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TRUST AND MONEY: 20 YEARS OF (NO) PROGRESS?

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Abstract
In almost 20 Years since Latham published the interim report 'Trust and Money' in which he asserted that there was too little of either in the UK construction industry, has anything changed? This paper addresses issues of what trust is, how it is created and its fragility, and progresses to examine how trust operates in the construction industry. The second major thread, money, is examined in the context of the economics and financing of construction projects and organisations in an era in which globalisation of the finance industry has occurred as well as global and local crises in that industry and many countries economies. Market emphases and process changes have occurred at several levels, continuing existing trends but also spawning new ones. A key question, which is examined as the underpinning, central theme of this paper, is that although structural changes and procedural changes are highly evident, what has changed in behaviour within the industry, why, and with what consequences regarding trust and money?

Keywords: behaviour, construction, finance, globalisation, projects, trust.

INTRODUCTION

Money has always been a vital consideration for construction projects. Emperors in ancient China endured financial restrictions in constructing the Great Wall and the Forbidden City; Christopher Wren endured and overcame financial shortfalls in the construction of the new St. Paul's Cathedral, Sydney Opera House and the Channel Tunnel both vastly exceeded their budgets and securing the additional finance required proved hugely problematic and left notable legacies! A further complication was articulated by Denning LJ who identified cash flow as the 'life blood of the construction industry'. Indeed, it may be argued that the profession of Quantity Surveying, in its various guises and contexts, developed out of a desire to achieve financial control in the industry.

Trust has changed as processes and procedures have altered and relationships between people have responded. The industrial revolution seems to have been a watershed with a rapid transition from craft guilds' masters and journeymen transacting on reputation and trust amongst relatively few persons who conducted small numbers of transactions with the individuals well known to each other and the community, to numerous transactions amongst persons largely unknown to each other. A direct result was the increase in use and importance of contracts to govern relationships and enforcement of the terms of agreements. Thus, trust became replaced by (legally enforceable) assurance.

In December 1993, the interim report of the 'Latham' review of UK construction industry procedures was published under the title of 'Trust and Money' (Latham, 1993), forcefully asserting that there was not enough of either in the UK construction industry. The full report was published in 1994 which, although much more 'glossy' and detailed concerning payment terms and practices and the call for 30% improvement in productivity, much of the message regarding trust and various aspects on money was obscured (Latham, 1994). Nonetheless, the 'Latham Report' has had significant impact through consequent legislation (Housing Grants, Construction and regeneration Act 1996), promotion of 'partnering' in construction, outlawing 'pay-when-paid' terms, and promotion of the New Engineering Contract (NEC). Effects have reached far beyond the shores of UK.

Construction projects operate as informal joint ventures where both individual and aggregate performance is determined by behaviour of interdependent actors in the coalition; Sherman (1992) finds that '…one third of strategic alliances failed due to lack of trust among trading partners'. Thus, this paper examines the major issues of trust and money raised by Latham (1993) to determine their underpinnings in theory and practice and what has occurred in the (UK) construction industry to address those issues.

> I tell this tale, which is strictly true,
> Just by way of convincing you
> How very little, since things mere made,
> Things have altered in the building trade.
>
> (Kipling, 2011)

HUMAN BEHAVIOUR

The general behavioural assumption in many social sciences is of ultimate self-interest (e.g., Dawkins, 2006). Under that assumption, individuals behave to maximise their own satisfaction and firms behave to maximise their own profits – more appropriately, profitability. However, the severence of ownership and management in modern corporations and the recognised importance of growth of the firm has modified the single objective assumption to be replaced by the objective of maximising growth, subject to a minimum profit constraint (Baumol, 1959).

Even in highly developed Western capitalist market economies, grounded in very individualistic societies (see Hofstede, 2001), there is increasing evidence that such assumed behaviour by individuals and firms is not universal (e.g., Etzioni, 1988; Perrow, 1986). Not only do firms, of necessity, examine and respond to the demands of powerful stakeholders, their activities are increasingly subject to legislative constraints (health and safety, environmental protection, etc.). However, despite the evolution of apparently altruistic behaviour, including citizenship behaviour, corporate social responsibility (CSR) / performance (CSP), and greening/sustainability, a strong core of adherence to self interest remains (Friedman, 1970; Coase, 1937; Williamson, 1985).

