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Crisis, Criticisms, and Damaged Credibility:

A Case Study of Organisational Trust Repair by a Victorian Joint-Stock Bank

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Abstract

This article uses the organisational trust repair model developed by Gillespie and Dietz to examine how the Royal Bank of Liverpool, which suspended payments during the commercial crisis in 1847, escaped liquidation and resumed business. This case study uses newspaper reports and selected corporate records to explore narratives of trust between bank management and different interest groups over the course of resuscitating the establishment. The case affords three distinct but interlaced conduits enabling analysis of the dynamics of trust repair: reassertion of credibility through appealing to its reputational past; reconciliation of competing expectations from different parties, and renegotiation of boundaries between directors' powers and stakeholders' rights. Exploring the professional standpoint, local attributes and moral discourses within which restoration of the bank was situated enables evaluation of the bank's strategies for rebuilding trust and redeeming corporate legitimacy through a contemporary theoretical perspective, offering lessons for corporate trust repair in the twenty-first century.

Key words

joint-stock banks; bank failures; organisational trustworthiness; organisational trust repair; information asymmetry; relationship management

Introduction

Banks and financial institutions can be considered an essential component of modern, capitalist societies, and banks, both in the nineteenth century and now, rely on trust. Failure of trust in banks can result in not only the failure of the bank, but the failure of the wider economy. For this reason, trust in banks interests not only their customers and creditors but governments. Fukuyama's (1995) seminal work on the importance of high-trust levels within societies as a guarantee of social stability, economic development and prosperity led to a multiplication of research into the role of different types of trust across social science disciplines, including within management. Work on organisational trust that develops the original conclusions of Fukuyama (1995) underpins this exploration of trust repair in Victorian joint-stock banks, particularly that of Gillespie and Dietz (2009), Gustafsson et al, 2021) and Gillespie et al, (2020).

Nineteenth-century banking in Britain was in some respects not significantly different from its modern counterpart: it was a risky business because of its dual but 'contradictory role expectations' (Koslowski, 2009, p. 26), and there were a series of banking crisis during the period. This paper shows how building high levels of trust could and did act to reduce the risk of catastrophic failure. Banks are custodians of other people's money committed to their trust on one hand, and they supply credit facilities to individuals or enterprises with the money they do not own on the other (Turner, 2014). Following this contradiction – as Turner rightly observes – banking is distinct from other enterprises because its functioning is fundamentally anchored upon risk-taking and trust (Turner, 2014). Nonetheless, unlike modern banking crises during which a collapse in public confidence was (largely) staved off by bailouts funded by taxpayers 'unprecedented in their scale and scope' (Turner, 2014, p. 2), nineteenth-century Britain witnessed some successful resuscitations of failing banking entities after temporary suspensions through restored trust and renewed cooperative relationships between management and stakeholders. Among these were the North and South Wales Bank (1847), the City of Glasgow Bank (1857), the Consolidated Bank (1866), the Preston Banking Company (1866), and the Metropolitan Bank (1866). Insofar as scandals weaken corporate legitimacy and undermine public confidence, these notable examples showed that the survival of troubled banking institutions was highly contingent upon the robustness of their relationship with different clusters of stakeholders.

Knowing how to repair trust and mitigate distrust is a key demonstration of critical management competency (Lewicki & Bunker, 1996). In this article, we argue that applying a contemporary analytical framework offers a different perspective for business historians to approach the development of Victorian banking. Using the case of the Royal Bank of Liverpool which recovered from a suspension in October 1847, this article applies the organisational trust repair model developed by Gillespie and Dietz to show that broken trust could be restored (Gillespie & Dietz, 2009). However, we adapt the model to reflect some facets peculiar to banking in both its historical and contemporary contexts: (1) a principal-agent relationship strongly skewed by information asymmetry, (2) an industry-wide culture of financial secrecy which translates into unequal power relations at the organisational level, and (3) strong interconnectedness in banking activities and the real economy. The model provides an analytic framework for understanding the stages and complexities encountered during the process of trust repair at organisational level. Our research questions focus on two distinct but interrelated aspects: (1) how the troubled banking institution responded to stakeholder perception of its damaged legitimacy as shaped by press publicity, and (2) how the troubled bank rebuilt fractured internal relations with stakeholders by reforming organisational components and reconciling competing interests through discreet use of corporate power. Following the view of Pfarrer et al. (2008) that trust repair is a 'stakeholder-driven process', we argue that effective trust repair is dependent on stakeholder perception, who form judgement and provide feedback in relation to the appropriateness of the firm's remedial actions (Pfarrer et al., 2008). Given the complexity arising from multiple stakeholders with divergent interests, we also endorse the opinion that the firm must 'recognise the revolving demands of stakeholders throughout the reintegration process and take appropriate actions along the way to reflect these changes' (Pfarrer et al., 2008, p. 730).

Sources and Methods

This article follows a qualitative case study method to produce an in-depth narrative account of the suspension of the Royal Bank and the trust repair process which followed. By examining historical documents and evidence from different sources in the light of a contemporary analytical framework, we believe that a detailed case study – when combined with the cultural narrative approach – is of practical use for reconstructing the social or cultural context in which we can investigate in detail the dynamics of human actions and social processes, and provide a holistic account for the restoration of trust and public confidence following an organisational failure (Siggelkow, 2007).

In this article, we draw upon extensive newspaper reports on the suspension, banking pamphlets, and reprints of committee reports to provide a contextualised case study.

Newspapers increased in importance over the nineteenth century as a watchdog and 'key reputation intermediary' in the marketplace by exposing fraudulent schemes and helping readers 'to distinguish between good and bad investments' (Taylor, 2012, p. 682). The newspapers also translated 'internal politics of companies into public property', insofar as the proceedings of annual general meetings convened by joint-stock companies were 'public events whose proceedings were of public interest' (Taylor, 2013, p. 685). We refer to nineteenth-century banking texts and literary reviews to gauge the opinions of political and economic elites on the Royal Bank crisis, specifically on the common purpose and shared values by which banking organisations sustained their legitimacy in the marketplace. We consulted the Royal Bank's Deed of Settlement held by the Barclay Group. It is the only surviving corporate record, which usefully describes the structure of management and organisational rules which governed the behaviour of members at the bank. We examine how power relations were structured through the allocation of rights and responsibilities among different parties as stipulated in the document, suggesting that this had profound implications on trust repair efforts. We also referred to the Deed of Settlement of the Bank of Liverpool and the Liverpool Banking Company held in the same archive to draw some institutional comparisons.

We use a cultural narrative approach to account for the convolution of cultural values, moral expectations and social norms along which dynamics of trust repair progressed given that organisational legitimacy is 'a generalised perception by stakeholders that an organisation's actions are appropriate within a socially constructed system of norms and values' (Pfarrer et al., 2008, p. 731). In doing so, we endorse the view of Lamoreaux (1996) that the emergence and evolution of business organisations reflect both conceptual processes and specific social and cultural contexts, which may either create or constrain opportunities for corporate changes (Lamoreaux, 1996). The embedded systems of beliefs, values and ideas provide an interpretative frame through which members ascribe meanings to events, institutions and practices (Hansen, 2013).

Organisational-Level Trust Repair Model

Repeated episodes of financial crisis in nineteenth-century banks in Britain had undermined public trust and endangered the reputation of the sector. Scandal attracted adverse publicity and invoked strong negative sentiments among the victims, but some banks were able to overcome crisis, offering a case study in trust repair. The organisational trust-repair model developed by Gillespie and Dietz (2009) is built upon the three attributes of organisational trustworthiness outlined by Mayer, Davis, and Schoorman: (1) the *ability* to fulfil key organisational missions; (2) *benevolence* as exemplified in the commitment to safeguarding stakeholders' well-being, and (3) integrity as demonstrated in certain ethical standards (Gillespie & Dietz, 2009). From this claim, Gillespie and Dietz (2009) deduce that the legitimacy of an organisation is threatened when it fails 'in its responsibility to meet reasonable standards of ability, benevolence, and integrity in its conduct towards its stakeholders' (p. 128).

