BUILDING TRUST IN KEY CUSTOMER - SUPPLIER RELATIONSHIPS

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SUMMARY

Successful customers and suppliers share a commitment to achieving high performance, yet their interdependency requires a level of trust that is often not obtained. This is frequently because a working understanding of trust is lacking, and therefore, the question of how to build and maintain trust cannot be fully addressed.

Our approach to building trusting relationships in the customer-supplier field is built upon our combined industrial experiences, action research and a review of the literature on trust relating to customers and suppliers. Our approach and process for building trust has a solid foundation, yet is evolving as we continue to test and validate through action research. Before business partners undertake joint trust-building initiatives, we suggest both parties gain a strong understanding of several important trust concepts, including: the meaning of trust, the notion of "optimal trust", trust-readiness and an approach to assess trust-readiness. This paper describes these concepts, as well as other key foundational building blocks to optimize trust in key customer-supplier relationships.

KEYWORDS

Business partners, Equitable relationships, Intention, Optimal trust, Information sharing

INTRODUCTION

Most organizations today are faced with increasing competitive challenges and opportunities. To become or remain competitive, organizations have had to learn to adapt and improve performance in numerous ways, including rapid product development (faster to-market), reducing delivered costs, and providing higher product and service quality. As the discipline of supply chain management continues to evolve, there is an increasing awareness of how customers can effectively work through suppliers to achieve the needed performance and business results.

At the same time, many organizations have become both flatter in structure and leaner. Suppliers are increasingly called upon to provide new levels of service and support. In some cases customers are outsourcing more activities, especially when activities are acknowledged as outside the customer's core competencies. In other cases, suppliers are beginning to provide technical support that had been provided internally one or two reorganizations ago.

In the evolution of the customer-supplier dynamic, we have seen a significant change in the nature of relationships between customers and suppliers. In the past, customers commonly relied upon their power to award business or to take it away in supplier relationships, often setting up win-lose conditions. As a result, adversarial climates frequently developed.

Today, more and more buyers and sellers come together for mutually beneficial reasons based less on the customer's power and more on a symbiotic relationship based on value exchange. When the buyer-seller relationship becomes strategic in nature, we can describe the customer and supplier as "business partners". At this point, trust becomes a central component to customer-supplier relationships.

A significant level of mutual intention is required for organizations to proceed in trust building initiatives. Trust can be very fragile. Once business partners start down the trust-building road, direct and implied promises must be kept. Failure to stay the course can lead to a deterioration rather than improvement of trust.

REASONS TO BUILD TRUST

In any alliance between two organizations, trust is an essential ingredient to the success of the joint endeavor (Cyr 1999; Norausky 1998). When a high level of trust exists, each party is convinced the other is committed to mutual success. This feeling is strengthened by the fact that their successes are often interdependent. A customer with a high level of trust is a customer that tends to increase purchases. A supplier that does well has the resources and commitment to produce a quality product of value for the customer. Both companies win when they create and sustain a climate for cooperation and trust.

Developing a positive trust attitude encourages your counterpart to reciprocate trust toward you (De Furia 1996). When customers and suppliers trust each other, the degree of complexity of their negotiations decreases (Buttler 1999). This allows them to discuss important matters for mutual success rather than a host of little details (which may relate to concerns of how to control the other's behavior). Thus in the presence of trust, negotiations consume less time and resources.

Open information sharing is more likely to occur in a climate of trust. For example, Trim (a carpet and trim component supplier for Toyota Australia) was reluctant to deliver information to their customer because they were afraid to increase their vulnerability. A major task in improving supplier performance was to change these unsatisfactory relationships (Langfield-Smith and Greenwood 1998). With trust, sensitive and proprietary information is offered freely with little fear of abuse of sensitive technical information. The customer receives higher value and higher quality products. Cost savings are realized due to higher yields and less quality control with respect to incoming materials. For the supplier, shared technology can result in production and delivery process breakthroughs that strengthen competitive advantages and customer satisfaction in other markets.

Assuming customer–supplier business partners are looking for solutions that benefit both parties, their success may also depend on their creativity. Creativity increases with communication, interaction and information sharing. All of these are enhanced in an atmosphere of trust.

