

# 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

**Prisoners' dilemma**

		prisoner B	
		confess	remain silent
prisoner A	confess	 5 years    5 years	 0 year    20 years
	remain silent	 20 years    0 year	 1 year    1 year

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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'?**

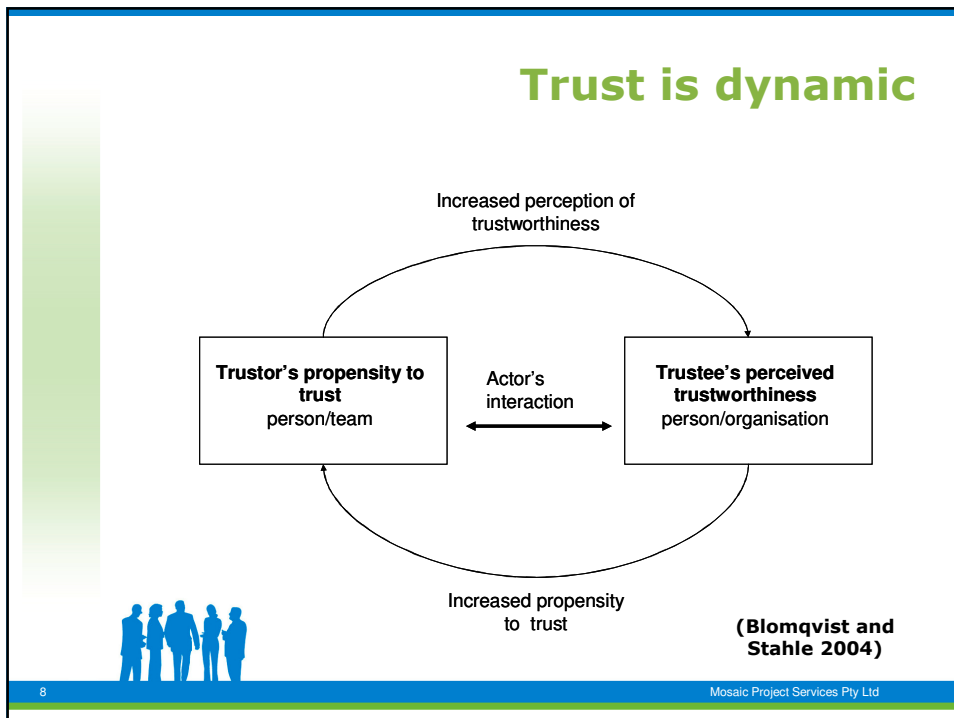
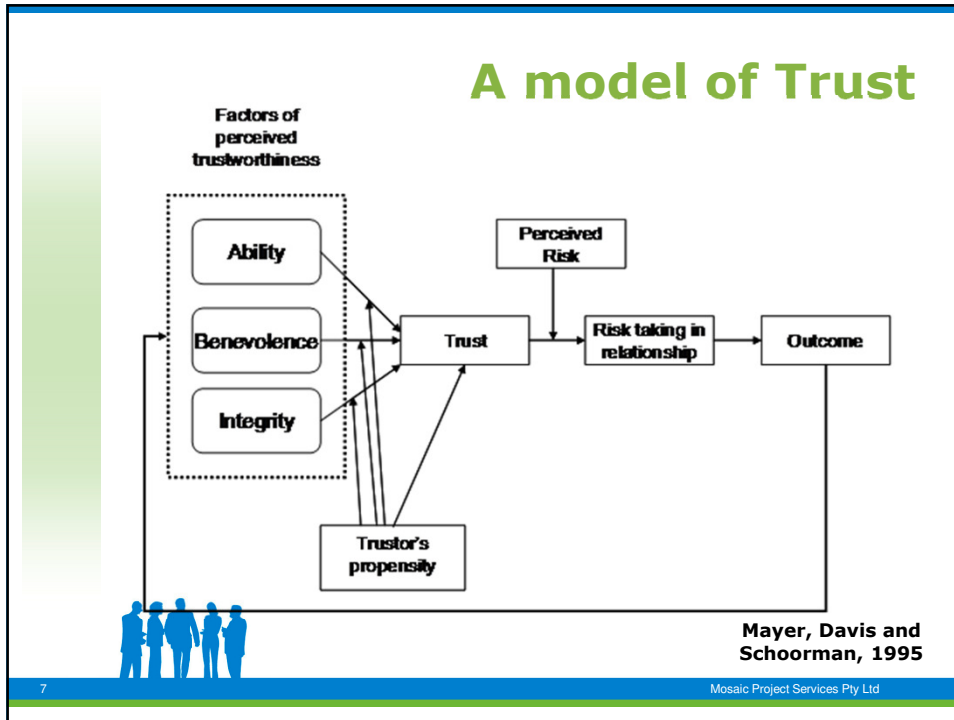
- Behaviour and appearance?
- Do you relate? Culture? Language?
- Your intentions ? propensity to trust?
- What would the other have to do to be seen as 'trustworthy'?