The significant implication of this theoretical approach is that 'the locus of control' for the failure rests with the organisation internally – 'even though the context for the failure may involve external influences' (Gillespie & Dietz, 2009, p. 129). The model incorporates multilevel theory, recognising the interconnectedness of various activities performed across different organisational components and levels (Rivkin & Siggelkow, 2003; Gillespie & Dietz, 2009). It sees organisational trustworthiness as a result of repeated interactions 'among agents and groups in a multilevel network', during which certain behavioural patterns are reinforced and accepted as the norm (Gillespie & Dietz, 2009). The model incorporates four *internal* components from which stakeholders derive the attributes and signals to form opinions about the trustworthiness of an organisation: (1) the leadership and management practices; (2) culture and climate; (3) strategies, and (4) systems, policies and processes (Gillespie & Dietz, 2009). Two *external* components – namely (1) external governance and (2) public reputation – also influence stakeholders' perception of organisational trustworthiness (Gillespie & Dietz, 2009). Figure 1 provides the definition of each component and shows how the terms are applied or adapted to the context of our study. In relation to the above remarks, trust is a 'meso' term, combining 'micro-level psychological processes and group dynamics with macro-level organisational and institutional forms' (Gillespie & Dietz, 2009, p. 128). The model construes organisational trustworthiness as 'a collective construct – a sensemaking heuristic originating at the level of individuals' perceptions but that, in the aggregate of collective impressions, can operate as a shared reputation in the organization' (Gillespie & Dietz, 2009, p. 128).

Figure 1:
Organisational Systems and Components: A Banking Context

Organisational components	Descriptors	Applications and adaptations
Leadership and management practice	• Senior organisational leaders as role models and key influencers over organisational policies and practices (Schein, 1990) • Acceptability of norms and behaviour as informed by organisational authority and accountability (Kouzes & Posner, 2002)	• Banking experiences, specialised knowledge, and competence • Integrity, honesty, and accountability • Organisational benevolence and motivations in relation to stakeholders' interests • Executive shareholding, ownership, or financial interests
Culture and climate	• Shared interpretations about corporate actions and events (Schein, 1990; Victor & Cullen, 1988) • Common beliefs, values, and norms (Nooteboom, 2002) • Cultural controls (Perrone, Zaheer & McEvily, 2003)	• Commitment towards local and collective economic interests • Short-term vis-à-vis long-term business orientation • Organisational secrecy vis-à-vis transparency
Strategy	• Financial goals, operational procedures, and human resource policies as indicative of the organisation's values and priorities (Burke & Litwin, 1992)	• Corporate involvement in local enterprises and ventures • Provision of depository services and credit facilities • Interest returns and credit terms • Financial portfolios and investment
Structures, policies, and processes	• Reporting lines, checks and balances, formalised rules and procedures, organisational hierarchy and power, and distribution of rights and responsibilities • Acceptable behaviour as defined by organisational roles and expectations (Perrone et al, 2003; Shapiro, 1987)	• Specification of organisational rules, roles, and power • Power relations between directors, managers, and different classes of stakeholders • Allocation of rights, obligations, and liabilities • Ranking of divergent interests between different classes of stakeholders
External governance	• Institutional-based trust (Zucker, 1986): official legislation and regulatory framework, professional codes of conduct, and industry networks (Ring & Van de Ven, 1992) • Impersonal structures: governance and rules; organisational and industry-specific expectations (McKnight, Cummings & Chervany, 1998)	• Formation and registration of banking establishments • Corporate disclosure and reporting requirements • Board election and requirements • Banking professionalism, standards, and expectations
Public reputation	• Organisational trustworthiness as projected by media, industry leaders, and relevant stakeholders • Intra-industry standing and wider business networks (Klein, 1997)	• Regional paper media coverage and reports • Local receptivity, support, and solidarity • Corporate identity and importance within the community • Comparative business and reputational standing • Board and shareholder qualification

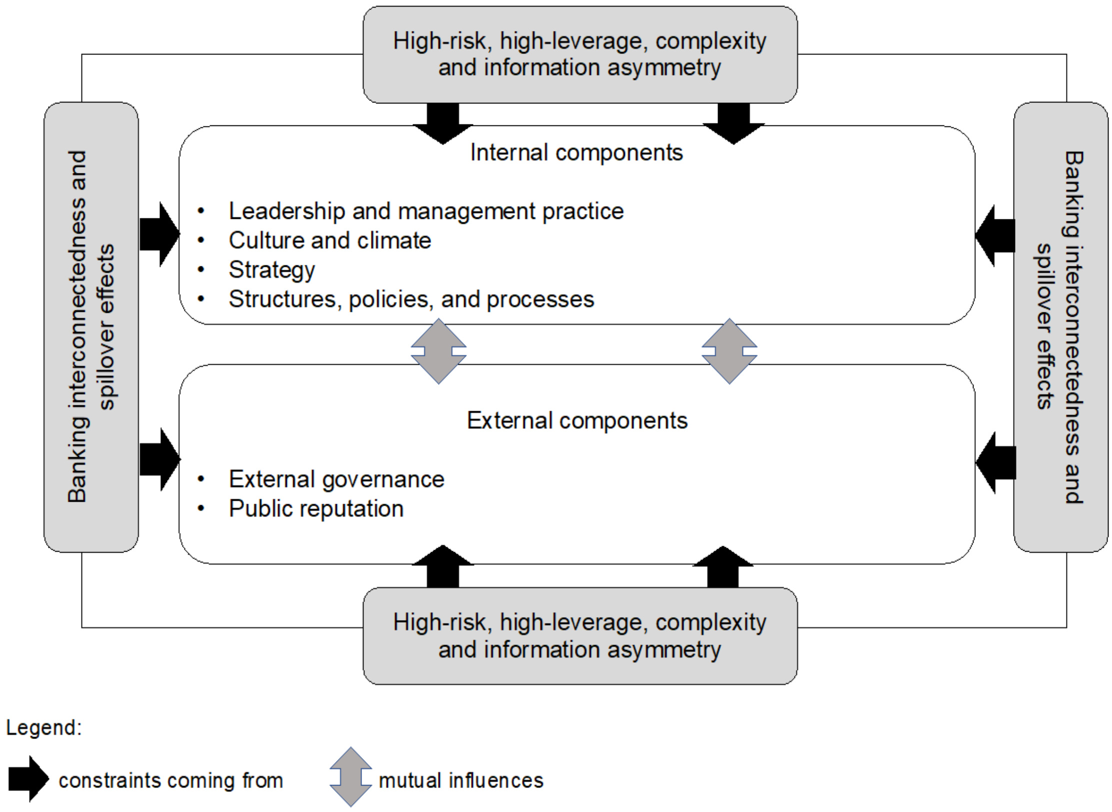
The last theoretical facet of the model is its post-attribution approach to analysing failure – that is, once the failure has undermined organisational trustworthiness (Gillespie & Dietz, 2009). It outlines four stages for effective trust repair: (1) an *immediate response* that acknowledges and expresses regret for the crisis; (2) a systemic and accurate *diagnosis* of the problem; (3) *reforming interventions* across internal organisational components, and (4) a comprehensive and credible *evaluation* of the progress and results of the reforms (Gillespie & Dietz, 2009; Gillespie et al., 2014; Morgeson & Hoffman, 1999). By focusing on substantive actions which accompany the recommended stages, the model presents trust repair as a 'protracted process' during which 'multiple sources of evidence and actors' across multiple organisational levels operate in such a way that facilitates overall organisational trustworthiness (Gillespie & Dietz, 2009, p. 129). It encapsulates the complexity behind the exchanges and flows of information, the attribution of blame and responsibilities, and engagement with the public and external groups – all of which critically determine the effectiveness of trust repair (Gillespie & Dietz, 2009).

We now discuss the relevance of the model to our study in connection to some features unique to banking. First, because in banking the principal-agent relationship is heavily constrained by information asymmetry against a backdrop of uncertainties and risk-taking, we argue that *integrity* and *benevolence* have more influence on the success of restoring trust than *ability* alone could achieve (Morris & Vines, 2014). This claim is substantiated by Kim et al. (2004) noting it is easier to mitigate distrust resulting from fiduciary failure than that from ethical breakdown, given that the latter has to do with moral flaws rooted in personal characters and tends to be more noticeable. Ordinary users do not have the specialised knowledge to make informed decisions as financial products are often too complex to understand. Moreover, given that financial investments 'contain promises about delivering returns far into the future', it is almost impossible to ascertain the real value and risks until a significant period has lapsed

(Morris & Vines, 2014, p. 10). These features predispose customers to rely on bankers for their expertise, whose motives and actions they nonetheless cannot perfectly monitor (Jaffer et al., 2014). Morris and Vines (2014) comment that ‘both uncertainty and asymmetric information led to great temptations for those who possessed knowledge or expertise to behave dishonestly’ (p. 10). The abstractness of financial products also provides the manager a leeway to camouflage downside risks over long periods of time (Noe & Young, 2014).