WHAT IS TRUST?

How do you determine if a person is trustworthy person? For Shaw (1997), it is someone who achieves results, acts with integrity and demonstrates concern. For Zand (1997), the trustworthy individual is characterized by competency, openness (rapid and direct disclosure of relevant information), and supportiveness. There are many traits or human characteristics that come to mind when we think about a trustworthy person: skilled, “walks the talk,” shows concern, is honest, knowledgeable, always truthful, committed to the common work, respectful, capable, delivers performance over time, and others.

Hacker, Couturier, and Hacker (1999) developed a conceptual model of trust that groups these characteristics into three dimensions: capability, commitment and consistency (The Three Cs model). Capability is the ability the individual has to produce results or to meet performance expectations. Commitment is the concern each person is perceived to have for the other, and the intention each person is perceived to have toward achieving their common success. The third C, Consistency, has two aspects. One is the individual’s consistency between words and actions. The second is that the individual produces a similar level of effort over time. These three dimensions (capability, commitment and consistency) provide the basis of the trustworthiness profile an individual, team or organization creates.

Along with the dimensions of trust, the development of trust is important to recognize. Our trust in another party is developed through various mechanisms (See McKnight, Cummings, and Chevany 1998; Rousseau et al. 1998, Coutu 1998 and Hacker et al. 1999 for a review of these mechanisms). The mechanism most responsible for trust building is called knowledge-based trust. Over time, through numerous interactions with another party (individual or organization), our knowledge of them leads us to associate a certain level of trustworthiness. (Jones and George 1998; McKnight et al. 1998; Rousseau et al. 1998; and Coutu 1998).

However, in a customer-supplier relationship, trust must often be built quickly. In these situations, the trust mechanism may be calculus-based trust, under which parties weigh the opportunities to be gained against the risks (real or implied). If targeted results are not forthcoming from the relationship, parties may stop believing that the relationship is beneficial, which in turn can lead to a breakdown in trust, or at a minimum, a decline in the willingness to build a higher level of trust.

Typically, when we think of building trust, we are likely to think of a relationship between two individuals. Obviously, the customer-supplier relationship is more complex. We need to do more than consider the relationship between the customer and supplier organizations at-large because there may be several pairs of important relationships that collectively define the overall relationship between the organizations. It is important to understand the key interactions of the primary stakeholders from each organization. For example, customer organization stakeholders are likely to include purchasing, quality and manufacturing, while supplier organization stakeholders may include sales, engineering, manufacturing and quality. With this complexity, how do we achieve our goals of building trust across organizations?

CUSTOMER – SUPPLIER TRUST CASE STUDY

An example of a customer-supplier relationship that required trust be established was a packaging company's relationship with a glass supplier. Both businesses were well-respected entities internationally, but due to a continual supply of off-quality glass being supplied for a packaging system, trust was notably eroded. The packaging company lacked definition on what "runable" and "non-runable" glass meant, which added to the confusion. To make matters worse, a trigger event occurred: the reintroduction of a previously rejected glass shipment. The glass was to have been relabeled by the glass company but it lacked inspection for a known defect. The overall result was the creation of a distrustful and caustic relationship.

With trust at low ebb, a frank and open discussion sought to find solutions. An analysis utilizing the three Cs (Commitment, Consistency, and Capability) suggests that the glass company was unable to extract a consistent quality standard from the packager, opening the door for supplies often not meeting the actual machine requirements. Therefore, the <u>inconsistency</u> in requirements to satisfy a relationship agreement caused havoc. The <u>capabilities</u> of both parties were put into question concerning their production processes. The re-labeling of a rejected load of glass compounded the issue as the packager saw this action as a lack of <u>commitment</u> to the packager.

To find a solution, the trust concerns had to be unraveled. First, the rejected load of glass being returned was addressed. An acknowledgement of this action was helpful. And when coupled with the glass supplier's redress with concern to added costs, and a renewed commitment to the joint goals of the two companies, there was enough goodwill to move to the issues of standards. The packager recognized the negative impact of poor equipment packaging control and specification, established an equipment testing plan to first establish baseline variation and then an action plan to tighten control. In turn, the glass supplier produced new energy to ensure that the glass actually met the new specifications. Production problems plummeted; trust reverted to an upward slope.