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## 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

High-value congruence  
Interdependence promoted  
Opportunities pursued  
New initiatives

Trust but verify  
Relationship highly segmented and bounded  
Opportunities pursued and downside risks/vulnerabilities continually monitored

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### Low Trust

Characterised by:

- No hope
- No faith
- No confidence
- Passivity
- Hesitance

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

### 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



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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

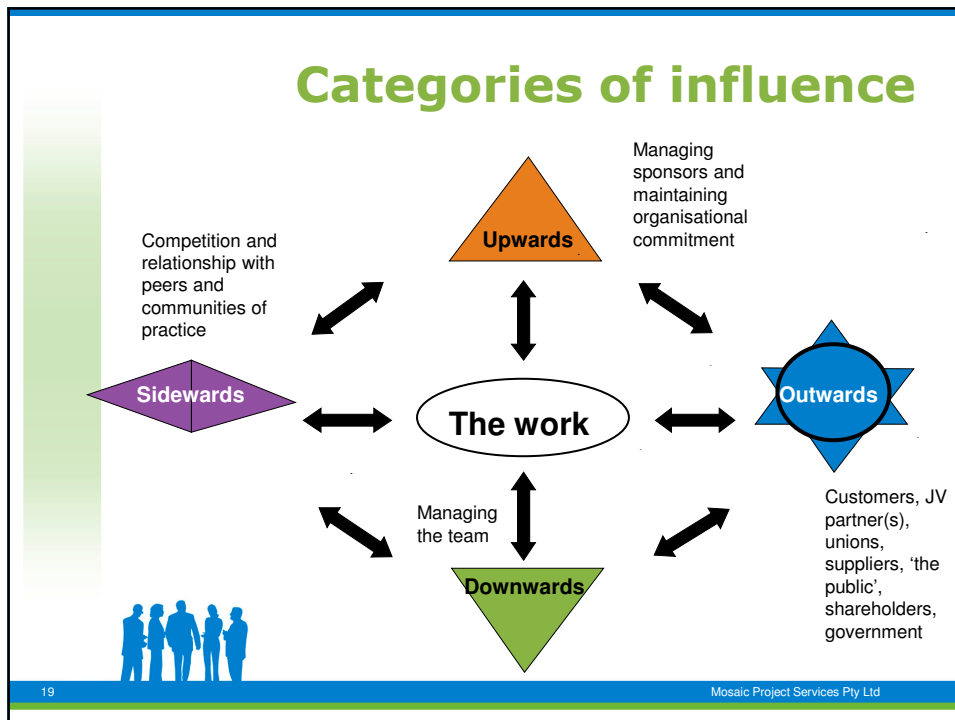
- **Who must be considered when thinking about contracts?**
- **Not just 'buyer' organisation and 'seller' organisation**
- **Expectations and needs of:**
  - *Staff and delivery teams*
  - *Government and regulators*
  - *Public (users, taxpayers, shareholders)*
  - *Environmental lobbyist*
  - *And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



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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'**




The illustration shows two men in business suits shaking hands over a deep, rocky chasm. The man on the left is wearing a blue suit and red striped trousers, while the man on the right is wearing a grey suit and blue striped trousers. They are both holding briefcases. The background is a bright cyan color with small black dots, suggesting a sky or a digital space. The chasm is filled with dark, jagged rocks.



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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 all risk**
  - 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 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**



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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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