Trust: a tale of two constructions

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This session

- **What is trust and why is it important**
- **Trusting = relationships**
- **Communication = the tool**
- **Cases studies: Wembley Stadium and Heathrow T5 construction**

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The Prisoner's Dilemma

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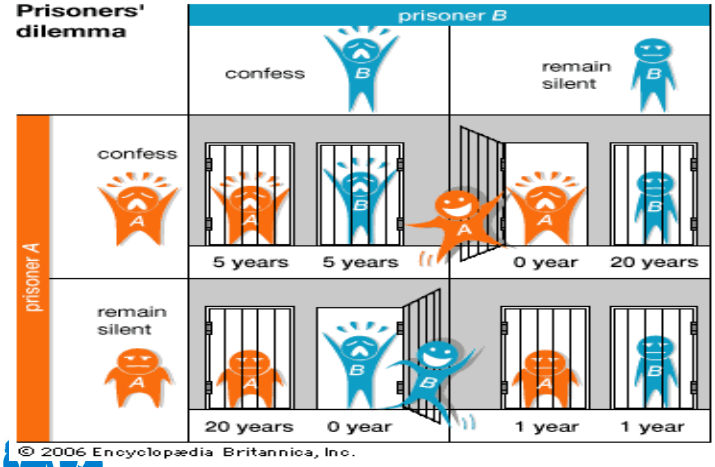
The prisoner's dilemma



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The Prisoner's Dilemma

If the exercise is repeated - same opponent:

- **Selection of option is determined by outcomes of all previous games**
- **If the other is continually untrustworthy…**
- **If the other is usually trustworthy…**

Over time you will be able to build sufficient knowledge and experience to enable appropriate decisions to be made

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The Prisoner's Dilemma

Play the game once:

How will you decide whether to trust?

How do you determine 'trustworthiness'?

- **Behaviour and appearance?**
- **Do you relate? Culture? Language?**
- **Your intentions ? propensity to trust?**
- **What would the other have to do to be seen as 'trustworthy'?**

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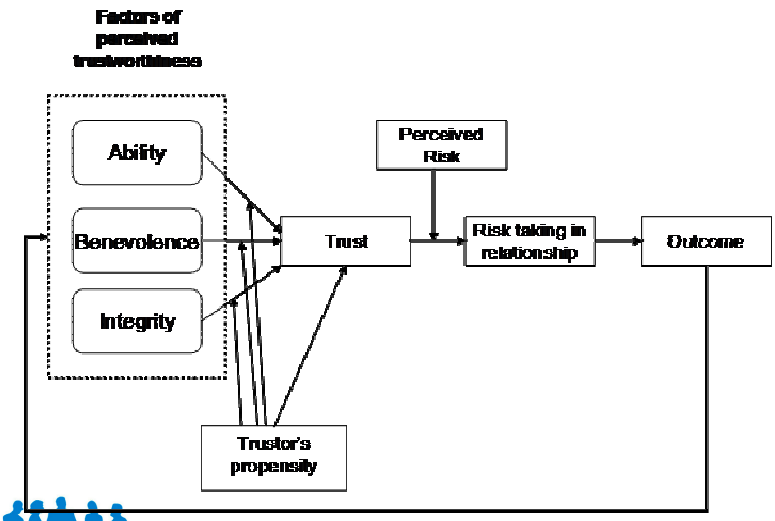
A model of Trust



Mayer, Davis and Schoorman, 1995

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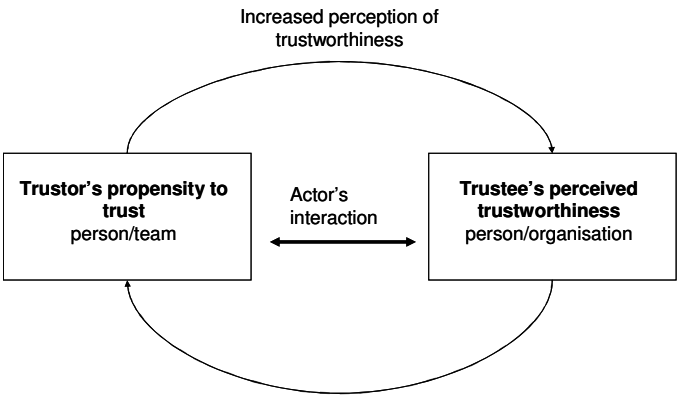
Trust is dynamic



(Blomqvist and Stahle 2004)

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In procurement?