In the model, Gillespie and Dietz (2009) attribute organisational-level failures to deficiencies in multiple internal organisational components (see Figure 2). This helps to explain why not all banks failed or suspended payments, albeit all came under the strain of the same commercial crisis. Some features in banking compound the dynamics behind the internal and external components in the event of trust failures. First, the tendency for managers to adopt ‘high-risk high-leverage strategies’ (because the downside risks fall disproportionately on depositors or creditors) – together with the culture of enforced secrecy (because clients’ financial information is deemed confidential) – curtail the capacity of stakeholders to hold the management to account (Jaffer et al., 2014). Second, given the interconnectedness of the banking system, losses and panics stemming from individual bank failures tend to spill over onto other healthy institutions, thus disrupting payment facilities and diffusion of credit across the real economy. A destabilised system results in wider socio-economic disruptions because banks facilitate payments and diffuse credit across the real economy (Armour & Gordon, 2014). The combination of these features makes trust failures in banking particularly challenging to overcome: failures at the organisational level could potentially mutate into a systemic crisis.

Figure 2:
Organisational System Components and Impacts of Banking Features on Public Perception on Organisational Trustworthiness



In relation to the above remarks, past studies of Victorian banking show that having the trust and support of the community critically dictate the success and survival of local banks. Barnes and Newton (2016) demonstrate that bankers – as 'established members of their communities' – were motivated to safeguard their own reputation by conducting themselves 'responsibly, honestly and virtuously' in the collective interests of all members (p. 63). Insomuch as local business networks communicated reputation by 'word of mouth' and 'printed word', Taylor (2013) argues that the concern for reputation functioned as 'a self-regulating device' to ensure good behaviour in commercial transactions (p. 682). In this article, we use the model to explore the solidarity between local banks and the community in times of crisis, as determined by the preparedness of both parties to identify with each other, and the management's tactful exploitation of the collective identity when seeking to regain public trust. Thus we find, effective trust repair invoked a critical reflection upon a new agenda that framed the fiduciary conduct of bankers in relation to the economic interests of the local community (Wilson & Wilson, 2013).

In a separate study, Gillespie et al. (2014) acknowledge that trust repair may not necessarily be 'a linear process through the four theorised stages, but rather one subject to setbacks', requiring 'multiple successive iterations between the discovery, explanation, penance, and reforms stages' (p. 400). This qualification is essential to our study. Firstly, trust and credibility are both context-specific and subject to shifting interpretations as new information emerges: the comment by the press and banking elites on the moral attributes and soundness of banking practices, for instance, could sway public opinions about the credibility of the troubled institution. Next, multifaceted business relationships also complicate the trust repair process as competing interests emerge among individuals who are 'partially interlocked in a variety of ways' (Downs, 2017; Pearson & Richardson, 2001, p. 659). As Newton (2010) shows, shareholders from the same community could relate to the banking entities as depositors or borrowers at the same time. There were also controversial occasions where directors and managers were debtors to the banks in which they held office. Trust repair thus involved a constant reappraisal of the moral qualities and competence of corporate leadership in uniting different parties through the crisis. Trust repair is further muddled when unequal power relations between directors and shareholders enter the equation, which Johnson sees as working 'to the advantage of the original owners as they divided their proprietorial rights into shareholder ownership and directorial control' (2010, p. 197).

Considering the above observations, we follow the view of Lewicki et al. (1998) that trust and distrust are not necessarily 'opposite ends of a single continuum' (p. 440). As Gillespie and Dietz (2009) aptly suggest, the underlying mechanisms for trust repair necessitates *both*

(1) distrust regulation (i.e. mitigating negative expectations of untrustworthy actions) and (2) trustworthiness demonstration (i.e. sending positive signals of renewed trustworthiness). This notion recognises the possibilities for parties to simultaneously 'trust and distrust one another in view of the different experiences within the various facets of complex interpersonal relations' (Lewicki et al., 1998, p. 440). An additional facet that is noted is capturing opportunities for trust preservation, a strategy that is particularly important when disruption occurs, and is noted to be a reflexive action taken by leaders (Gustafsson et al, 2021; Gillespie et al, 2020).

Crisis at the Royal Bank of Liverpool

After years of strong growth propelled by a regime of cheap credit, the British economy entered troubled waters during the latter half of the 1840s. Intensifying monetary pressure compelled the Bank of England to restrict discounting and lending, thus setting off a wave of mercantile failures in September 1847 (Turner, 2014, pp. 72-5). The credit squeeze hit the country's joint-stock banks particularly hard. Among the sufferers was the Royal Bank of Liverpool, which turned to the Bank of England for an advance upon bills. The aid was refused in cash but granted in stock, which was subsequently liquidated for cash, thus precipitating a sudden and persistent fall in the value of the bank's shares – an inauspicious sign which the public interpreted as a looming calamity (*Manchester Courier and Lancashire General Advertiser*, 16, 20 Oct. 1847). Attempts to secure further support failed, and on Monday 18 October the Royal Bank suspended payment (*The Times*, 19 Oct. 1847).

News of this sent 'an electric shock' through the town (*Liverpool Mercury*, 19 Oct. 1847, p. 8). Alarmed depositors began to press upon other local banks for their money (*Manchester*

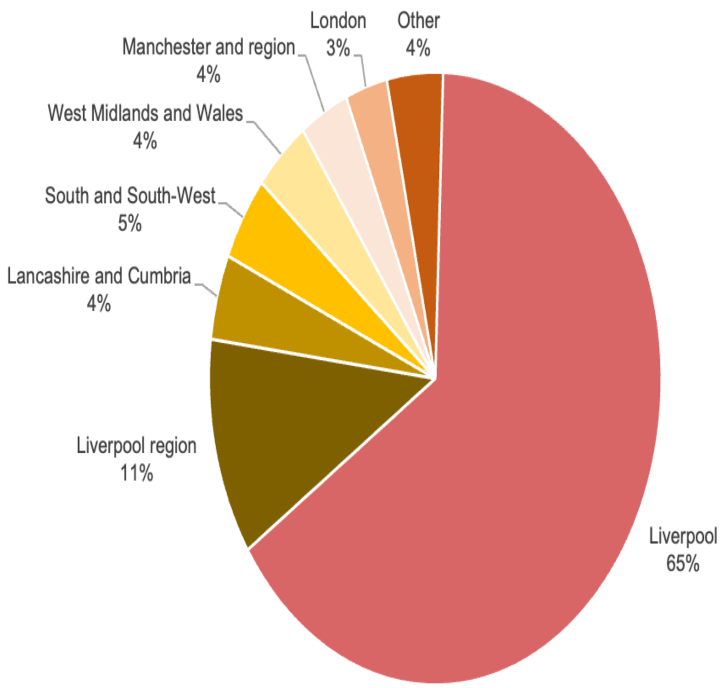
Courier and Lancashire General Advertiser, 4 Dec. 1847; *Liverpool Mercury*, 26 Oct. 1847; *Chester Chronicle*, 5 Nov. 1847). The Liverpool Banking Company and the North and South Wales Bank, which had extensive operations in Liverpool, both also temporarily suspended business, while the Bank of Liverpool survived £100,000 of deposits being withdrawn because of its name 'being somewhat similar to that of the Royal Bank' (Turner, 2014, p. 75; Adam Hodgson, Commons Committee, 1848, Q71). Though the monetary pressure soon abated, the sudden reversal of the Royal Bank's fortunes – its shares had been trading at a large premium just weeks prior – bewildered the local community (*Liverpool Mercury*, 19 Oct. 1847, p. 8).

Founded in 1836 with £2 million nominal capital, its shares were £1,000 each – an unusually high denomination which set it apart from most of its more 'democratic' rivals – with £500 per share paid up, designed to attract a wealthy proprietary and ensure the bank's resilience (Alborn, 1998, p. 109; Royal Bank of Liverpool, Deed of Settlement, 2 May 1836, art. 2). Indeed, the local press described its body of shareholders as 'one of the richest in England' (*Liverpool Times*, reprinted in *Manchester Courier and Lancashire General Advertiser*, 20 Oct. 1847, p. 669). The bank's ownership reflected Liverpool's status as a 'provincial outpost of "gentlemanly capitalism"' (Belchem, 1998, p. 1). About 32 per cent of its shareholders were merchants, brokers, or involved in shipping – while a further 26 per cent described themselves as gentlemen (*Liverpool Mercury*, 19 Oct. 1847, p. 8). By contrast, just six per cent were tradesmen. And, as was typical of provincial banks at the time, these proprietors were overwhelmingly local (Alborn, 1998, pp. 102-3). Of 199 shareholders, 129 (65 per cent) were Liverpool residents, and a further 23 (11.5 per cent) came from the environs of the town (see Figure 3). The board, dominated by Liverpool merchants, successfully embedded the bank in the town's business culture. Unlike many other new joint-stock banks, it chose not to establish a regional branch network, catering primarily to Liverpool itself, 'whose commodity and export trades had made its commercial activities more diverse than in

Lancashire as a whole' (Newton & Cottrell, 1998; Anderson & Cottrell, 1975, p. 604). Yet it was its enthusiastic support of local enterprise that was to lead it to disaster.

