

## **SEARCHING FOR TRUST IN THE UK CONSTRUCTION INDUSTRY: AN INTERIM VIEW**

Trust in Construction

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### **ABSTRACT**

The pursuit of harmony and profit in the UK construction industry has seen firms eschewing traditional competitive behaviour in favour of some forms of co-operative behaviour. Partnering, as advocated, is the institutional form that co-operative behaviour is taking. The relationship between the adoption of Partnering and the creation of harmonious relationships is not yet clear. The Partnering literature does refer frequently to trust as being the foundation of partnering. However, there is no clear conceptual view of what is meant by trust. This paper reports on a pilot study of trust in the UK construction industry: interviews were conducted with five senior managers from differing kinds of firms in the industry. These managers were found to look beyond narrow self-interest, to a concern with establishing relationships which earn a profit, yes, but which produce higher returns for all if their adversarial nature can be changed. There is a clear desire to move beyond narrow self-interest to a philosophy of partnering and co-operation to gain those higher returns by lowering

transactions cost and reducing conflict. However, these respondents were as concerned that the processes of the relationship were fair, open and honest as with outcomes, that is, they were as concerned about procedural justice as about distributive justice. From this they are able to offer a clear agenda for further progress in developing co-operative partnering. The pilot study has produced a clear agenda for a larger and more comprehensive study within the UK construction industry.

### **Introduction**

This paper reports on a pilot study of trust in the UK construction industry. What picture emerges from these interviews? These managers look beyond narrow self-interest, to a concern with establishing relationships which earn a profit, yes, but which produce higher returns for all if their adversarial nature can be changed. There is a clear desire to move beyond narrow self-interest to a philosophy of partnering and co-operation to gain those higher returns by lowering transactions cost and reducing conflict. However, these respondents were as concerned that the processes of the relationship were fair, open and honest as with outcomes, that is, they were as concerned about procedural justice as about distributive justice. To produce these benefits trust has to develop between the co-operating partners (Fukuyama 1995, Brenkert 1998). These respondents have a clear concept of trust, even if they have difficulty articulating it. From this they are able to offer a clear agenda for further progress in developing co-operative partnering. The findings reported in this paper offer confirmation of previous results from studies of other industries, for example, Swan et al (1985), Anderson & Narus (1991), Moorman et al (1992 and 1993), Ganesan (1994), Kumar (1996) and Clark & Payne (1997). The pilot study has

produced a clear agenda for a larger and more comprehensive study within the UK construction industry.

### **Procurement and contractual relations in the UK construction industry**

There have been countless governmental, institutional and academic publications over the last forty years that have reported on the performance of the UK construction industry. Comparisons of the cost and time performances of UK projects with those in other developed countries were almost invariably unfavourable. The adversarial nature of contractual relationships was a dominant theme in many of the reports.

This concern with the performance and productivity of the UK construction industry led to Latham being charged (Latham 1993) with investigating the procurement and contractual relations within the industry and the structure of the industry itself.

Reporting on the prevailing state of the industry, Latham commented: "...disputes and conflicts have taken their toll on moral and team spirit. Defensive attitudes are commonplace...." (Latham 1993:5)

The launch of his final report (Latham 1994) was seen by many as a watershed for the industry. Latham (1997) claimed that changes introduced since 1994 have amounted to a cultural change in the construction industry, but McDermott et al (1997) argue that the extent to which the adversarial culture of construction has changed in the wake of Latham is still open to debate. What is agreed is that a major thrust of the Latham Review (Latham 1994) has been the attempt to re-build trust in the construction industry, and this is the focus of the current research activities reported in

this paper. The attempt to re-build trust has been both through the advocating of partnering at project level and through encouraging the re-structuring and realigning of the existing client, contractor, sub-contractor, supplier and consultant institutions.

## **Trust**

Traditionally organisations have looked to the institutions of property rights, contracts and commercial law as a mechanism for sealing-in the benefits from relationships. However, Williamson (1975) observed that because of bounded rationality, and, the cost of negotiating, writing and implementing a contract, no totally comprehensive contract is possible. If confidence between partners is to develop they need to build trust in each other. Fukuyama (1995) argues that transaction costs can be lowered by social capital and trust. Although Fukuyama was applying this to nations, Latham in titling his interim report "Trust and Money" (Latham 1993) was signalling the importance he attached to the lack of trust in the UK construction industry.

