



## Trust Me... I'm an Outsourcer

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Not a day goes by without trust being mentioned as a critical factor in outsourcing relationships. Analysts and certainly vendors have proclaimed the partnership approach as the Holy Grail of outsourcing for many years now. Organisations have created jobs with “partnership”, or “relationship” manager in their job title, yet when you talk to most people in the industry, nobody can define exactly what trust means; why it is important; and how you nurture trust to deliver return on investment, which is more than just liking the other person or company...

In this brief article, I wanted to explore the role of trust in outsourcing relationships and hopefully provide a more holistic, as well as a more realistic, view of trust. Clearly I cannot do justice to the subject in just a few pages; nevertheless, I have tried to distil the key messages from a decade of experience and many years researching the interplay of trust and legal contracts in outsourcing relationships conducted for my PhD.

The first image that trust creates for most is that of a marriage: trust is said to be the central pillar of a marriage; creating the environment for love to blossom, for affection to grow, for a shared vision to be created of the future. Or is it the other way round: you need these components for trust to be nurtured?

What is ironic in the marriage example is how the joint understanding between the two partners needs to be cemented by vows and a marriage certificate, with significant costs attached should this commitment be broken – it seems that trust cannot appear to exist without some formal agreement binding the two.

Keeping to the marriage theme, an interesting observation is that, empirically, arranged marriages appear to last longer than love marriages. An arranged marriage is one in which wider (institutional) factors are considered in a much more rational and considered manner, where multiple stakeholders are consulted, where the commitment and bonds are much broader than just the two individuals, and in many cases includes the joint families and sometimes significant investments not only in the wedding ceremony, but in exchanging gifts, dowry etc.

The ethos in an arranged marriage is that trust and love will grow over time, as long as you are firmly committed to the bonds that have been created, observe the sacred vows and realise that breaking the marriage is more than just breaking the agreement between the two individuals.

Irrespective of arranged or otherwise, sustaining a marriage is nevertheless said to need a lot of patience, effort and much give and take. Even with these, many marriages do breakdown. Why? Well for a number of reasons, including (but not limited to):

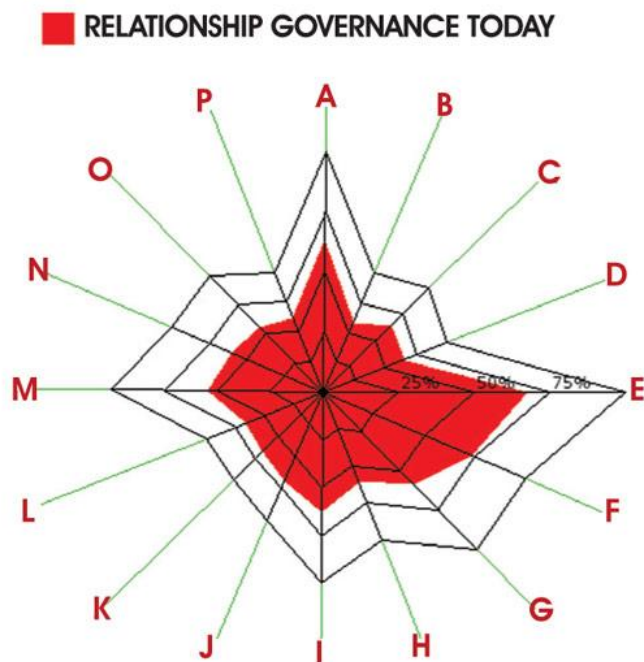
- Differences of values between the couples today
- Differences of vision for the future
- Different priorities
- Perception of not enough time being given to each other
- Financial pressures that may suddenly change priorities
- An addition of a new stakeholder in the relationship (a baby or the mother-in-law coming to stay with you...)
- A partner being distracted by other interests
- One partner, playing away from home

The reasons for a breakdown of relationships in a marriage are surprisingly not too dissimilar to many relationship breakdowns in outsourcing deals.

What the last of the above bullet points also shows is that too much trust can also be unwise. A rational prediction of behaviour and safeguards help prevent partners from trusting blindly or foolishly. The correct

level of trust in this sense is mediated by the acceptability of uncertainty (of behaviour and commitment) by the other party.