Figure 3:
Composition of Shareholders by Region
The Royal Bank of Liverpool (October 1847)

Source: *Liverpool Mercury*, 19 October 1847.



About a week after the stoppage, a committee of shareholders started working with the directors to investigate the bank's situation. At a general meeting on 30 October, the committee confirmed the reason for the bank's predicament: it had extended around £523,000 of its paid-up capital of £646,000 to Barton, Irlam and Higginson – a prominent Liverpool mercantile house led by Jonathan Higginson – and had made further large advances to two other local businesses (The Report of the Committee, *Liverpool Mercury*, 2 Nov. 1847, p. 6; *Bristol Mercury*, 23 Oct. 1847, p. 2). It was this lock-up of capital that had left the bank so exposed during the credit squeeze. The shareholders faced three options: wind up the bank, amalgamate with another local bank, or attempt to resuscitate the bank by raising enough additional capital from shareholders to get it over its present difficulties (*Liverpool Mercury*, 2 Nov. 1847, p. 6). Despite considerable scepticism in some quarters – the *Manchester Guardian* thought the chances of restoring the bank to solvency were ‘exceedingly small’ (3 Nov. 1847, p. 4) – a majority of shareholders and depositors in fact proved willing to work with the directors to revive the bank. At the meeting a proposal to liquidate the bank was voted down by a margin of about ten to one (*Liverpool Mercury*, 2 Nov. 1847, p. 6).

The prospects for resuscitation improved further at a second meeting of shareholders a week later, on 6 November, when the committee reported that a re-examination of the accounts has seen a considerable reduction of the bank’s liabilities, and that the assets available ‘had been much underrated in the former report’ (The Report of the Committee, *Lancaster Mercury*, 9 Nov. 1847, p. 4). The committee’s recovery plan consisted of two policies allowing prompt settlements of depositors’ accounts without imposing an excessive financial burden upon the shareholders (*Liverpool Mercury*, 5 Nov. 1847). First, depositors would have their money refunded in four equal instalments over nine months with interest paid. Second, instead of enforcing payments by making calls upon shareholders’ wealth, the management issued four thousand preference shares of £100 each to raise the £400,000 needed to meet depositors’ claims (*Liverpool Mercury*, 9 Nov. 1847, p. 4). Later that month, amidst rising optimism, the bank announced that it planned to resume business on 1 December. At a third meeting on 29 November, the chairman confirmed to the shareholders that this would happen, in a remarkable reversal of the bank’s fortunes. The rest of the article explores how the directors were able to achieve this impressive result.

Controlling the Narrative

The case of the Royal Bank encapsulated two opposing narratives which began with its suspension and culminated with recovery. The first emerged from the negative publicity about its shocking mismanagement by the press. The second narrative was saturated with the directors' use of their corporate influence to battle negative publicity and defend the bank's standing in the town. The willingness of stakeholders to cooperate and resuscitate the bank was essential for securing the interests of all and restoring the community's credit as a vibrant trading hub. The extent to which the management secured the fresh support of different parties also reflected how effectively the bank had repackaged itself as an organisation capable of rectifying managerial defects and recommencing upon a stronger foundation.

The primary duty of bankers – as Koslowski (2009) notes – is 'to maintain objectivity whilst having the courage, seasoned with rational scepticism, to issue loans to good investment projects' (p. 19). In the case of the Royal Bank disaster – as with the Great Recession of 2008 – hindsight showed that excessive risk-taking was 'the core of the problem' (Jaffer et al., 2014, p. 10). In banking, past and present, it has been far from easy to define the parameters for legitimate risk-taking activity (Wilson & Wilson, 2013, p. 56). What seemed acceptable risks to the directors were subsequently revealed to be disastrous. At the first meeting of shareholders on 30 October, three of the bank's directors, William Shand, Emanuel Zwilchenbart, and Charles Middleton, all Liverpool merchants, issued a written statement explaining how Higginson was able to build up such a ruinous account with the bank. In June 1846, when the amount owed by Higginson was about a third of what it was eventually to become, Jeremiah Chaffers, the bank's manager, had advised the directors against making any further advances because of his failure to provide adequate securities. But the directors overruled Chaffers on the grounds that Higginson, who was also a shareholder, was a man of 'honour, wealth, and integrity' (*Liverpool Mercury*, 2 Nov. 1847, p. 6). Subsequently absent from work for seven months due to poor health, Chaffers' duties were filled by chairman of the board Sir Thomas

Brancker (1783-1853). As a self-declared 'regular old Tory', and once the Mayor of Liverpool in 1831 and alderman in the reformed Town Council, Brancker was a major figure in Liverpool politics and society (*Liverpool Mercury*, 15 Feb. 1853, p. 4). His considerable influence and standing had done practically nothing to steer the bank in the right direction, however. Indeed, he allowed Higginson's account to swell much further. Though not wanting 'to cast an undue share of blame upon him', the other directors stressed that Brancker alone possessed full knowledge of customers' accounts (*Daily News*, 1 Nov. 1847, p. 2). They wanted to 'solemnly assure the proprietors every thing was done as was supposed at the time for the best' but admitted that allowing Higginson to borrow so much was 'a grievous error of judgment' (*Liverpool Mercury*, 2 Nov. 1847, p. 6).

The Royal Bank directors also acknowledged that by their misjudgement they were the cause of distress across the district – a form of irregularity which Herzog (2019) describes as 'systemic harms' which modern banking has similarly witnessed (p. 534). The connotations that bankers have a 'calling' within the community, and that they stand in 'a promissory relationship with society', imply they have 'a commitment not to harm individuals' and must take 'responsibility for the systems within which one operates and of which one has specific knowledge' (Hughes, cited in Herzog, 2019, p. 535). Following this argument, 'individuals within society have both rights and responsibilities in relation to the larger body' (O'Brien, 2009, p. 35). Wilson and Wilson (2013) concur, emphasising the obligation of banking companies to vindicate themselves as 'occupants of positions of responsibility' capable of acting in the best interest of the community (p. 68). In the early Victorian years, proponents of joint-stock banks like James William Gilbart (1794-1863), the general manager of the London and Westminster Bank, framed these institutions as engines of moral uplift in their towns. By extending credit to the honest and industrious, and withholding it from spendthrifts and gamblers, 'bankers perform the functions of public conservators of the commercial virtues'

(Gilbart, 1849, p. 13). Fellow banker Gavin Mason Bell saw joint-stock banks as ‘moral and religious institutions’ for precisely the same reasons; when directors were not men of strict integrity, they had the ‘power to ruin the fortunes of others, and to inflict much commercial evil upon the community’ (1840, pp. 43, 68). In the case of the Royal Bank, insofar as the community looked up to the establishment as a visible pioneer in upholding local economic interests, to repair trust effectively the directors needed to recognize the extent to which negative publicity reflected the collective voice and welfare of the community.

This willingness to admit mistakes is consistent with Gillespie and Dietz’s (2009) proposal that denials or ‘duplicitous impression management’ can significantly undermine organisational credibility (p. 137). It certainly did not spare the board from scathing criticism from the bank’s shareholders, many of whom were reportedly ‘disgusted with the management’ (*Manchester Guardian*, 6 Nov. 1847, p. 7). London MP and director of the Bank of England William Thompson argued that the situation had been ‘caused by an utter departure from all the established and recognized principles of banking’ and accused the board – and Brancker in particular – of ‘gross mismanagement’ (*Liverpool Mercury*, 2 Nov. 1847, p. 6). Other shareholders shared Thompson’s views. Liverpool ironmonger Joseph Cooper deeply regretted his conviction that the directors were ‘sharp enough and keen enough’ to be entrusted with the management of the concern (*Liverpool Mercury*, 2 Nov. 1847, p. 6). Captain Jones, a retired officer of limited means, complained that the directors had been vested with too much power ‘to make advances either with or without security’ (*Liverpool Mercury*, 2 Nov. 1847, p. 6). But the board’s preparedness to endure substantive losses by retaining their shares was a tangible signal of honest intentions (Bottom et al., 2002). As the largest shareholder, Brancker’s refusal to part with his shares was evidence that he held a substantial stake in promoting the prosperity of the establishment. He was determined ‘to stand or fall with the bank’, vindicating his innocence of intent to conspire against the public (*Liverpool Mercury*, 2 Nov. 1847, p. 6). As a result, the injured parties appeared to have accepted that role failures – and not ethical violations – were the primary cause of the debacle. Likewise, though arguing that the episode demonstrated ‘so humiliating a picture of incapacity’, the press was satisfied that ‘not a shadow of a stain rested on the purity of intention, or on the personal honour of the directors and managers’ (*Manchester Courier and Lancashire General Advertiser*, 3 Nov. 1847, p. 698; *Liverpool Mercury*, 5 Nov. 1847, p. 6). Even the bank’s severest critics in the London press accused the directors of incompetence rather than corruption. ‘Was there ever such perversity, such grievous imbecility, or recklessness all united?’ queried the *Morning Advertiser* (1 Nov. 1847, p. 2). This was crucial, for distrust originating from ethical breakdown – which has to do with moral flaws rooted in personal characters – are more difficult to mitigate than that associated with fiduciary failure (Kim et al., 2004).