Thus, human behaviour comprises a blend of motivators/drivers – self interest through utility maximisation (which tends to be highly materialistically oriented) and morality through the operation of ethics to give regard to the welfare of others. Resultant behaviour is dependent upon personality, culture and social institutions together with the context of the particular situation as perceived by the actor(s).

Commonly, personality is analysed through the 'big five' personality traits (Costa and McCrae, 1988) of Extroversion, Agreeableness, Conscientiousness, Emotional stability (Neuroticism), and Intellect or openness to experience. Traits describe what people are like, while values refer to what people consider to be import and, thence, the goals they endeavour to pursue (Roccas, Sagiv, Schwartz and Knafo, 2002).

Culture constitutes the social context in which activities occur. Culture is a group construct, commonly defined as 'the collective programming of the mind which distinguishes one category of people from another' (Hofstede, 1994). Culture is analysed at the levels of the society (national) and the organisation; organisational culture is acknowledged to be embedded in the national culture. Hofstede's five dimensions of national culture are Power Distance, Collectivism/Individualism, Masculinity/Femininity, Uncertainty Avoidance, and Long-Termism / Short-Termism; the six dimensions of organisational culture are: Process – Results Orientation, Job – Employee Orientation, Professional – Parochial, Open – Closed System, Tight – Loose Control, and Pragmatic – Normative (see Hofstede, 2001).

Both Denison (1997, 2009) and Cameron and Quinn (1999) employ competing values frameworks to model organisational cultures. In Denison's (1997, 2009) model, flexibility and stability are juxtaposed along one dimension with organisational focus – internal juxtaposed to external – on the other dimension. The resultant quadrants comprise mission, consistency, involvement and adaptability. In Cameron and Quinn's (1999) model, 'flexibility and discretion' is juxtaposed to 'stability and control' on one dimension with 'internal focus and integration' and 'external focus and differentiation' juxtaposed on the other. The resultant model comprises four quadrants, each denoting a type of organisational culture – Clan, Adhocracy, Market, Hierarchy.

Handy (1985) suggests a typology of organisational cultures. Power culture is depicted as a web with the major power at the centre, emphasising control over subordinates and external agents (suppliers etc., and nature). A role culture focuses on functions/professions which provide support to top management; emphasis is on rules, hierarchy and status through legality, legitimacy and responsibility. In a task culture, jobs or projects are the major foci; an organisation is regarded as a net (as in a matrix organisation); structures, functions, and activities are evaluated in respect of their contributions to achievement of the organisation's objectives. In a person culture, people interact and cluster freely and emphasise meeting the needs of members of the organisation through consensus. Handy considers that the main factors influencing which organisational culture develops are: goals and objectives, history and ownership, size, technology, environment, and people. Williams, Dobson and Walters (1989) advance categories of 'Power', 'Role', 'Task', and 'People' which correspond to Handy's (1985) typology.

Hall and Hall (1990) employ the concept of high context / low context to analyse cultures. In a high-context culture, there are many contextual elements that help people to understand messages, behaviour and other manifestations of the culture. Meaning must be derived from the message itself and the prevailing circumstances/situation – much intuition is necessary together with a thorough understanding of both the language and the society. In a low-context culture, very little is taken for granted. Thus, much more content is needed but the resultant message is precise and explicit in its meaning and so, there is a low chance of misunderstanding; thus, people can be quite confident to interpret messages at 'face value', although such direct and obvious expression can be offensive to people from high context cultures.

Hall and Hall's second dimension concerns how people perceive time along a dimension of monochromic / polychromic. Monochronic time means doing one thing at a time, often in a

predetermined sequence. In more complex situations (such as a construction project), it requires careful planning and scheduling to be carried out and is usually assumed/adopted in 'time management'. Monochronic people tend to be low context (high content). In Polychronic perceptions of time, human interaction is valued over time itself and material things. That generates a low concern for 'getting things done' – they get done, 'in their own time'. Polychronic people tend to be high context.

'Organizational Climate is a relatively enduring quality of the internal environment of an organization that (a) is experienced by its members, (b) influences their behaviour, and (c) can be described in terms of the values of a particular set of characteristics (or attributes) of the organization.' Tagiuri and Litwin, 1968: 27). Hence, the climate of an organisation distinguishes it from other, similar organisations. As organisational climate both reflects and shapes the work-experiences shared by members of an organisation, it indicates their perceptions about autonomy, trust, cohesion, fairness, recognition, support, and innovation and so, leads relative homogeneity amongst members through recruitment and retention.

