

How to rebuild your reputation after a scandal

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Dr Yuri Mishina, Assistant Professor of Organisational Behaviour/Strategy at Imperial Business School, outlines the steps firms need to take to salvage a damaged reputation and regain stakeholder trust

Corporate scandals happen all the time. In the past 12 months, German auto-maker Volkswagen was [caught tampering with diesel emissions](#), employees at American Bank Wells Fargo were discovered [creating fake accounts in order to hit sales targets](#), and South Korean electronics giant Samsung had to [recall phones after their batteries started malfunctioning](#). Banks have recently been caught [laundering money](#), and taxi-hailing app firm [Uber has been accused of sexual harassment](#) – the list goes on and on.

When a scandal hits, there is an immediate need to limit the damage. Soon, though, a bigger challenge looms into view: how do you repair a damaged reputation? Often firms do not understand the depths of the problem. People commonly lose trust in a company after a scandal, and yet the management assumes that customers and investors still think about it in the same way.

In this situation there is a danger that the reputation is permanently damaged. So, what steps can a firm take to salvage itself? What signals can it send to stakeholders that will effectively show that it has changed? Will doing what has worked in the past work when stakeholders don't trust you?

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[David Gomulya](#), an Assistant Professor at Singapore Management School, had previously collected a data set about earnings re-statements, which proved useful in evaluating what firms have done to recover from scandals. In some cases firms had lied about their performance, which gave us a very clean way to look at corporate misbehaviour – and how stakeholders reacted to it.

We discovered that after a misstatement, investors changed their focus. When they wanted to evaluate the firm's worth they had previously tended to look at the earnings per share figure, which is considered a very good proxy for the firm's underlying performance, but is quite easy for a firm to manipulate.

After an earnings re-statement, however, they switched to book value. This is more of a historical measure, and doesn't tell you much about how the firm is performing now, but is a lot harder to manipulate. Therefore, rather than looking at the good indicator, investors looked at the indicator that was harder to cheat. They were protecting themselves against dishonesty.

To put it more generally: when people don't believe what a firm says, they will evaluate it by looking to sources of information which they perceive as more trustworthy.

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The second learning was that investors were more willing to forgive the firm if it made changes to the top management team, such as the CEO or the CFO. It is often hard for investors or other stakeholders to see if the necessary changes have been made to a firm, but a change of CEO is highly visible. The way we see it, the CEO's role is largely symbolic; they represent the firm. But changing the CEO is considered a major action because the new CEO is taking a major risk in accepting the job, by

putting their own reputation at risk. So, if they are willing to take that risk, it is an indicator that more substantive changes have been made throughout the organisation.

Once a firm made such changes, investors tended to start trusting it again, which was seen in a switch back to concentrating on earnings-per-share.

A key outcome of our research found that if a firm does something to violate people's trust or expectations, they are unlikely to continue to take the firm at their word. If stakeholders want to properly understand the firm they should look at factors which are more objective and verifiable, and harder for companies to manipulate for their own benefit. It's parallel to the idea that recommendation letters should be written by a third party, rather than the candidate, or being sceptical about self-reported tests scores.

The takeaway for firms is that if they have done something to annoy their shareholders or other stakeholders, they must think carefully about the signals they are sending. They can't assume that what has helped them in the past will help them in the future. They have to ask, 'What can we do to regain trust?' Certain actions that might have been considered great in the past might not be seen with such enthusiasm any more. Repairing a reputation is a very different thing to building one.

This article draws on findings from [Signaler credibility, signal susceptibility, and relative reliance on signals: How stakeholders change their evaluative processes after violation of expectations and rehabilitative efforts](#) by David Gomulya and Yuri Mishina, published in the Academy of Management Journal.

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