Nevertheless, directorial integrity and information asymmetry pulled trust restoration in different directions. While the organisational leadership demonstrated trustworthiness by holding themselves responsible, the firm’s policies and practices risked curtailing shareholder information and intensifying distrust (Gillespie & Dietz, 2009). It appeared that the board remained capable of containing shareholders’ influence by pre-determining the types, timing, and flow of information. Inevitably, the strategies for restoring trust therefore involved shareholders making an evaluation of the management’s ethical standards (Flores & Solomon, 1998). The bank’s suspension occurred at a time when the former cultural and legal perspective that once construed corporate affairs as ‘purely “private” matters’ had begun to be challenged (Wilson, 2014, p. 137). Joint-stock firms were increasingly reckoned as incorporating ‘public dimensions’ – and even more so if their conduct of business was inseparably tied to a wider public interest (Wilson, 2014, p. 150). But joint-stock banking had stronger traditions of secrecy, especially outside London, where it was believed that publicising balance sheets ‘lays the bank open to attacks from its rivals or opponents’ (Gilbart, 1849, p. 204). As was typical, the Royal Bank denied shareholders the right of inspecting the company's accounts, documents and writings, 'except such as may be produced for that purpose at any meeting of proprietors' (Royal Bank of Liverpool, Deed of Settlement, 24 Dec. 1847, art. 64). To the extent that shareholders' knowledge about the company's affairs was restricted to the reports and summary accounts produced for the general meetings, the management could 'conceal troublesome reality for some time' (Freeman et al., 2012, p. 225). It is therefore not difficult to appreciate the misgivings the stakeholders had about the bank. Cooper complained that there had 'been hitherto too much secrecy about the bank', and shareholders had 'a right to expect the strictest investigation into the manner in which their affairs were managed' (*Liverpool Mercury*, 9 Nov. 1847, p. 4).

It was therefore significant that after the bank suspended, the directors cooperated with the committee of shareholders in their investigation of the bank's affairs, marking the opening stage of discovery and disclosure. The committee of shareholders and board of directors worked in tandem through the critical weeks of suspension, the directors effectively sharing control with Josias Booker (1793-1865), the chair of the committee of shareholders. Though the directors initially preferred managing the crisis behind closed doors, barring reporters from the first meeting of shareholders on 30 October, when the meeting resumed a week later, it was with reporters present, the board having agreed to a resolution to that effect by shareholder Samuel Holme (*Liverpool Mercury*, 9 Nov. 1847, p. 4). This is featured by Gillespie and Dietz (2009) as the 'critical and urgent step' for the board to provide timely, accurate, and transparent communication to the stakeholders about the crisis (p. 137). When the bank reopened, the local press believed that public confidence in the institution had been regained 'in a great measure by the publicity of her proceedings' (*Liverpool Albion*, 6 Dec. 1847, p. 5). The importance of the creation of a collaborative committee is underpinned in the work of Fukuyama (1995) whose interpretation of trust is significant for this paper. Fukuyama's (1995) relevance to this study is his conclusion that cooperative endeavour, particularly between firms and investors, is essential to trust building, maintenance and repair, and is one of the central features of this case study.

Notwithstanding the potential danger that the board may manipulate the diagnostic processes or 'recast the failure and damage in a more benign light' (Gillespie & Dietz, 2009, p. 138; see also Greenberg, 1990), the directors' readiness 'to identify, acknowledge, and assume some ownership' was the key explanatory factor why shareholders were willing to renew their trust (Lewicki & Bunker, 1996, p. 130). Transparency apart, what critically mattered was how strongly the directors held fast to their organisational commitments and demonstrated their innocence by emphasising their shareholdings and losses, and their genuine interest to minimise the economic sufferings of different parties. These instances show that shareholders were by no means 'passive bystanders' but individuals capable of forming their own judgement in relation to the facts of transgression and the appropriateness of the directors' response (Kim et al., 2009, p. 409, Gustafsson et al, 2021).

Conflict of Interests?

Though exculpated from ethical failings, there was the possibility that a conflict of interest underlay the directors' profligate lending policy. Prior to emancipation, Barton, Irlam and Higginson had been one of the biggest slaveowners in Barbados, and their extensive sugar and cotton interests placed them firmly in the same business networks as members of the Royal Bank board (Butler, 1995, p. 57). Several directors had interests in the West Indies, most notably Josias Booker, who was one of the bank's founding directors in 1836, though he had stepped away from the board by the time of the bank's suspension. Booker had made his fortune in British Guiana, and following a dispute with Liverpool shipowners, in 1835 he and his brothers founded the Booker Line, their own shipping company, to transport raw sugar from their plantations (Slinn & Tanburn, 2003). In partnership with his brother James, Thomas Brancker was a leading figure in Liverpool's sugar refining industry: until it burnt down in 1843, their factory was one of the largest in the country, 'employing some hundreds of men' (*Morning Chronicle*, 29 Dec. 1843, p. 3). While Lamoreaux has shown that preferential lending was not necessarily an ill-designed policy, the suspicion was that the directors were far more attuned to the interests of Liverpool's mercantile elites than the wider business community (Lamoreaux, 1996). One anonymous critic writing in the *Liverpool Mercury* mocked the bank's 'aristocratic' pretensions, which had meant that it had been 'rather exclusive in the choice and number of its friends'. Of the town's banks, it had developed a reputation as 'the least accommodating to the public generally', and now the reason was clear: having locked up all its resources with Higginson, it simply could not afford to lend to others ('An Observer', *Liverpool Mercury*, 5 Nov. 1847, p. 6). The paper lamented that 'so important an establishment should have crippled its great means of usefulness to thousands of safe men of business, by accommodating one accumulator so enormously' (*Liverpool Mercury*, 2 Nov. 1847, p. 8).

The charge resonated with the bank's customers. At the first general meeting following the suspension, Cooper accused the management of 'favouritism': while the bank was enormously liberal to a failing enterprise, the board had repeatedly denied him an advance of a few hundred pounds 'until he gave his own personal security into the bargain' (*Liverpool Mercury*, 2 Nov. 1847, p. 6). One subscriber wrote to the press suggesting that the crisis would have been averted had the bank's accounts been presented to the directors in anonymised form. Their judgement would not then have been clouded by their unreliable assessments of the 'honour and means' of the bank's debtors ('A Subscriber', *Liverpool Mercury*, 9 Nov. 1847, p. 6).

The bank kept Higginson's account open for so long on the 'security' of the huge stocks of cotton he was holding, in the belief that prices would continue to rise. Though they did, Higginson refused to sell, hoping that prices would increase yet further, and when they dropped, the firm quickly went bust. It was the Manchester press that was the most scathing in its criticism of the bank's actions in lending so freely to Higginson. As the *Manchester Examiner* (2 Nov. 1847) put it, 'instead of maintaining an independent position, and lending its aid to the public generally as it ought to have done' (p. 4), it allowed itself to be drawn into a massive and ultimately fatal cotton speculation. As well as depriving Liverpool businesses of accommodation, this policy caused economic havoc in the wider region, particularly in Manchester. According to the *Manchester Courier* (30 Oct. 1847), the cotton speculations of merchants like Higginson caused shortages and price fluctuations which 'had done more injury to the manufacturing markets, and thrown more operatives out of employment than any other circumstance' (p. 4). The *Manchester Guardian* (20 Oct. 1847) even believed that if the Bank of England had propped up the Royal Bank knowingly allowing it to continue doing business along these lines, 'the act would have been not merely foolish, but criminal' (p. 2).