Trust is a multidimensional (Sako 1992, Ganesan 1994, McAllister 1995), multifaceted social phenomenon (Fukuyama 1995, Misztal 1996), which is regarded by some as an attitude (Luhmann 1979, Flores & Solomon 1998), by others as a personality trait (Wolfe 1976) and by yet others as a vital social lubricant (Gambetta 1988, Fukuyama 1995). In spite of the large literature on the subject, Gambetta (1988) still saw trust as an elusive concept, and ten years later Misztal (1996) noted the continuing conceptual confusion that surrounded this social phenomenon. It is not within the scope of this paper to review the whole of this literature, but there are good reviews in Mittal (1996) and Misztal (1996). Rather, we wish to focus on those

particular sections germane to our interest in partnering approaches to construction procurement.

We define trust as the willingness to rely upon the actions of others, to be dependent upon them, and thus be vulnerable to their actions. Trust always involves an element of risk, that a partner will abuse the trust placed in them. Where there is no vulnerability, there is no need for trust. Trust is built up over a series of interpersonal encounters (Moorman et al 1993), in which the parties establish reciprocal obligations (Nooteboom 1992). We are mainly interested in trust as it affects the willingness to co-operate. Gambetta (1988) and his contributors see trust as a precondition of co-operation because partners need some assurance that the other parties will not defect.

Ganesan (1994) and McAllister (1995) identified two components, or dimensions of trust, whereas others (Sako 1992, Mittal 1996) have argued for three dimensions of trust. For our purposes it is sufficient to note the emphasis in trust on competence (behaviour), motives (feelings) and commitment (beliefs). Issues of competence are established by market reputation, but goodwill or benevolence can only be verified in a context of mutual expectations and social bonds, that is, co-operative relationships.

An extensive list of qualities of trust, or more accurately descriptors of trust could be generated from the literature, although there tends to be considerable overlap between the various lists. Kumar (1996) listed dependability, honesty, interdependence, openness and fairness: Clark and Payne (1997) offered integrity, competence, consistent/fairness, openness, respect shown: Morgan and Hunt's (1994) lists included, consistency, competence, honesty, benevolence and fairness. All these are

marked by a pronounced ethical slant, and Wolfe (1989) saw the ambiguities of modern societies as creating opportunities to “take moral shortcuts” and that “not everyone resists them.” (p.219). He continued that we are not social because we are moral, but are moral because we live together. Morality matters because we have reputations to protect and co-operative tasks to carry out. Brenkert, in noting the growing importance of trust within and between business organisations, observed that: “Trust is said not only to reduce transaction costs, make possible the sharing of sensitive information, permit joint projects of various kinds, but also to provide a basis for expanded moral relations in business” (Brenkert 1998: 195).

Although time and experience are the two most commonly cited antecedents of trust (Anderson & Narus 1991, Ganesan 1994, Morgan & Hunt 1994), reputation is the most significant (Gambetta 1988, Nooteboom 1992, and Ganesan 1994). Without a reputation for trustworthiness possible partners are unlikely to enter into the first steps of a partnership. Reputations are expectations others hold of your likely behaviour in a partnering relationship and need the accumulation of positive experiences to develop. Concrete demonstrations of reliability and competence, honesty and fairness, and, helpfulness and benevolence confirm that reputation once established. A partner with a ‘good’ reputation is more likely to be trusted.

## **Methodology**

We conducted semi-structured interviews focused around questions about the respondent’s conception of trust, how they tried to get others to trust them and how they learnt to trust others. Five interviews have been conducted to date. In

themselves these interviews provide an interesting, informed and current perspective on the nature of relationships in this industry, the prospects for the partnering philosophy and the extent to which trust is already present in relationships.

The five respondents have been drawn from different professional and organisational groups. There is a Director of a major construction company (R1); an industrial and commercial designer running his own practice (R2); a project manager working for a large commercial property developer (R3); and, a construction contracts consultant (R4); an architect/town planner with a mixture of public and private sector experience. Their length of time in the industry varies from 10 to over 30 years giving them considerable accumulated experience of how their industry operates.

## **Results**

### Characteristics of Trust

Respondents were asked to identify those characteristics of trust that they sought in others, and tried to communicate to those by whom they wished to be trusted. The following five major characteristics all found in previous studies were identified.

1. **Competence/ credibility/ reliability** -Competence is here interpreted to mean that they offer or gain satisfaction from the relationship, or that value added is created. If people are not competent then we can assume that these respondents do not wish to form a relationship with them.

