Trust: a tale of two constructions

Dr Lynda Bourne, PMP FAIM
Stakeholder Management Pty Ltd
Melbourne Australia
www.stakeholder-management.com

This session

• What is trust and why is it important
• Trusting = relationships
• Communication = the tool
• Cases studies: Wembley Stadium and Heathrow T5 construction
The Prisoner’s Dilemma

The prisoner’s dilemma

Prisoners' dilemma

<table>
<thead>
<tr>
<th></th>
<th>Prisoner A</th>
<th>Prisoner B</th>
</tr>
</thead>
<tbody>
<tr>
<td>confess</td>
<td>5 years, 5 years</td>
<td>1 year, 20 years</td>
</tr>
<tr>
<td>remain silent</td>
<td>20 years, 0 year</td>
<td>1 year, 1 year</td>
</tr>
</tbody>
</table>

© 2006 Encyclopedia Britannica, Inc.
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.

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’?
Trust: a tale of two constructions

A model of Trust

Mayer, Davis and Schoorman, 1995

Increased perception of trustworthiness

Trust is dynamic

Increased propensity to trust

Increased propensity to trustworthiness

(Blomqvist and Stahle 2004)
In procurement?

Contracts and their implementation
- Who negotiates the contracts?
- Who works within them?

Today’s focus: relationships through
- Outsourcing
- Partnering

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?
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

Simultaneous trust/distrust

Lewicki, McAllister and Bies (1998)
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).

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
**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

---

**Communication is the tool**

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

It takes two to tango!!
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’

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
Categories of influence

- Upwards: Managing sponsors and maintaining organisational commitment
- Downwards: Managing the team
- Sideways: Competition and relationship with peers and communities of practice
- Outwards: Customers, JV partner(s), unions, suppliers, 'the public', shareholders, government

The work

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
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

Communication is also...

• Negotiation
• Conflict resolution
• Building trust
• Maintaining trust
• Losing TRUST
Trust: a tale of two constructions

Contracts

LB view - contracts define:
• The relationship between buyer and seller
• Cost/risk ratio

Never ‘iron-clad’

A tale of 2 constructions

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

• And WHO WINS!
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’
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 all risk
  – WNSL lost £430 million
  – Stadium completed 18 month late
  – Everyone ‘walked away’ from the fight!

• SO WHO ‘WON’?

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?
Case Study #2
Terminal 5 (Heathrow)

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)
Case Study #2
Heathrow T5

Focus on the terminal roof

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
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

What went wrong and why?

- 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
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!)

• 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
This session

\begin{itemize}
  \item \textbf{Contact details:}
  \begin{itemize}
    \item \textit{Website:}  \\
        www.stakeholder-management.com
    \item \textit{Blog:}  \\
        http://stakeholdermanagement.wordpress.com
    \item \textit{Training:}  \\
        www.mosaicprojects.com.au
    \item \textit{Email:}  \\
        lyndab@stakeholder-management.com
  \end{itemize}
\end{itemize}

This session

\begin{itemize}
  \item \textbf{Trust}
  \item \textbf{Contracts often define how work is done and its success}
  \item \textbf{Contracts cannot eliminate risk}
  \item \textbf{A trust relationship (collaboration) will ensure greater probability of success}
\end{itemize}