Nevertheless, it is worth being clear about what we mean when we talk about trust in outsourcing relationships, which is likely to be even more challenging than a marriage between two people.



- A) Institutional trust
- B) Process based trust
- C) Team member behaviour management
- D) Leadership and structure
- E) Structural enablers to coordination and collaboration
- F) Joint processes
- G) Joint cooperation
- H) Dependency on each other
- I) Managing differences
- J) Dispute resolution
- K) Contracting capability
- L) Financial and SLA controls
- M) Procedures and processes for KM
- N) Rewards and incentives for Knowledge exchange
- O) Internal stakeholder consultation and reporting
- P) Wider stakeholders consultation

**Figure 1**

## Definitions

Trust in an organisational setting could be interpreted to mean:

- A belief that some organisational need will be fulfilled by the partner
- A mutual confidence that neither party will exploit another's vulnerability
- A positive expectation that is likely to reduce the risk that the partner will act opportunistically
- The belief that the partner is credible and benevolent
- Confidence in the general morality of individuals within the partner organisation
- Confidence in the partner's reliability and integrity
- The belief, attitudes or expectations that the actions or outcomes of another individual, group or organisation will be acceptable or will serve the partners interest

Trust between organisations thus has additional dimensions that need to be considered when attempting to understand and indeed nurture trust, which go beyond the basic analogy of a marriage. Issues of exploiting vulnerabilities, reducing opportunistic behaviour, integrity and reliability are not normal considerations in a conventional marriage setting (one hopes).

What is hopefully becoming clear is that organisational trust is more than – much more than – just the idea that you like each other or can get along with each other. Trust at an organisational level needs trust between individuals, between teams and between organisations – which are largely-- governed by institutional structures.

These institutional factors include a strong contract, appropriate SLAs that drive positive behaviour, shared understanding and goal congruence driven by open communications, joint governance structures, rapid dispute resolution procedures and flexibility.

To initiate trust, parties must have belief in the competence of the other, must have a positive expectation of the behaviour of the other, must have clarity of purpose, and confidence in the outputs that can and will be delivered by the other. To jump-start the trust process, many will rely on a trusted source (recommendations) to evaluate the trusting nature of a party where they have little or no direct experience.

Nurturing trust takes considerable additional investment from both parties in the form of collaboration, cultural alignment, shared control, joint accountability, mirrored hierarchies, co-investments and usually time. Trust develops over time and the longer the relationship continues the more evidence each party receives of the others' behaviour and more they will be willing to invest financially, emotionally and reputationally. Nevertheless, it is only under some conditions that trust increases with relationship duration. Under other conditions, trust may stay unchanged or even decline over time.

Assuming that both parties make these investments, trust can provide a real financial gain. It can lubricate the relationship and bind parties towards future orientation, significantly reducing the perception of risk associated with opportunistic behaviour by a partner, increasing confidence that short-term inequalities will be resolved in the long term and reduce the transaction costs in an exchange relationship (if you really trust someone, you will spend less time scrutinising and monitoring them). Trust also encourages effective communication, information-sharing and joint pay-offs and can create a strong social bond which helps survive the bumpy, potholed road that is outsourcing.