Norms of acceptability and rules of human behaviour are often embodied in social institutions. Those institutions comprise both formal and informal organisations, including governments, firms, professional institutions, friendship groups. Social institutions include meta-organisations, such as an industry, and systems of organisations, such as an economy. Further types of social institutions are not organisations but are important influences on society and its constituents, such as a religion, and a language.

All those primary variables of human behaviour, group and individual, combine to determine actual behaviour in any given context/situation. Naturally, the variety of mixes of influence of the behavioural determinants lead to very different behaviours by people in a given situation – understanding, tolerance and consideration (towards others) are, therefore, important features of human interactions, together with subjective assessments of how others will behave proactively and reactively.

TRUST

Trust, the antithetical compliment of risk, is always an element in the decision to engage in a (business) relationship. Generally, trust is defined as 'Confidence in or reliance on some quality or attribute of a person or thing, or the truth of a statement.' (OED, 2009) or, in relationships, trust may be considered to be adequate confidence (on the part of the subject actor/participant) that the other participant(s) will not cheat – that the other will not behave to cause detriment to the actor. Perhaps the most widely employed definition is '…willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party' (Mayer, Davis and Schoorman, 1995). Thus, trust is an ***expectation*** of future behaviour rather than a certainty and so, incorporates a probability of betrayal (Zaheer, McEvily and Perrone, 1998). Trust may be unidirectional or mutual.

Trust may be classified in several alternative ways. For initial, or individual, encounters between actors, dispositional trust is appropriate (do the actors intuitively regard others to be trustworthy or are they cautious, wary of others and so, take precautions for their self-protection?). Additionally, trust may be based on the reputation of the other (reputational trust), which, then, operates to modify dispositional trust. For recurring encounters, trust may be based on experience (of others generally and of the particular others) – experiential trust. Trust may relate to individuals and to organisations (through their agents) – interorganisationally and between organisations and individuals (see, e.g., Lau and

Rowlinson, 2009). Bachmann (2001) classifies trust as relating to people (personal trust), institutions (as organisations) and the system (technical, political, social,economic and legal).

Zaheer *et al*. (1998) suggest that concepts of trust comprise components of predictability, reliability and fairness – which relate to others and their performance, both process and (especially) outcomes. Further, in addition to trust in the system, they consider the human facets of trust as cognition, behaviour and emotion (affect).

In a social context, trust is categorised as generalised (relating to trust exhibited by members of that society in its broad context) or particularised (between members of small communities who know each other and with strong social controls). Further, Arrow (1972) considers calculative (instrumental) trust which depends upon rational self-interest, whilst Bachmann (2001) finds that behaviour is determined by beliefs and knowledge rather than by explicit calculations regarding gains/losses.

Convergent interests between actors fosters trust (conversely for distrust). Further, continuing relationships leads to relational trust arising from experience of interactions between the particular actors. Interorganisational trust concerns the extent to which members of an organisation hold a collective view regarding the trustworthiness of the other organisation(s) (Zaheer *et al*., 1998). Hence, organisational culture and climate impact on perceptions of trustworthiness and trust behaviour between organisations.

Yamagishi and Yamagishi (1994) distinguish trust and (performance) assurance in that if one actor trusts another because the former has some provisions in place so that the latter has an incentive to cooperate, then that situation is one of assurance; trust exists when an actor believes that the other has an incentive to 'cheat' but does not do so – perhaps because of goodwill.

Hagen and Choe (1998) note that, '…a trust relationship in business involves an expectation of cooperation but not an expectation of altruism'. 'The Chinese system of networked transactions…is relatively uncodified, and it is based on trust and long standing personal connections' (Boisot and Child, 1996). Thus, social institutions give rise to differing levels of trusting behaviour through the required behavioural norms (and limits) and sanctions for transgressors (who are caught); those institutions also impact on trustworthiness of individuals and organisations and, hence, on apparent dispositional trusting behaviour.

'The relationship…in Japan is not built primarily on trust, but on the mutual interdependence enshrined in the agreed-upon rules of the game' (Womack, Jones and Roos, 1990:155). That is afforded more general applicability by Hagen and Choe (1998) who state that '…the institutionalized industry practices that we call 'institutional sanctions' in the context of societal sanctions, are key determinants of interfirm cooperation', as manifested as the deterrent based trust in Japanese industry.

