

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	0 year
	remain silent	20 years	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'?

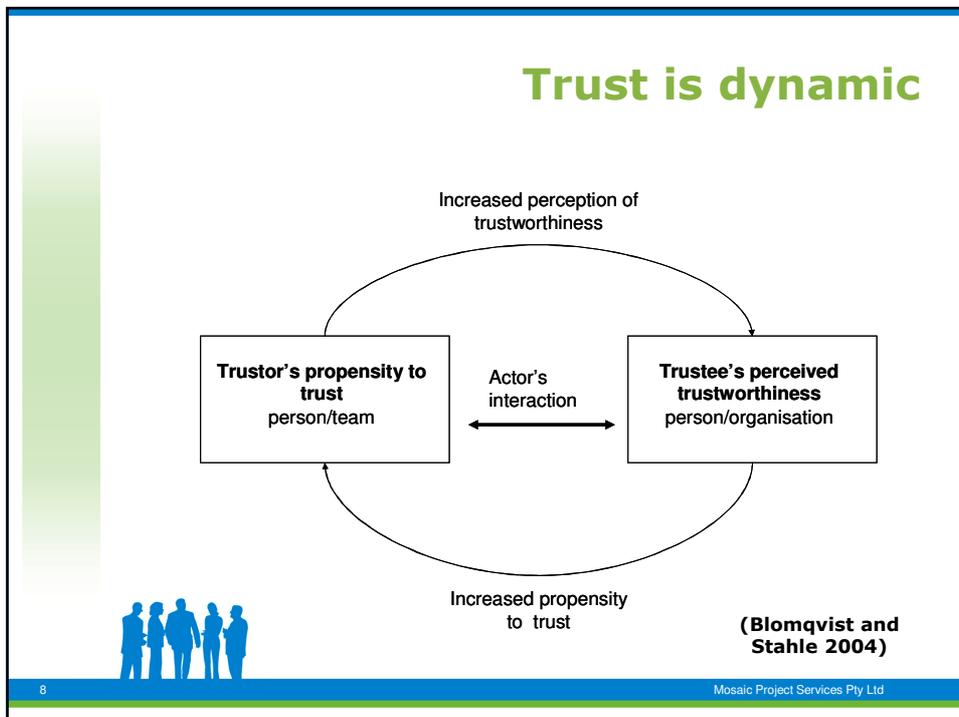
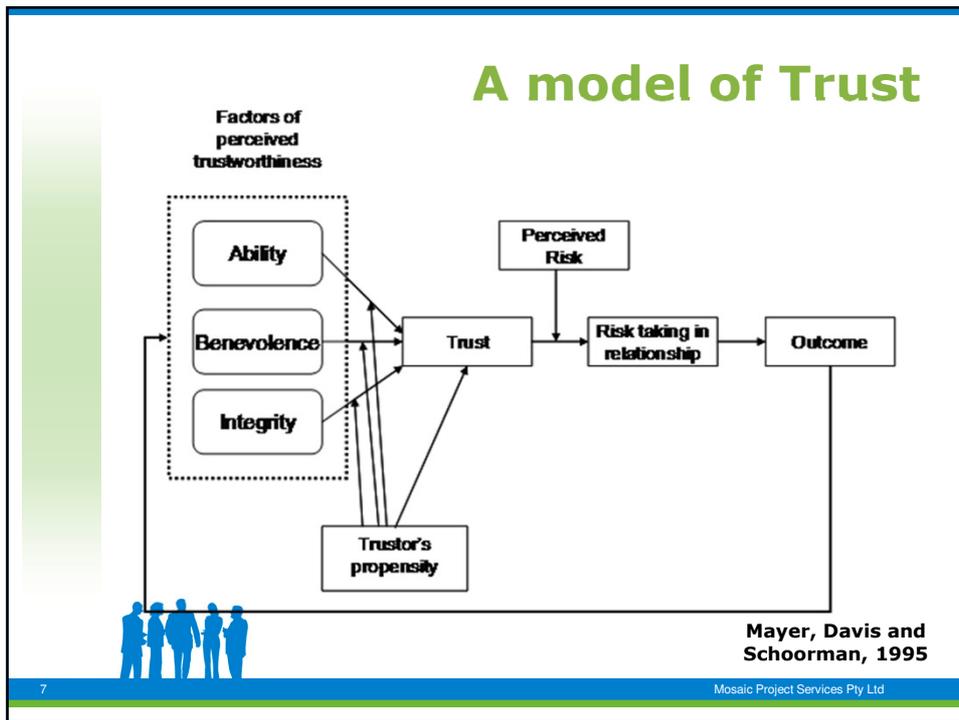
- Behaviour and appearance?
- Do you relate? Culture? Language?
- Your intentions ? propensity to trust?
- What would the other have to do to be seen as 'trustworthy'?



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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

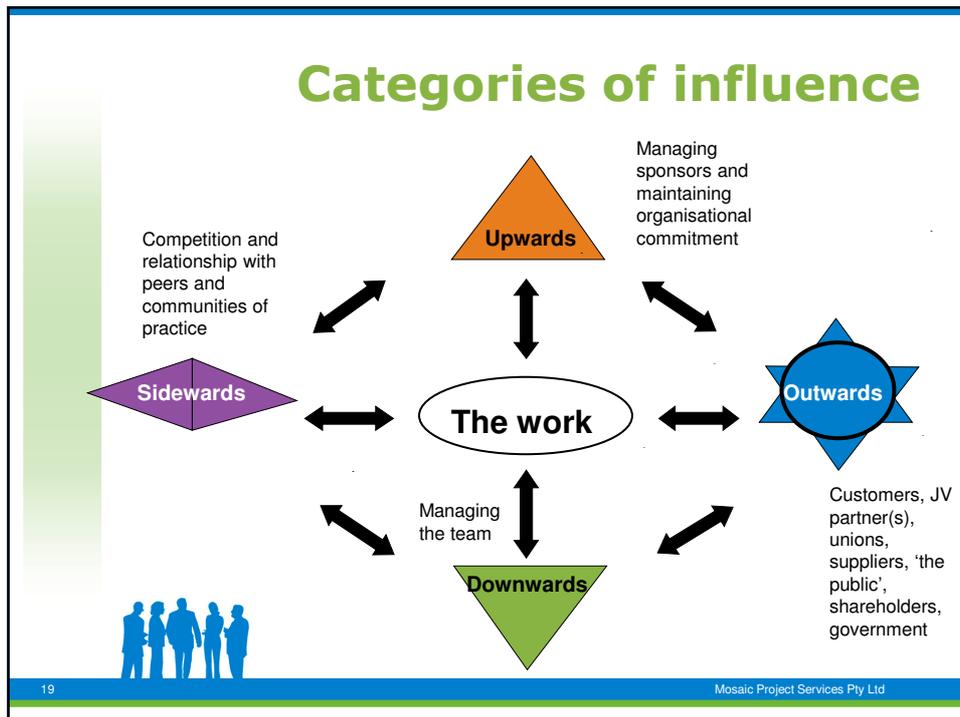
- **Who must be considered when thinking about contracts?**
- **Not just 'buyer' organisation and 'seller' organisation**
- **Expectations and needs of:**
 - *Staff and delivery teams*
 - *Government and regulators*
 - *Public (users, taxpayers, shareholders)*
 - *Environmental lobbyist*
 - *And many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



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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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