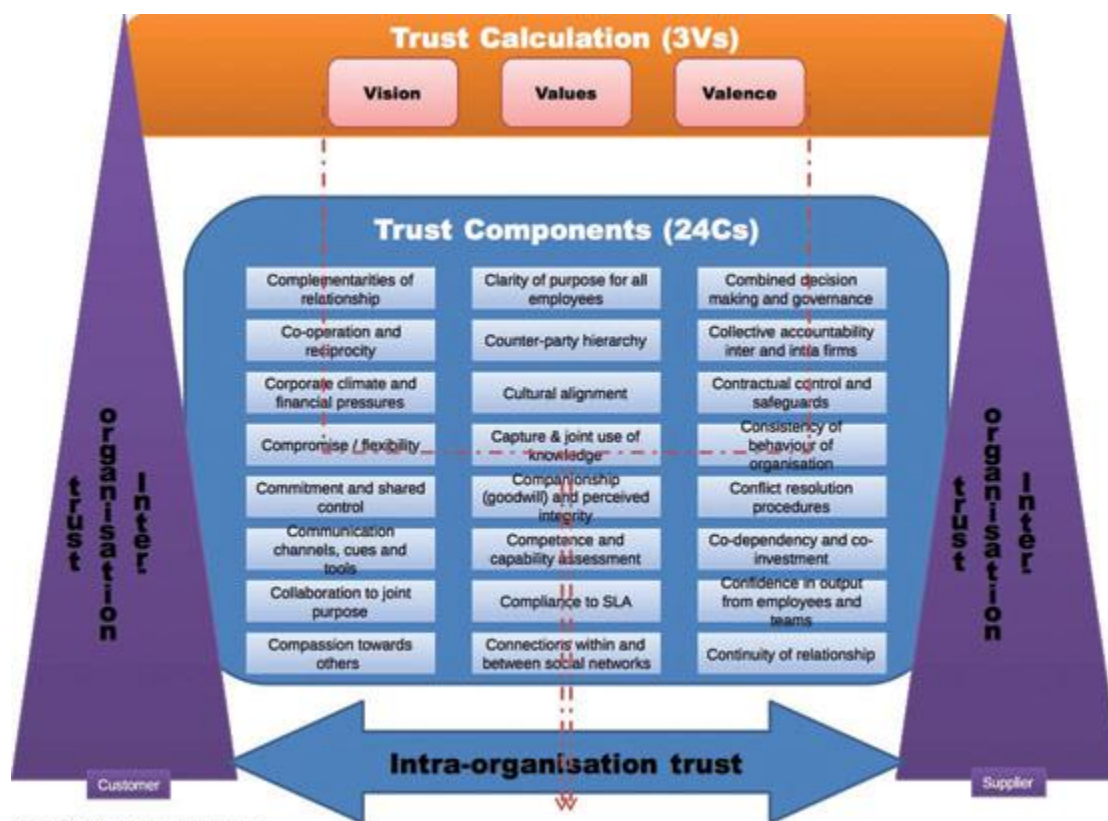
For the investment in trust truly to deliver benefits to both parties, the relationship must be complementary, must harness the enterprise intelligence and knowledge to the benefit of both parties to deliver on their shared goals; in this sense, one plus one must equal three.

Thus trust is not something you can enter lightly, it needs considerable investment throughout the organisations, and it needs a thorough assessment of three key factors:

Vision – i.e. what are you really trying to achieve in the outsourcing relationship – if it's just a basic non-core process you are outsourcing or delivering which can easily be managed on a transactional basis (or some mid-way point), why do you need to invest in trust?

Values – what specifically are you seeking to achieve from trust – is it to help get through some of the inevitable challenges that you envisage, is it a prelude to introducing radical innovation, or are you hoping that the partner can take away your problems?

Valence – what does achieving the vision and values actually mean to you? What value does the organisation place on the rewards expected as a result of trust? If the achievement of these things ultimately determines your success in the marketplace, investment in trust may be absolutely vital. If these are nice to have factors, do you really want to make these investments?



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Figure 3

The 3Vs help assess and understand the requirements for investment in trust – i.e. the extent to which investment is made in the 24Cs (see fig. 3). Without the 3Vs being in your favour, you might be better off treating the outsourcing relationship as a normal business relationship or a transactional relationship. If the relationship is important but does not warrant significant investment, you may wish to co-habit, staying sufficiently close to the partner, without having to put the institutional frameworks in place. In the end you want a sufficient Return on Investment (RoI) from your investment in trust – it is a calculated investment, not something you do blindly.