The Manchester press recognised the two towns' very different perspectives on the legitimacy of speculation, noting that 'it has always been a hard task to reconcile Liverpool notions about cotton with those entertained in Manchester' (*Manchester Examiner*, 2 Nov. 1847, p. 4). Indeed, there was not a national commercial culture at the time: what was disapproved of as excessively reckless, risky, and irregular in one region could be regarded as legitimate and acceptable elsewhere (Moss, 1997, p. 377). In this case, these ethical differences were underpinned by the clash between Manchester manufacturing interests and Liverpool mercantile interests (Belchem, 1998, p. 2). But in the wake of suspension, even the bank's Liverpool stakeholders were forced to admit much of the Manchester critique, Samuel Holme telling his fellow shareholders that only when the bank had learned the lessons of 'prudence and moderation' would trade 'be really profitable, because it would be really legitimate, and founded upon labour, instead of that most baseless of all visions, reckless speculation' (*Liverpool Mercury*, 30 Nov. 1847, p. 5).

The bank's history of reckless lending for a handful of favoured clients made repairing trust far from straightforward, but not impossible. Although the Gillespie and Dietz model rightly suggests that the Royal Bank had threatened its own organisational legitimacy by failing to fulfil its key missions and thus jeopardising the interests of different classes of stakeholders, we add that this failure was eclipsed by the success of the bank's exploitation of the collective identity shared between the firm and the wider community (Gillespie & Dietz, 2009). Though highly critical of the way the bank had been managed, the Liverpool press nevertheless saw its survival as a matter of local pride. 'To suppose the Liverpool joint-stock banks insolvent', the *Liverpool Mercury* (19 Oct. 1847) protested at the start of the crisis, 'would be to suppose Liverpool insolvent, with millions of property of its own within its own boundaries' (p. 8).

Critically, the option of liquidating the bank quickly became identified with London interests and was therefore easily dismissed. Its main advocate at the first shareholders meeting, William Thompson, was a London alderman and director of the Bank of England. Thompson came under fire from Liverpool shareholders such as John Mellor, a corn dealer, who claimed that Thompson 'would be glad to shut up every joint-stock bank in the kingdom' as unwelcome competition (*Liverpool Mercury*, 2 Nov. 1847, p. 6). Voices in the local press agreed. 'This is a question in which Liverpool, and not London, is interested', argued 'An Observer' in the *Liverpool Mercury*: 'we have had quite enough of the management of the Bank of England of late' (5 Nov. 1847, p. 6). Associating Thompson's position with a tendency to panic and a 'want of nerve', the writer argued that working to resuscitate the bank was the way for Liverpool's townsmen to demonstrate their independence and virtue, proving to London that 'Liverpool men *can* look a difficulty in the face, and what is more, have the courage to grapple with, and overcome it' (*Liverpool Mercury*, 5 Nov. 1847, p. 6). Goertz and Diehl (1993) illustrate the historical continuity of enduring rivalries, such as that between Liverpool and Manchester, and between the north-west region and London. Regional rivalries lead to mistrust and can drive organisations and stakeholder to take decisions based more on confounding their rivals than on their own interests (Leng, 2000; Colaresi and Thompson, 2002). Regional rivalries generate tensions and uncertainty, which can be especially difficult in building trust in financial markets where there is asymmetry of information, as noted in the work of Baskin (1988).

Blithely ignoring the fact that over a fifth of the shareholders were women, proponents of resuscitation frequently presented the crisis as a test of manhood. At a shareholders meeting, Josias Booker declared 'Cease your alarm – struggle with your difficulties like a man – is it not more manly to face your difficulties and grapple with them than to turn your back on them like a dastardly coward?' (*Liverpool Mercury*, 9 Nov. 1847, p. 4). The call to solidarity was a success, as bank and community were prepared to identify with each other in the time of crisis. The proximity afforded by a localised network re-echoed 'the sense of shared expectations' – and reinforced the confidence that such expectations would continue to be shared by all parties for the common good of the region (Sabel, 1993, p. 1139). There was thus a clear determination to rally together in the face of external criticism. It appeared that distrust resulting from the crisis could be easily seen off – as long as the bank and local businesses were locked together in search of mutual benefits (Moss, 1997).

Reparation and Reconciliation

Having identified and acknowledged the problem which led to the crisis, the Royal Bank directors actively engaged different groups of stakeholders to address their financial concerns. This coincides with the importance attributed by Gillespie and Dietz (2009) to the willingness of organisational leadership to take responsibility for the consequences of their errors and show genuine concern for the victims (see also Korsgaard et al., 2002). The work of Kähkönen et al, (2021) shows restoration of trust requires an expectation of organisational competence (especially at board level), evidence that stakeholders are held in high regard (evidenced through consultation and care for stakeholder best interests) and the degree to which the offending institution is considered to abide by conventionally accepted moral principles. This active engagement stage – we argue – was largely constrained by the institutional characteristics which governed the constitutional responsibilities and relationship between the board, shareholders, and depositors. The Royal Bank was established upon the principle of unlimited liability. This institutional design was taken by nineteenth-century professionals and bankers as the key to ensuring banking stability, procuring public confidence, and above all – projecting banking institutions as prestigious and reliable. Economist Leone Levi (1880) wrote that unlimited liability acted to 'inspire unlimited confidence' in depositors that they would receive their money in full (p. 476). Gilbart (1859) stressed that it 'gives greater security to the public' (p. 219). 'It is not enough that a bank is ultimately safe', he contended, 'the public should believe that it is safe' (p. 220).

Legislative and organisational mechanisms were also deployed to ensure that no shareholders could shirk their financial commitment through opportunistic share-dumping. The English Banking Co-partnership Act (1826) stipulated that shareholders would remain liable for the bank's liabilities up to three years after they had relinquished their share ownership. The Royal Bank, by its own corporate rules, also deprived shareholders of the power to transfer their shares without the approval of at least three directors (Royal Bank of Liverpool, Deed of

Settlement, 2 May 1836, art. 72). This restriction, intended for preventing share ownership from passing into the hands of 'men of straw', blocked the exit for shareholders in the event of failure (*Manchester Examiner*, 21 Jun. 1845, p. 6). The directors also had the power to raise money to refund depositors and creditors by making calls upon shareholders' wealth. While depositors were assured that they would receive full payment, shareholders shouldered much of the burden as every farthing of their wealth became the 'guarantee for the ultimate payment of the debts of the bank' (Turner, 2009; Gilbart, 1859, p. 219).

Because the power relations between the board and shareholders were anything but equal, the dynamics behind the directors' attempts to regain their trust reflected the belief of Flores and Solomon (1998) that 'trust relationships are bidirectional' but not necessarily symmetrical (p. 210). Against a backdrop of unequal power relations, to redeem legitimacy the directors actively engaged the stakeholders in conversation and monitored their changing expectations. Power asymmetry may undermine stakeholders' ability (broadly defined in terms of specialised expertise, access to information, and involvement in strategic decision making) to protect their own interests but would not necessarily preclude meaningful dialogues altogether. The affairs of the bank echoed the view of Flores and Solomon (1998) that trust can be created and destroyed 'through dialogue, in conversation, by way of promises, commitments, offers, demands, expectations and tacit understandings' (p. 218). Therefore, to argue there could be no true dialogue is to deny trust as 'a dynamic aspect of human relationships' – which must be initiated, maintained, and repaired from time to time (p. 206). There were iterative interactions between different parties, during which the firm assessed the appropriateness of its actions and revised them accordingly in retrospect to stakeholders' feedback (Pfarrer et al., 2008, p. 732). 'This discourse', in the words of Pfarrer et al. (2008), 'serves to crystallise key demands and questions, promote certain views, shape opinions, and diffuse them across multiple constituencies' (p. 732).

Despite initially issuing a call on the shareholders, invoking their corporate power to raise the needed funds, the directors quickly changed tack, resorting to a less oppressive method, issuing £100 preference shares for *voluntary* subscription, not restricted to existing shareholders. This initiative reflected the directors' awareness of the potential rise in shareholders' dissent or distrust if payment was enforced through the use of coercive power. This method also allowed the bank to signal its departure from the 'aristocratic' polices that had landed it in difficulties. Holme, a local builder and proud to be part of 'the great tradesman body of Liverpool', thought it 'absolutely indispensable that the basis of the operations of the bank should be extended'. The £100 preference shares would help achieve this: 'it would be like a pyramid, the more extended the basis, the firmer would be the apex' (*Liverpool Mercury*, 9 Nov. 1847, p. 4). The shareholders were very clear about what was happening: John Torr, a Liverpool broker, said they were 'calling in tradesmen to their assistance as holders of £100 shares' (*Liverpool Mercury*, 9 Nov. 1847, p. 4). Holme believed that when revived, the bank, established on its broader base, 'would start into a new and useful existence, and be of immense service to the town at large' (*Liverpool Mercury*, 30 Nov. 1847, p. 5).