Although trust and distrust are commonly viewed as opposite ends of a single dimension, that may not be appropriate (Lewicki, McAllister and Bies, 1998). Given that many business relations are multi-faceted, '…relationship partners might trust each other in certain aspects, not trust each other in other respects, and even distrust each other at times.' (ibid). That finding suggests the contingent nature of relationships together with the importance of culture and perceptions of cultures in determining behaviour. Likewise, trust comprises components of amount and scope (realms of trust and ways of trusting) (Rousseau, Sitkin, Burt and Camerer, 1998). Those aspects arise because, usually, relationships are multifaceted and those facets may be treated seapartely.

Thus, interorganisational relationships are complicated and, for each major componemt, amounts and types of trust and distrust are likely to differ.

Uncertainty and trust are the two primary constructs which affect relationships and their institutional arrangements (Sheth and Parvatiyar, 1992). Bachmann (2001) views trust and power as means for social control within business relationships. Those concerns are commonly manifested in the criteria for selection of participants and the establishment of safeguards against opportunistic behaviour; thereby increasing *ex ante* costs in the venture (Williamson, 1985). However, Baiden, Price and Dainty (2006) find that, in the usual processes employed for selecting participants on a construction projects, the vastly dominant criteria continue to be price and perceived technical expertise – the ability of participants to integrate and cooperate to deliver the project effectively and efficiently remains, largely, ignored.

MONEY

Traditionally, beyond a barter economic system, money is a system of tokens used to facilitate exchange, usually as coins and banknotes (narrow quantifications) but now includes significant extensions to include bank deposits and credit (broad quantifications). Today, even cash is not directly exchangeable for underpinning precious metal (gold) as the vast majority of the world's money supplies are 'fiduciary issue' – i.e., backed only by confidence (in governments and economies). Consequent potential problems due to ensuing fragility of modern money have been clearly demonstrated through recent (global) financial crises.

Money performs four major functions: a medium of exchange; a store of wealth; a unit of account; and a standard of deferred payment. People and organisations require (demand) money to effect transactions (whether cash or via credit), as a 'safety net' (precaution) for unforeseen expenditures (solvency and liquidity), and for speculations (as in much property development). On the supply side, at the macro level, an economy's money supply (the total amount of money in the economy and its rate of change) is regulated by government or, as in UK, the central bank. The money supply is controlled via (short term) interest rates plus open market operations, special deposits, reserve ratios and other means of control of 'money creation' by the banks. Normally, monetary control is used in conjunction with instruments of fiscal policy to effect management of the economy by government.

In construction, money is required to meet revenue (short term) expenditures (direct/prime costs) and for investment (long term). Those types of finance are obtained from different sources and, internally, are managed by different sections of the organisation. No finance (money) is free; its price is the rate of interest (real, foregone, or 'shadow'). A market (nominal) rate of interest, within the competitive market environment, has three components – inflation (simplistically assumed to affect everything equally), time/liquidity preference, and risk. People have liquidity preference and are risk averse – both to varying degrees but each requiring compensation through the rate of interest.

Cash flow models of projects are well known and are used to assist organisations to determine their financing requirements and costs. However, given the risk distributions and returns available, coupled with the widespread emphasis on capital price competition for work allocation, much effort is devoted to 'financial engineering' and power ploys for enhancement of own, individual profitability.

'The increased uncertainty of economic activity increases the information impactedness of parties and consequently increases the potential for opportunism in economic exchange' (Korczynski, 2000), thereby reducing potential trust and, consequently, performance of the processes involved – as in UK construction.

CONSTRUCTION (IN UK) SINCE 1983

Construction in UK is in the third phase of its contribution to the socio-economy. Having gone through emphasis on infrastructure provision and on new building, now repair, maintenance, and refurbishment dominate. Construction is also subject to privatisation, concerning both the public sector as client and as a supplier of construction realisation work. An important structural and systemic change is the (universal) adoption of total subcontracting for the execution of construction operations with 'main contractors' becoming, *de facto*, management contractors.

In 2007, the output of the UK construction industry contributed over 8% of gross domestic product (GDP) at market prices and almost 54 % of gross domestic fixed capital formation (GDFCF), which, itself, contributed over 16 % of GDP. The output was mainly produced by over 192,000 private contractors, which provided employment for almost 1.3 million people, of which ¾ million were operatives. Insolvencies of construction companies and partnerships, constituted over 14 % of the total but bankruptcies of individuals, self employed persons, etc. in construction had experienced a steady decline to only 3.5 % of the total (Office for National Statistics, 2009a; 2009b.)