Research Op2i has carried through surveying over 50 senior industry figures on perceptions on trust within organisations points to some interesting findings (utilising GovernanceDirector.com). Through the use of a scientific approach to understand the relative priorities respondents attached to trust; the greatest priority was individual trust at ~27%, followed by trust between groups at ~23%, trust in commercial relationships third at ~18% and both trust in community relationships and trust in



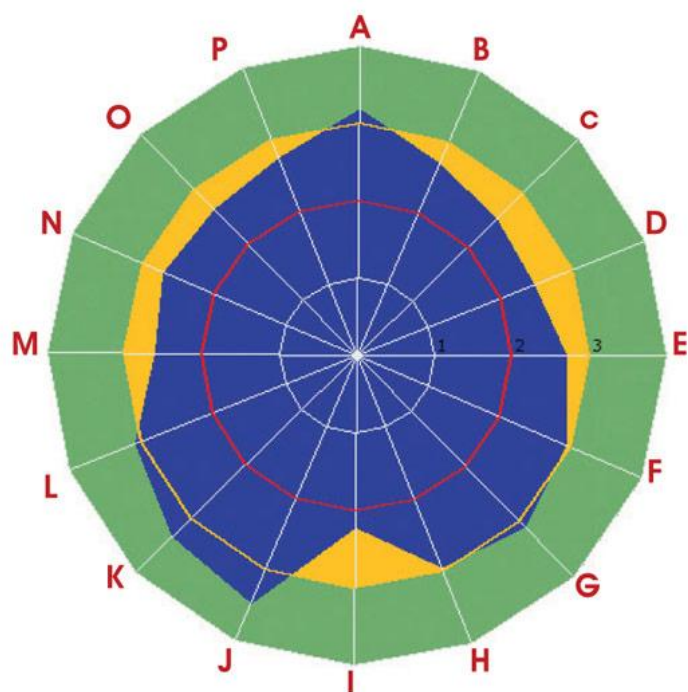
organisational processes coming joint fourth with ~16%. The priorities shift between private SME, corporate, public sector and not-for-profit, as you would expect.

However, further insights through the visual analytics suggests that while most believe individual trust is most important it is also the one with the greatest range of value, suggesting individual trust is not something you would want to bank on.

What is unsurprising is that most people trust their own judgement, their colleagues and teams within their own department, but trust between organisational groups, in the procurement function, in the HR function and more seriously, throughout the organisational processes is seriously lacking (including decision making, control procedures and the governance processes).

In another survey looking specifically at governance in outsourcing relationships, the picture is slightly different, with respondents placing greater priority on:

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- Institutional trust
- Procedures and process for knowledge management
- Processes for managing differences
- Joint process and joint cooperation
- Structural enablers for managing coordination and control



- A) Trust in regulatory relationships
- B) Trust in governance processes
- C) Trust in decision-making process
- D) Trust in management and control processes
- E) Trust within the governing board
- F) Trust within the executive management team
- G) Trust within the departmental management team
- H) Trust within teams
- I) Trust between organisational groups
- J) How I trust myself
- K) How my colleagues trust me
- L) My trust in colleagues
- M) Trust in product procurement relationships
- N) Trust in customer relationships
- O) Trust in service procurement relationships
- P) Trust in community relationships

**Figure 2**



However, as Figure 2 shows, the practice on the ground suggests there appears to be a problem in a number of areas, including knowledge management, stakeholder consultation and joint cooperation: there is recognition of the importance of these factors for trust building, but nothing is being done to address these areas.

Good outsourcing governance must be defined by its ability to build trust with stakeholders. Trust must be tangible; both the conditions for trust and outcomes of trust must be measurable for it to demonstrate business value and warrant the investment.

Reducing distrust is far easier to manage than nurturing high levels of trust, which requires deeper understanding of others needs and desires and therefore will take longer to achieve. Trust evolves; it is a dynamic relationship. When people exhibit mutual trust based on shared values, they are not merely co-workers: they are collaborators and part of a shared undertaking. However, shared values, goals and understanding should not be confused with shared equity. The reason a party may wish to share equity may be primarily driven by the degree of control that is granted to the party through such equity. Trust and control are not the same: trust is always the desired objective, but must be moderated by practical needs for control.

The outsourcing industry (like many other sectors, I might add) is paying lip service to the idea of trust. Many don't understand it; others may understand it, but don't really want to invest in it; others fool themselves by believing trust between individuals is sufficient. Some talk about trust-building, but really mean reducing distrust. Others go as far as creating jobs with relationship and partner in their title, but do little to actually turn talk to action.

I could be wrong. It could be that many have evaluated the 3Vs and determined that investment in the 24Cs will not deliver sufficient return. However, I doubt it.

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