Contracts and their implementation

- **Who negotiates the contracts?**
- **Who works within them?**

Today's focus: relationships through

- **Outsourcing**
- **Partnering**

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Relationships - outsourcing

- **Some degree of negotiation between diverse teams for doing work**
- **(Work) teams are constrained by:**
  - *Terms of contract*
  - *Contextual factors such as trust and distrust*
- **How can they work together and jointly deliver the outcomes in an atmosphere of risk and uncertainty?**

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Relationships - partnering

- **Partners may collaborate, but also compete - simultaneous trust and distrust**
- **Most organisational contracts depend on inter-team interactions**
- **Perception of team members with regard to benefit or harm to personal future**
- **Trust and distrust = positive and negative expectations**

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Simultaneous trust/distrust

High Trust
Characterised by:
- Hope
- Faith
- Confidence
- Assurance
- Initiative

Low Trust
Characterised by:
- No hope
- No faith
- No confidence
- Passivity
- Hesitance

High-value congruence Interdependence promoted Opportunities pursued New initiatives	Trust but verify Relationship highly segmented and bounded Opportunities pursued and down-side risks/vulnerabilities continually monitored
Casual acquaintances Limited interdependence Bounded, arms-length transactions Professional courtesy	Undesirable eventualities expected and feared Harmful motives assumed Interdependence managed Pre-emption; best offensive is a good defence Paranoia

2	4
1	3

Low Distrust
Characterised by:
- No fear
- Absence of scepticism
- Absence of cynicism
- Low monitoring
- No vigilance

High Distrust
Characterised by:
- Fear
- Scepticism
- Cynicism
- Wariness and watchfulness
- Vigilance

Lewicki, McAllister and Bies (1998)

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Relational Contracts

- Consideration of trust and distrust affects how requirements are written in the contract
- Contract defines the partnership/relationship
- And its governance
- Perceptions of trust and distrust greatly influence how teams interact and whether contracts end up 'hard' or 'soft' (Adler, 2005).

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Trust defined

- "The willingness of a party to be vulnerable to the action of another party
- Based upon the expectation that the other will perform a particular action to the trustor,
- Irrespective of the ability to monitor or control that other party"

Mayer, Davis and Schoorman, 1995

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Why is trust important?

Trust:

- Facilitates cooperation within groups and reduces the need to monitor the behaviour of others.
- Research shows the common factor for success in projects was TRUST

Distrust:

- May limit communication and create paranoia between teams
- Encourages risk management

Hartmann 2002

Adler, 2002

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Communication is the tool

The only tool to build and maintain trust relationships is communication: both regular or impromptu

It takes two to tango!!

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Stakeholders

Who are stakeholders?

- **Individuals and groups who are impacted by, or can impact the work or its outcomes**

Negotiating a contract =

Negotiating/building a relationship

- **WITH AND FOR STAKEHOLDERS**
  - *More than 'buyer' and 'seller'*

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Consider stakeholders

- **Who must be considered when thinking about contracts?**
- **Not just 'buyer' organisation and 'seller' organisation**
- **Expectations and needs of:**
  - *Staff and delivery teams*
  - *Government and regulators*
  - *Public (users, taxpayers, shareholders)*
  - *Environmentalist lobbyists*
  - *And many more*

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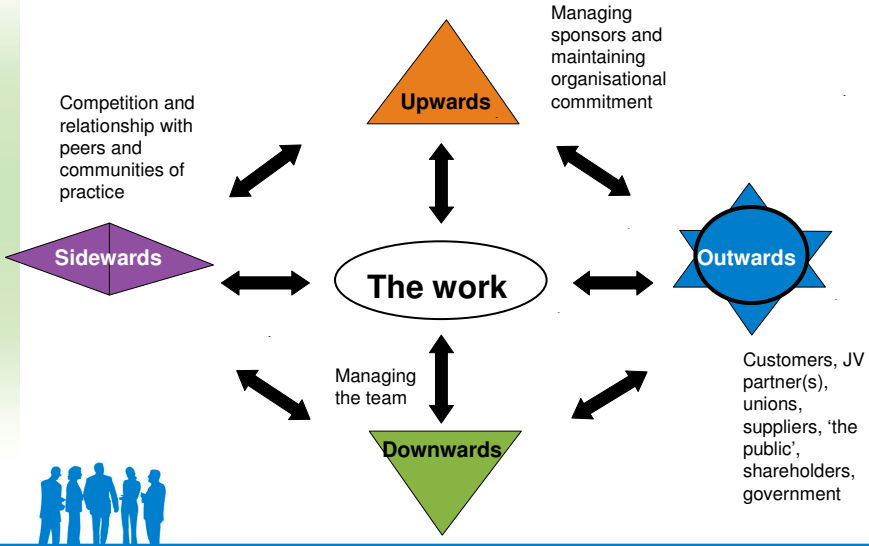
Categories of influence