To the extent organisational survival is determined by a close alignment between remedial actions and the demands of various stakeholders (Pferrer & Salancik, 1978), the most tangible challenge facing the Royal Bank was how to arrive at an early settlement of depositors' accounts with 'the least possible inconvenience to the proprietors … in equity to all parties interested' (*Liverpool Mercury*, 5 Nov. 1847, p. 6). Because the constitutional relationship was such that the demand of depositors could only be satisfied at shareholders' expense, the management had to ensure that both parties were justly relieved and recompensed – in keeping with the warning of Gillespie and Dietz (2009) that poor treatment or neglect of any interest group could tarnish the firm's overall reputation. This risk was especially profound when considered in relation to the fragility of trust after the crisis, and the tendency for trustdestroying events to exert more influence over one's judgement than trust-building ones (Slovic, 1993). As a result, after the suspension the bank quickly published a scheme by which the depositors would be paid their money in full in four instalments over the course of nine months, at interest of five percent. The main dangers to forestall were depositors launching lawsuits against the directors or shareholders for immediate payment, or pressing for liquidation (*Liverpool Mercury*, 29 Oct. 1847, p. 8).

Apparently reassured by shareholder declarations that they would repay the depositors 'to the uttermost farthing', even if they must surrender 'their last shilling of property', the depositors in fact proved very accommodating (*Manchester Courier and Lancashire General Advertiser*, 3 Nov. 1847, p. 698). A meeting of depositors on 4 November was characterized by a lack of recrimination, and those present agreed to the bank's terms (*The Times*, 5 Nov. 1847, p. 5). Given the inconvenience of having to do without their money for several months, however, they voted to request six per cent interest instead of five (*Liverpool Mercury*, 5 Nov. 1847, p. 6). While some shareholders, such as Holme who also acted as representative for several female depositors, were sympathetic to this request, wider opinion was reportedly against offering depositors more than five per cent (*Liverpool Albion*, 8 Nov. 1847, p. 5; *Liverpool Mercury*, 9 Nov. 1847, p. 8). But though denying the six per cent, the directors and committee of shareholders otherwise proved responsive to the depositors' needs, allowing them far swifter access to their money should they require it (*Liverpool Albion*, 8 Nov. 1847, p. 6). Upon reopening, the bank adopted a sliding scale, where small sums would be immediately payable, sums over £500 available in seven days, with progressively longer waits for larger sums; those withdrawing over £5,000 would have to wait six weeks (*Manchester Courier and Lancashire General Advertiser*, 27 Nov. 1847, p. 4).

As exchanges of views proceeded, it was noticeable that dissatisfaction expressed by minority stakeholders slowly gave way to concurrence as to how all parties' interests should be addressed, to stave off liquidation, which 'would involve and place in jeopardy' – as Holme warned – 'a great number of mercantile firms' (*Liverpool Mercury*, 5 Nov. 1847, p. 6). Stakeholders ultimately accepted Booker's portrayal of the situation: 'there exists between the proprietors and the customers of this bank a reciprocity of obligation. The well-being of both are intimately connected' (*Daily News*, 30 Nov. 1847, p. 3). Moreover, the bank's benefits were not 'confined to depositors, or shareholders, or customers, but, directly and indirectly, to the community at large' (*Liverpool Mercury*, 30 Nov. 1847, p. 5). The shareholders and depositors stood or fell together: 'resuscitation by one united effort would be by far a more sensible option than muddling through a painful and protracted process of liquidation' (*Manchester Courier and Lancashire General Advertiser*, 10 Nov. 1847, p. 714). 'With fresh tackle, and good management, and the blessing of Providence', he added, 'the royal barque will weather the storm, and once more cast anchor at the station whence she has been driven by adverse winds' (p. 714). To the extent that both the management and stakeholders shared 'similar or even identical perceptions' that the bank had been instrumental to the community, and that it could safely resume business, renewed cooperation became a feasible option to all parties (Bottom et al., 2002, p. 498).

However, as Gillespie and Dietz (2009) suggest, trust repair efforts took more than overcoming negative expectations among the victims: it was equally important to generate positive expectations that the offenders were genuinely repentant and willing to offer reparations for their mistakes accordingly. Tailoring crisis response strategies to stakeholders' needs can convey a positive signal to the injured parties that the organisation is prepared to take direct responsibility (Coombs & Holladay, 2008). As Flores and Solomon (1998) assert, 'trust and trustworthiness involve sincerity' (p. 211). A mere signal of benevolent intentions 'without an objective penitential act' is liable to be interpreted as cheap talk (Bottom et al., 2002, p. 500). To this end, in the middle of November it was announced that the directors would be tendering their resignations at the general meeting at the end of the month, to give shareholders the opportunity to elect a new board (*Liverpool Albion*, 15 Nov. 1847, p. 4). But though the credibility of individual directors, most notably Brancker, was beyond repair, but the bank largely remained in the control of Liverpool's mercantile elite. Of those elected on to the board at the meeting, two – Josias Booker and John Bibby – had been founding directors in 1836, and others, including John Highfield, were also former directors. Chaffers was also to stay on as manager. The only genuine break from past policy was to include Samuel Holme on the board as a sole representative of the town's tradesmen. Thomas Dover, a Liverpool merchant, explained that he 'should not like to see the whole of the directors filled up with tradesmen – they would not be bold and spirited enough – but it was desirable to have a tradesman to act as a check' (*Liverpool Mercury*, 30 Nov. 1847, p. 5). But other than this, the shareholders were confident in the truthfulness and integrity of men like Booker, Bibby, and Highfield to rebuild the institution successfully.

Governance: Redrawing the Boundary of Power

Despite the continuity in the composition of the board, as a part of the resolution of the crisis significant rule changes were implemented aiming to prevent future problems. The toughening of rules indirectly acknowledged that trust could be misplaced and power vested in the wrong candidates. The fact that the directors' miscalculation had brought widespread repercussions saw a need for placing their conduct under stringent regulations, so as to 'protect the shareholders from results such as they have lately had to deplore' (The Report of the Committee, *Liverpool Mercury*, 30 Nov. 1847, p. 5). Reforms included the creation of a new management structure consisting of seven unpaid directors, who would appoint not only a manager, but also two paid directors, who were expected to work from ten till four every day

(*Liverpool Mercury*, 30 Nov. 1847, p. 5). The new structure saw a compartmentalisation of decision-making process. The paid directors and the manager would form a permanent committee, which assumed the power to decide on matters pertaining to day-to-day business affairs. The new rules stipulated that only the paid-up capital, not deposits or other funds, could be employed for advances, prohibited advances beyond £20,000 without any security, and capped the allowable credit to any firm or individual on any security at £50,000. Credit would be withdrawn on the objection of any permanent committee member, while the ordinary directors would oversee the committee's decisions and could overrule the committee on a majority vote. The paid directors and manager would be denied all credit facilities, while no directors or the manager would have a vote on giving credit to any business partner or family member (Royal Bank of Liverpool, Deed of Settlement, 24 Dec. 1847, arts. 4, 24-5).

The imposition of checks and balances on directors' power and behaviour were examples of distrust-regulation mechanisms dealing with misconduct of organisational members that led to the crisis (Gillespie & Dietz, 2009). By removing the old norms or practices, and replacing them with a new 'admissible range' of behaviours (Gillespie & Dietz, 2009, p. 134), the enactment of tougher rules is 'an immediate and highly visible signal' to stakeholders that the organisation is committed to inducing a behavioural change in its members, and avoiding the same mistakes in the future (Eberl et al., 2015, p. 1207). The fact that the directors, working with the committee of shareholders, voluntarily imposed the restrictions upon themselves also reinforced the belief of stakeholders that the management had learned the lesson and were intrinsically motivated to undertake the necessary internal reforms and conduct themselves differently (Gillespie & Dietz, 2009; Nakayachi & Watabe, 2005). Indeed, they were well received. Before the details were announced, *The Times* reported that they would place the general management on a basis 'destined to exert an important and salutary influence upon the fortunes of the bank' (*The Times*, 15 Nov. 1847, p. 3). After the general meeting, the *Morning*

Chronicle (1 Dec. 1847)) argued that the resolutions, 'if they are strictly adhered to by the directors, appear calculated to place the bank once more in a sound position' (p. 6). The reforms also helped to rebuild bridges with wider interests in the region. The *Manchester Courier* (1 Dec. 1847) thought that limiting credit to £50,000 would be hailed in that town 'as some guarantee that the money of this bank will not again be employed in raising the prices of raw produce against us, so as to interfere with the legitimate trade of this district' (p. 4).