The mix of output, by type of work, (2007) was about 58% new work (includes refurbishment etc.) and 42% repair and maintenance. Of the new work, just over 10% was infrastructure, 34.5% was housing (82.5% private), 21.5% private commercial and 7% private industrial; public housing and non-housing comprised almost 21% of total new work. Of the total repair and maintenance work (housing and non-housing), 67% was done by the private sector (Office for National Statistics, 2009a).

During the third quarter of the twentieth century the public and private sectors each commissioned about 50% of construction output. Given that (most) construction is a producer good, with stock far dominating annual (new) supply and that construction is a relatively independent industry regarding its inputs and outputs (expenditure on construction is 'postponable', at least in the short term), the operation of the Keynesian multiplier, coupled with successive governmental attempts at management of the economy, the industry was subject to cycles of 'boom and bust' (whether intentional or otherwise is contested – see, e.g., Hillebrandt, 2000: 23-28), the effects being magnified by the accelerator principle. Thus, turbulence forces in the environment over many years have shaped the industry culture of opportunistic behaviour.

Prior to Latham, a raft of reports presented analyses of facets of the industry and recommendations to enhance its performance; since Latham, the incidence of further such reports, with consequent initiatives for change, has intensified (see, e.g., Murray and Langford, 2003; Constructing Excellence, 2009). Essentially, Latham (1994) provided the foundations on which subsequent reports have built, notably, Egan (1998) but what remain largely omitted is the fundamental message of Latham (1993).

Latham (1994) articulated the impetus for 'partnering', asserting that such practices could achieve 30% saving in cost within five years(!) plus the significance of the client role; in respect of finance and cash flow, 'pay when paid' terms, extensive delays in making payments and 'bid shopping' were condemned. Four years later, Egan (1998), drawing on experiences in production industry and major construction clients, strongly advocated 'lean' production for the industry. Egan's perspective and performance change targets are shown in figure 1. Subsequently, additional reports etc. have developed the outputs of Latham and Egan – not just in UK but internationally; some countries have reinforced their desires for change with legislation.

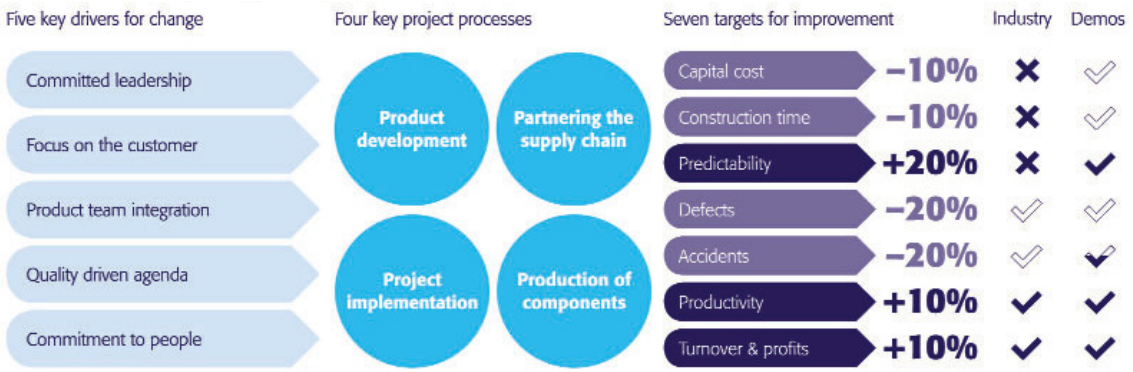

Figure 1: *Achievements of UK Construction following Egan (source: Constructing Excellence, 2009:7)*

Constructing Excellence (2009) provides some salutary views on 'partnering': '…many so-called partners still seek to avoid or exploit risk to maximise their own profits, rather than find ways to share risk and collaborate genuinely so that all can profit…Companies who say that they partner will still seek to retain profit for themselves and pass risk down the supply chain…'. Further, '…we cannot assess how far the improvements in, say, profitability are attributable to favourable economic conditions…as opposed to process efficiency…'.

CIOB (2010) report a survey investigating what CIOB members of the UK construction industry regard as important issues in procurement. Amongst the issues are that clients are not sufficiently knowledgeable, 'suicide bidding' (leading to adversarial, opportunistic behaviour), and cover pricing. KPMG (2010) Global construction survey finds that margins are very tight, financing remains a big challenge for clients, competition is extensive, and 'red tape' is increasing. In accord with the findings of CIOB (2010), KPMG (2010) note that '…39 percent of the larger organizations said they were reducing prices to near break-even…Some are hopeful of making up such shortfalls further down the line through change orders and greater internal efficiency, and by demanding lower sub-contractor pricing'.