*We have to show we have the technical ability and a proven track record. This is essential, the number one priority (R4)*

*Reliability is the key factor in my willingness to trust (R3)*

2. **Promise keeping** - Two partners who cannot rely on each other to keep promises are unlikely to be able to develop trust in each other, and thus go on to develop the style of relationship which is central to partnering as a philosophy.

*You should never promise what you cannot deliver - do not mislead with false promises (R1).*

For these respondents failure to keep to what was promised is a breach of trust or betrayal.

3. **Confidence** - If the first two characteristics are present then it leads to confidence. Having confidence in the other leads to trust because there is confidence in their competency and reliability, that they will keep their promises, that they are offering value added, give satisfaction, and can do the job.

*I need to bring my client into my confidence and increase their confidence in me (R1)*

Confidence is built in the early meetings through a step-by-step process, within which creating a favourable initial impression is crucial if the relationship is to get started.

4. **Communication** is the medium through which the respondents' confidence is built. They emphasised the need to keep lines of communication open.

*Honesty and truthfulness are the number one requirement (R2)*



Where the other is revealed as deceitful or lying is one of the few instances where trust is immediately and irrevocably withdrawn. Failure to share information openly leads to distrust.

5. **Reciprocity** is an important characteristic of trusting relationships: the partners work to their mutual advantage and seek to ensure that the relationship produces benefits for both. The benefits do not have to be equal, but they do have to be equitable.

*People have to be fair and reasonable (R2)*

*We have to show mutual respect and tolerance for each other (R4)*

These are business relationships even though some of them develop a social dimension, so the desire for mutuality is about fair exchange not altruism.

Reflection on these five characteristics suggests that to establish any relationship, a minimal degree of trust has to be offered, *a step of faith* (R3). From then on, trust deepens only where the co-operation of the other gives evidence of their competence, their ability to keep promises, to communicate openly and honestly, sharing information to produce mutually beneficial outcomes. We have a virtuous cycle where trust and openness leads to increased confidence to be more open and trustful. The five characteristics identified by the respondents from the construction industry mirror the findings from other industries reported in the literature.

### Emerging Issues

Through this pilot study we have identified five practices that form a research agenda for the larger study and these will be outlined in the rest of this paper.

1. **‘Sacrificing’ Behaviour** is the name we have given to actions where one actor is making some sacrifice now in the expectation of future returns. Thus the analogy is not with ritual or altruistic sacrifice, but with the ‘pawn sacrifice’, or ‘gambit’ of chess. It is a considered option, which involves the risk that it may not prove beneficial in the future, and, may involve both short-term and the long-term costs.

*I am willing to open the books to reveal costs, margins and required profit where this might help establish a future profitable relationship (R4)*

And:

*I am happy to work with no tightly defined contract, just a guaranteed maximum price (R1)*

Instead the offer is to respect the need for both parties to make a reasonable profit and for any unforeseen cost increases to be negotiated to achieve an equitable sharing of the burden. All respondents show a willingness to engage in this behaviour, and accept the risk they might be taken advantage of. Engaging in trusting actions or responses,

or sacrificial behaviour is used to demonstrate how open and honest you are, that you are prepared to place confidence in the other, that you will keep your promises.

*Sacrificing behaviour does lead to the development of long-term reputation and hence trust (R2)*

We need to identify the incidence of such behaviour, its justifications and the extent to which it produces an appropriate response. In Construction, where the industry itself has identified the lack of trust as a major problem, this is an important area for future investigation.

**2. Problem solving** - Most construction projects, even the smallest, are a series of problems to be solved if the building is ever to be erected. To the respondents this is a key test of whether a trusting relationship can be forged. Through problem solving others reveal their openness and honesty, willingness to share information and develop a reciprocal relationship. Respondents looked for a joint approach to problem solving that produces joint satisfaction and benefit.

*The important point is to solve the problem with everybody's agreement and thus move the ground for everybody (R2)*

Respondents readily cited instances where difficulties or obstacles, were used by others to ease the tightness of a tender offer, or increase their margins, but they also cited examples where mutual problem solving had produced solutions relatively easily and with a beneficial impact on the overall project.

*Client and Contractor act as one in a positive atmosphere, whereby contractual issues take second place to a problem solving 'can do' which produces for the Client a project which meets his ambitions in terms of time, budget and quality. (R1)*

3. **Reputation** is the key to being trusted and our willingness to trust.