Although limiting the scope of legitimate authority was essential for reversing the negative inferences about the potential abuse or mishandling of corporate power, the question was how far they could go in realigning directors' behaviour with stakeholders' interests (Shapiro, 1987). Gilbart (1859) argued that 'it is the height of folly' to suppose any deed of settlement could protect a bank from incompetent or fraudulent management (p. 173). Given 'the difficulty of specifying abstract standards of competence … and of teasing out abuses of trust from mere differences in the talent or commitment of the agent' (Shapiro, 1987, p. 638), regulatory controls were too impersonal, inflexible, and context-specific to address 'generalised value incongruence' arising from unprofessional and unethical conduct (Sitkin & Roth, 1993, p. 303). Eberl et al. (2015) also caution that while ensuring rule compliance is a 'quick-fix and short-term measure' for rebuilding trust, it often does not go far enough to address the lack of a 'shared understanding of integrity' in order to evoke a fundamental change in organisational behaviour (p. 1223). While the new rules reflected the management's desire to mollify public outrage over the notoriety of the firm's credit policy and ventures in the commodity market, the hazy distinction between legitimate investment and speculation limited the efficacy of organisational rules in defining morally permissible financial activities. Some banking elites offered some normative but indefinite hindsight of what constituted speculative activities. Gilbart, for instance, asserted that speculative risks were *deliberately* engaged in the face of *known* adversity at the time of undertaking, as opposed to business risks emerging from *unexpected* quarters (Gilbart, 1859).

Despite the rule adjustments, the directors retained most of their previous powers. The revised Deed of Settlement in 1847, for instance, retained the clause that the board – with the sanction of at least three directors – could still introduce from time to time 'whatsoever rules, by-laws, or provisional regulations they may think expedient' (Royal Bank of Liverpool, Deed of Settlement, 24 Dec. 1847, art. 31). The new constitution did not significantly rebalance the powers of directors and shareholders. Attempts to give shareholders more say over the running of the bank, such as powers over the paid directors, were blocked at the meeting. Booker claimed that it would be unworkable to appoint anyone if they were 'liable to be turned out by proprietors who, it was impossible, could know the real workings of the bank' (*Liverpool Mercury*, 30 Nov. 1847, p. 5). Indeed, though the denomination of bank shares was slashed from £1,000 to £200 in order to encourage a wider proprietorship, those who held less than five shares would not have any voting rights at meetings (*Liverpool Mercury*, 30 Nov. 1847, p. 5). When combined with the sophistication in banking and embedded culture of financial secrecy, entrenched directorial power meant that the bank's shareholders, as was true of joint-stock banking more generally, had limited informed inputs to evaluate or monitor the true financial condition of their companies (Freeman et al., 2012).

While the measures adopted appeared credible enough to signal a decisive break with past habits and had enabled the bank to renew confidence in the short term, there was little evidence that the bank evaluated the effectiveness of its reforming interventions over the longer term. Without such a systemic evaluation Gillespie and Dietz (2009) would consider it doubtful that 'outstanding problems in the organisational system' could be detected and resolved adequately (p. 141). The danger and prospect of falling victim to either incapable or deceitful management therefore remained tangibly real, as subsequent events would show.

Precisely twenty years later, the ultimate – and terminal – collapse of the Royal Bank in October 1867 seemed to imply that ‘all manner of stringent provisions’ contained in its Deed of Settlement ‘have been useless’ (*The Economist*, 16 Nov. 1867, p. 1294). *The Times* (23 Oct. 1867) reported that ‘To inspire perfect confidence for the future, [in 1847] an entire reorganization had been adopted, and it will now be an important question whether the peculiar conditions then framed with the view of completely preventing a recurrence of mismanagement have from that time to the present been faithfully fulfilled’ (p. 5). On investigation, it appeared that the causes of the bank’s failure were disturbingly similar to that which triggered its suspension two decades ago. This time, it went into a contract to carry on insolvent shipping companies, again harping upon a ‘mischievous hope that by advancing a little more, what is already advanced may be recovered’ (*The Economist*, 16 Nov. 1867, p. 1294). Credit was recklessly extended upon inconvertible shipping property. Above all, both the paid directors had borrowed huge sums from the bank which they could not repay, together with the brother of the bank’s manager (Turner, 2014, p. 84). As *The Economist* (16 Nov. 1867) commented, to prohibit lending by a bank to its directors or managers is ‘easier said than done’: insofar as they ‘have the custody of the till … if they want to help themselves they can’ (p. 1294). Notwithstanding the rules introduced following the embarrassment in 1847, a concatenation of misconduct and maladministration reappeared and finally broke the ‘old established concern’ which once enjoyed ‘a high reputation for safety and dignity’ (*Liverpool Courier*, reprinted in *Leeds Mercury*, 26 Oct. 1867, p. 2).

Conclusion: Forward to the Past

This article uses a contemporary trust repair model as an analytical framework to unfold the underlying dynamics of how a nineteenth-century joint-stock bank regained the trust of its key stakeholders following a crisis. In so doing, we present a case for appreciating the value of a contemporary perspective for understanding the past. We highlight some unique aspects in banking institutions that the model must adapt in relation to the process of trust repair. The first had to do with information asymmetry rooted in banking, arising from the obligation to pledge secrecy to the financial information of customers. Because stakeholders were liable to interpret selective disclosure as malevolent and given their hypervigilance and susceptibility to ‘paranoid cognitions’ and ‘sinister attribution error’ at the start of the crisis, a demonstration of genuine benevolence and goodwill by the directors was therefore of critical importance (Kramer, 1996). Next, because trust failures and panics resulting from banking crises were widespread and disruptive across the real economy, the success in defusing the impact of negative publicity and restoring organisational legitimacy depended critically on the management’s effective capitalisation upon the shared perspective and identity between the company and local community. Thirdly, to the extent that unequal power relations bred the suspicion of corruption and abuse, and that the management must address competing agendas and expectations among different interest groups, trust restoration was facilitated by the board’s endeavour to actively engage stakeholders through dialogues, to offer reasonable relief and reparation, and to tactfully abstain from exercising corporate power.

This study is constrained by the scarcity of surviving corporate records of the Royal Bank, and thus its heavy reliance on newspaper articles as the main source of historical narratives. As a result, we observe two limitations and how they can be overcome, which in turn point business historians to the potential for further research. Despite the dearth of internal records, in this article we argue that newspapers provide a very rich source for observing how internal organisational components collided with external forces to form a rich interplay of trust and distrust dynamics, and how they played out publicly in the event of an organisational crisis. From this we suggest a closer examination of the role of the alignment between internal and external components in directing the process of trust repair. The second limitation had to do with our limited exploration of how interpersonal trust and institutional trust might influence the trust repair process. Gillespie and Dietz (2009, p. 142) deem it impossible to transfer the recommendations for interpersonal trust repair to the organisational level, because ‘organisations have capacities for trust repair unavailable to individuals’ (e.g. employing new agents who are of a reformist mind, lobbying for official support to restore organisational stability, and so forth). From this notion, it may be of interest to find out how interpersonal trust and institutional trust may complement or counteract each other in trust repair – or how trust in organisational agents or trust in the system dominates the process.

There are numerous significant differences between banking in the Victorian era and in the twenty-first century. Besides obvious questions of scale and complexity of operations, there are fundamental moral ones. The strong ties between the Royal Bank and its local stakeholders starkly contrasts with modern banking institutions which Lord Adair Turner, Chairman of the Financial Services Authority, famously castigated as ‘socially useless’ (Lord Turner, cited in Wilson & Wilson, 2013, p. 55). Once largely based on ‘relationships and moral suasion’, the ‘commoditisation of financial services’ has transformed financial institutions into ‘organisations whose purpose was to look for people from whom they could make money, in contrast to ones who saw their purpose as helping their clients to make money’ (Jaffer, Morris and Vines, 2014, p. 9). Changing business models and financial innovation has resulted in a growing chasm between institutions and stakeholders, thus reducing the importance of relationships conducive for the inculcation of trust, honesty, and reliability (Jaffer, Morris, Sawbridge, and Vines, 2014, p. 32). Perhaps as a result, much of the post-2008 literature has focused on the question of state regulation. Though obviously important, there is scope to extend our focus to include other sets of relations. Responsibility extends beyond the duties exacted by legislation under which banking entities were held liable in the event of trust failures. The sense and scope of responsibility vested in Victorian banking institutions were invariably conditioned by the working of the social order, in which banking practices came under constant public scrutiny and appraisal. In an age when banks were not deemed ‘too big to fail’, they could, when faced with crisis, do much to influence narratives, rebuild damaged relationships, and restore trust without recourse to the state. If this is the lesson of 1847, then the events of 1867 suggest that this trust, though won, may not have been well deserved.

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