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Consider stakeholders

- **Expectations/needs/requirements**
- **Who is important? Power? Proximity? Urgency?**
- **Whose needs are paramount?**
- **Who is supportive?**
- **Who is antagonistic?**
- **This stakeholder community changes with time, political issues, perceptions**

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The contract and perceptions

- The tone and tenor of the contract will also influence the perceptions of the team (STAKEHOLDERS) who must implement
- Contract negotiation between outsource partners assumes teams can communicate effectively

RESULT:

- A starting environment of trust or distrust

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Communication is also…

- Negotiation
- Conflict resolution
- Building trust
- Maintaining trust
- Losing TRUST

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Contracts

LB view - contracts define :

- **The relationship between buyer and seller**
- **Cost/risk ratio**

Never 'iron-clad'

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A tale of 2 constructions

- **Wembley Stadium**
- **Construction of Heathrow T5**
- **Different approaches to contracts**
- **Relationships between buyer and seller**

- **And WHO WINS!**

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Case Study #1
Wembley Stadium

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Case Study #1
Wembley Stadium

- **WNSL entered into a 'Guaranteed Maximum Price' contract with 'Multiplex'**
  - *to design and build the stadium for £326 million*
- **Multiplex first foray into the UK contracting environment**
  - *+ innovative design of the Stadium*
- **WNSL could not give any flexibility**
  - *under pressure from Government*
    - **Steel prices rose** AND **Contractor/partner 'walked away'**

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Case Study #1
Wembley Stadium

- **The consequences of Multiplex's 'low bid'**
  - *£150 million loss*
  - *Multiple disputes with subcontractors*
- **The failure of 'contracting out' of <u>all risk</u>**
  - *WNSL lost £430 million*
  - *Stadium completed 18 month late*
  - *Everyone 'walked away' from the fight!*
- **SO WHO 'WON'?**

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The aftermath

- **Multiplex sought compensation from the original steel contractor, Cleveland Bridge, - up to £38 million**
- **Cleveland Bridge, in turn, claimed up to £15 million from Multiplex.**
- **Cleveland Bridge ordered to pay £6.1 million in damages and 20% of Multiplex's costs**
  - *September, 2008*
- **Multiplex was close to bankruptcy – Brookfield Multiplex**

WHO WON?

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Case Study #2
Terminal 5 (Heathrow)

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Case Study #2 Heathrow T5 (post Egan report)

- **BAA accepted ALL construction risks**
  - *Innovative project wide insurance*
  - *Paid for builders errors and mistakes*
- **The BAA 'risk attitude' (alliance contracts)**
  - *Confront and manage risks early*
  - *Invest in communication and team building*
  - *Reward success (AND don't punish mistakes)*

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Case Study #2 Heathrow T5

Focus on the terminal roof

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Case Study #2 Heathrow T5

Terminal roof identified as a major risk

- **BAA paid for a prototype built early off site to understand 'the risks' (cost £2.4 million)**
- **Improved erection processes were identified**
- **Major cost and time savings achieved in the erection of main roof (3 months and £millions)**

Accidents minimised

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Case Study #2
Terminal 5 (Heathrow)

What went wrong?

- **BAA (builder) has problems with the baggage handling software (control systems)**
  - *Inadequate testing under full load*
- **BA (operator)**
  - *Did not have fallback plans and spare staff*

? New owners saving costs?

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Case Study #2
'Terminal 5' (Heathrow)

What went wrong and <u>why</u>?

- **The 'Halo Effect' – great project, nothing can go wrong (but it did)**
- **BA management appear risk averse / ignorant**
  - *Appeared to focus on 'saving money'*
- **The cost to date: over £20 million + Reputation**

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The Case Studies

During construction:

- **BAA actively managed its risks**
- **WNSL tried to avoid 'all risk'**
  - *Everyone lost!!*

At the opening:

- **WNSL celebrated a great stadium (but the contractors did not celebrate!)**
- **BA and BAA celebrated a great building (but the users did not!)**

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The Case Studies

- **Both are great buildings: but the *relationships* defined by the procurement relationships heavily influenced outcomes**
- **FOR EVERYONE**
- **Key problems with most management cultures:**
  - *Inability to live with uncertainty*
  - *Belief that cost (and time) is paramount*
  - *And risk can be avoided through the procurement processes*

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This session

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This session

- **Trust**
- **Contracts often define how work is done and its success**
- **Contracts cannot eliminate risk**
- **A trust relationship (collaboration) will ensure greater probability of success**

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