Gambetta (1988) reported that a favourable reputation influences the decision to trust, because building a reputation takes time and resources, so people can be trusted because they do not want to lose this valuable asset. Our respondents agreed in wanting to build a reputation for fairness and honesty, for a willingness to work for their partner's advantage as well as their own, and for a willingness to protect the interests of their partners.

*The reputation of my business is very important to me. The reputation has been gained because this practice is able, honest and truthful (R2)*

What is not clear, is on what evidence this favourable view of reputation is based. It makes sense, a priori, but reputations are intangible and fragile, easily damaged, yet many firms continue to work profitably even after damage to their reputation.

Reputation is not the only factor, or even the most important factor, in deciding whom to do business with. Hall (1992) produced evidence of the value of reputation as a strategic asset but it remains an ill-defined concept. Reputation is important to these respondents but how reputations are formed, or indeed damaged, is far from clear, although it probably arises from a complex of actions, motives, intentions, attitudes

and values. In an industry such as Construction, where the overall reputation of many of the companies is not very positive, this may be an even more complex issue.

**4. Interaction between business and social relationships** - Two respondents identified social situations as providing opportunities to assess potential clients' trustworthiness and demonstrate their own desire for an honest and open relationship.

Social situations may provide a non-threatening situation in which to explore:-

*...shared values and similar attitudes, to develop a common perspective on the proposed project (R1)*

This respondent talked about the need to:-

*meet people, shake their hand and look into their eyes (R1)*

When one respondent reported that:

*Any relationship involves the exchange of tokens. Tokens can be gifts, but they could be intangibles such as acceptance, status, and friendship (R4)*

We raise the question how widespread is the use of gifts or corporate hospitality to cement business relationships? This raises serious ethical concerns.

5. **Long-term relationships** - There is an implied desire for long-term relationships, though it has rarely been made explicit in the interviews conducted to date.

*Establishing a relationship is the priority rather than gaining business. Relationships lead to business and a relationship is essential though the objective remains to gain business (R4)*

One illustration of this is that they all said that existing partners are given more than one chance if they abuse the trust placed in them. However trust is not easily earned and:-

*trust needs to be constantly earned, it is not granted forever (R3)*

Trust leads to a long-term orientation to a relationship (Ganesan 1994, Morgan & Hunt 1994), but we felt we detected some reluctance among our respondents to place themselves at too great a degree of dependence upon their partners. Perhaps this industry has too much mistrust for its members to be other than cautious in developing relationships with others. Or perhaps they are as sensitive as Husted (1998) to the dangers of a relationship descending into cronyism and favouritism.

## **Conclusions**

No conclusions can be confidently drawn from such a limited pilot study, but the managers reported on in this paper are moral managers though they might reject that label. In their daily business practice they engage with values, principles and moral

precepts as they seek to establish relationships, built on trust not contract, with those with whom they do business, though they would see this as being pragmatic. Working this way is better. Better in the sense that the returns, both short- and long-term are higher.

We can also note that the findings presented in this paper confirm earlier work by such as Ganesan (1994) and Kumar (1997) on trust and Bennett & Jayes (1995, 1998) on partnering in construction. Bennett & Jayes (1998) from their case studies have identified three stages of partnering in the UK construction industry. Those who have reached the third stage of partnering are beginning to adopt the behaviours which our respondents described as desirable. Further the five emerging issues identified find echoes in a report published recently on a consultation organised for the construction industry (Higginson 1998) and a series of academic papers on trust published this year (see Brenkert, Flores & Solomon and Husted 1998).

This pilot study does offer a research agenda that requires larger scale and more representative studies of the professional or trade groups, or different business organisations that populate this industry. An alternative is to focus on a particular client's or contractor's supply chains. Future research needs to be directed towards the development of new models of partnering for the construction industry allowing the promise of the Latham Report to be delivered (Green & McDermott 1996). It should also:

Confirm that the five characteristics identified in this paper contribute to most individuals' concept of trust, and that these five characteristics are

used to establish the trustworthiness of potential partners and demonstrate their own trustworthiness.

Confirm that there are degrees or levels of trust (see Brenkert, Flores & Solomon and Husted 1998).

Establish the evidence to confirm or refute that the five emerging issues in this paper are the key to developing relationships based on trust and a partnering philosophy as the anecdotal evidence in Higginson (1998) suggests.

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