DISCUSSION

Mayer et al. (1995) develop a model of trust in which a trustor examines a potential trustee's technical ability, benevolence, and integrity to determine that trustee's trustworthiness which is, then operationalized into trust by the trustor, as moderated by the trustor's propensity to trust. Thus, trust occurs between actors and depends on purpose, context and time. Trust may occur between individuals and organisations but only the potential for trust, as in propensity to trust, seems to be applicable to a society as a generic feature/dimension. That conceptualisation, raises concerns over whether and, if possible, how Latham's assertion of too little trust within and relating to the construction industry may be addressed.

Literature suggests that there is a fairly strong relationship between interorganisational trust and performance, relating to interorganisational exchanges, negotiations, and conflict (Zaheer *et al.*, 1998); the longer relationships have endured, the greater the trust is likely to be. However, a caution involves 'contractual trust', which is assurance rather than trust *per se* and may be appropriately considered as reliance which operates as '…institutionalised standards to reduce potential risks…manifested in legal agreements…' etc. (Jiang, Henneberg and Naudé, 2010). Reliance, implies dependence – which seems a more appropriate

conceptualisation of relationships between participants in the realisation of construction projects, while relationships with other stakeholders may be more trust oriented.

'…when contingencies arise, such as unexpected costs…or unanticipated design changes, high levels of interorganizational trust enable the parties to address the contingencies without resort to legalistic remidies…the parties will tend to direct their efforts toward determining how best to reach mutually beneficial solutions' (Zaheer *et al*., 1998). However, due to the nature of the temporary multi organisations (TMOs), which are assembled bespokenly for each project, Korczynski,'s (2000) finding is apposite, 'In situations of power imbalance there is a temptation to enforce cooperation through power rather than trust'. That finding is reinforced by Bachmann (2001), 'In the British…business system, the risk of trust often seems intolerably high, and businessmen in many situations can find good reasons to consider their sources of power'.

Duarte and Davies (2004) note a positive relationship between trust and cooperation (although the causal relationship sequencing is contested), reduced conflict and increased commitment; they also discuss the empirical results which indicate satisfaction to be a consequence of trust. That perspective is detailed by Kwon and Suh (2004) '…a firm's trust in its supply chain partner is highly associated with both sides' specific asset investments (positively) and behavioural uncertainty (negatively). It is also found that information sharing reduces the level of behavioural uncertainty, which, in turn, improves the level of trust. A partner's reputation in the market has a strong positive impact on the trust-building process, whereas a partner's perceived conflict creates a strong negative impact on trust….the level of commitment is strongly related to the level of trust.'

Those findings support 'relational contracting' in its various guises. Unfortunately, empirically based findings regarding behaviour in the UK industry (e.g., Baiden, *et al*., 2006) demonstrate absence of the fundamentals and emphasis on uses of power for self-gain.

The issues of lack of trust and consequent behaviour spawn financial problems for the industry – the extensive uses of market power to allocate work and drive down prices, low profitability prompting investment difficulties, including securing finance to supply projects, opportunistic behavious to reduce costs and enhance cash flows, etc. The resultant risk distributions and performance concerns exacerbate the self-reinforcing cycle such that clients have problems in securing finance for construction too and so, prompt the cycle further. Indeed, major clients who have extolled the mutual virtues of partnering to construction have been found to practice in their own industries the very behaviours which they condemn in construction!

CONCLUSIONS

Construction is an important but relatively independent industry which may serve to enhance the turbulence of its activities. Given risk aversion, it is hardly surprising, therefore, that the industry operates opportunistically for its self-protection and survival of individual firms as well as having strong preference for the *status quo* and reluctance to invest. The industry, in addition to its many well-known caricature descriptors, may also be denoted as being suspicious and wary of suggested initiatives, hence, not prepared to trust and of questionable trustworthiness – both applying inwardly and outwardly.

By definition, the culture of the industry is deeply ingrained and very difficult to change – and that, only in the long term through enduring means which convince participants to change. Latham's concerns for trust and money, and the many reports and initiatives subsequently, have failed to address the fundamentals as well as the more superficial

behavioural cycles involving trustworthiness, trust behaviour, performance and finance. Indeed, it seems that research is required to identify the cycle and its cause-effect linkages as, only with such understanding, can real opportunities for improvement change be identified.

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