELINE OF EVENTS IN THE SEVERN TRENT WATER SCANDAL
AND REINTEGRATION PROCESS

Date	Event
April 2004	Whistleblower first raises concerns internally about pressure to misrepresent organization's performance to Ofwat. Severn Trent alerts Ofwat, and announces an internal enquiry, led by firm auditors.
September 2004	Severn Trent provide Ofwat with an adulterated report of the results of the auditor's investigation, rejecting the claims.
November 21, 2004	Whistleblower's allegations published in <i>Mail on Sunday</i> .
January 2005	Ofwat announces its own enquiry into leakage data case.
February–March 2005	Most of the old Board departs Severn Trent; replaced by new Executive team.
October 2005	Ofwat's enquiry leads to them referring the STW "leakage" case to the Serious Fraud Office (SFO).
February 2006	The Severn Trent Board learns of possible irregularities in the way the Customer Relations Department has reported its performance data. Alerts Ofwat, and establishes its own internal investigation, with Ofwat's approval.
February–July 2006	STW internal investigation, assisted by two other firms.
March 3, 2006	Original whistleblower faces charges of gross misconduct at a disciplinary hearing initiated by the old Board.
March 7, 2006	Ofwat publishes interim findings on the leakage case: accuses STW of overcharging customers by £42 million. Board apologizes, announces £7m of refunds to customers, and instigates "root and branch" review.
March–July 2006	Board visits different STW locations on a "roadshow" explaining the scandal, and the firm's response to it.
November 2007	SFO concludes that criminal charges should be brought against Severn Trent over allegations that it under-reported leakages. Whistleblower receives payment from Severn Trent
April 2008	Ofwat final judgement: fines STW £35.8 million (3% of turnover). STW declines to contest the fine. Apologizes.
July 2008	SFO fines STW £2.2 million, of which £200,000 are costs. Again, the company chooses not to contest the fine.
August 2008	At the Severn Trent AGM, the CEO moves to draw a line under the affair.
December 2009	Severn Trent Water named Utility of the Year 2009.

NOTES

1. At the same time, two other water companies, Southern Water and Thames Water, were also found to have engaged in dubious performance reporting practices over several years, leading to Ofwat fines, first for Thames Water (£12.5 million in September 2007) for misreporting and poor customer service, and then for Southern Water (£20.3 million in November 2007) for "deliberately misreporting" its customer service performance and "systematically manipulating information to conceal the company's true performance over an extended period" (*Guardian*, 2007a).

2. We should make clear that one senior interviewee did dispute the materiality of the allegations in terms of the amounts of money involved, and even the intentions of the perpetrators, arguing that the violation centred mainly on the deliberate misrepresentation of data and an ill-judged subsequent cover-up, rather than an orchestrated accounting fraud. Importantly, however, this was *not* how the story was reported, or perceived by salient stakeholders.

3. The Serious Fraud Office is an independent UK government agency charged with investigating entities that commit serious or complex fraud, bribery and corruption, and pursuing them for the proceeds of their crimes. Its equivalent in the United States, in terms of a comparable remit, would be the Enforcement division of the Securities and Exchange Commission (SEC) and the FBI's Corporate Fraud team.

4. It is interesting to see how other firms reacted to similar scandals. Thames Water contested their £12.5 million fine—which had been reduced in recognition of the company's cooperation with the Ofwat enquiry—on grounds of proportionality, and it was later reduced to £9.7 million on appeal. Thames pointed to their efforts to make amends and to correct their systems and processes (*Guardian*, 2008b). When a new management team took over Southern Water in April 2005, they uncovered irregular data reporting, and informed both Ofwat and the SFO. Southern launched a joint enquiry with Ofwat, and accepted their eventual £20.3 million fine—at the time the largest imposed by Ofwat, until the Severn Trent case—and offered penance over two years to customers (*Guardian*, 2007a). Thus, similar to STW, in response both companies emphasised that: 1) these breaches occurred in the past (and under previous ownership); 2) customers were either unaffected or had been reimbursed; and 3) they had sought a collaborative relationship with the regulator (*Guardian*, 2007a; 2008b).

5. Northern Britain has abundant rain, while the south suffers periodic droughts.

6. Tracking the share price relative to critical events during the scandal revealed that the only time the share price dropped significantly was after Ofwat published its interim findings, although it rallied and reached the pre-announcement level within seven days. When the SFO announced its criminal investigation, the share price dropped just 3p, and similarly, after both the fines, the company's value slipped only marginally and rallied significantly within a week, perhaps from reducing the uncertainty for market analysts about the scale of punishment. Thus, as the General Counsel suggested in interview, “the City can absorb a one-off.” The pattern implies that the scandal and associated fines had little effect on STW shareholders' willingness to invest in the company.

7. We reiterate that in the STW case, none of the departures were officially linked to the scandal, and as the case shows, the old Board have contested the new Board's response. A “minority view” counter-narrative emphasized errors of judgement rather than deceit.

8. Other recent examples of “changing of the guard” following a scandal include Bob Diamond at Barclays, Kenichi Watanabe at Nomura, Nick Buckles at G4S, and Rebekah Brooks at News International. In addition, in response to the global financial crisis, there has been “a remarkable clear-out, unexampled in any major industry before” of the top managers of British banks (YouGov-Cambridge, 2013).

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