NOTION OF "OPTIMAL TRUST"

Nearly all of us recognize that trust in a customer-supplier relationship is inherently good, but not many of us have a clear idea of how much trust is just right. Are their negative consequences of trusting too much? What are the implications when we trust our business partner too little? How far should a customer or supplier be willing to go in trusting their business partner? These are significant questions with important implications for the affected stakeholders.

One point of view (Wicks, Berman and Jones 1999) is that trust is a conditional good, but that it is possible to both over- and under-invest in trust, where neither is desirable morally or strategically. Over-investment includes trusting too much or investing in trusting relationships that are not valuable for the organization, thus squandering valuable and scarce resources. Under-investing includes trusting too little or not investing in building relationships that have substantial value for the organization. The authors refer to Aristotle, and his ethics to focus on finding the golden mean between excess and deficiency. In the context of optimal trust, the golden mean lies between excess trust (over-investment) and trust deficiency (under-investment).

Under-investment in trust often comes from distrust, which can be costly. Parties may erect complicated protections to prevent opportunism, they mobilize resources that could be used more effectively somewhere else, and they focus too much attention on protecting themselves rather than building the business. Over-investing in trust can be costly too. Trusting to a high level means increasing the vulnerability of self to the other. However, parties who trust excessively may trust foolishly, exposing themselves to abuse.

Finding the "golden mean" for optimal trust does not imply it is best to moderate between excess trust and deficiency. Instead, some guidelines are: "one ought to have a stable and ongoing commitment to trust," but because of the cost and risk associated with over-investment in trust, "that judgments about trusting others should be made carefully, realistically, even prudently" (Wicks et al. 1999).

In customer-supplier relationships, judgments about trusting others will often be influenced by perceived equity in the relationship. When one party perceives they have an equitable relationship with the other, they will be more willing to invest in building trust with the other. In contrast, when relationship equity is lacking, a careful, realistic and prudent business partner is likely to judge the trust-building opportunity with skepticism based on the history or perceptions of the inequities in the relationship. When the parties are not true equals, the key is to treat the weaker, vulnerable partner fairly (Kumar, 1996).

The reasons and extent to which parties consider each other a business partner will greatly influence the level of optimal trust in customer-supplier relationships. The level of interdependence existing between a customer and a supplier is itself a good indicator of the appropriate level of optimal trust needed to help the relationship work at its full potential. Higher levels of interdependence among business partners call for higher levels of trust.

TRUST-READINESS

Intentional trust-building among business partners will be most effective when the initiating party starts by examining their own trust-readiness. They must first make themselves trust-ready. Trust-readiness is a function of trust attitude and trustworthiness. Creating a positive trust attitude requires increasing ones vulnerability to another. It is about reducing controls, sharing information, engaging in open, honest and direct communication and involving the partner in activities that impact them. As previously mentioned in the Three Cs Model, the perception of trustworthiness comes with the perception of capability, commitment and consistency. The business partner desiring to build trust with a key customer or supplier must examine and increase their own trust-readiness first. Since the business partner has multiple employees who are stakeholders in a key customer-supplier relationship, it is important that they participate in the examination of their trust-readiness as a group.

Once the initiating party is satisfied they have a positive trust attitude and can demonstrate appropriate levels of capability, commitment and consistency, they will be ready to explore trust-building intentions with the business partner. A diagnostic assessment of current trust-readiness can be of great value in driving those efforts.

ASSESSING TRUST-READINESS

Our approach to assessing trust-readiness uses a diagnostic to explore both trust attitude and trustworthiness. The diagnostic focuses internally on the trust-readiness of each partner. The assessment tool clarifies for each business partner their own strengths and weaknesses, providing insights on how to improve their own trust-readiness. The obvious benefits of assessing trust-readiness are to be certain that both parties are clear about the challenges and opportunities for moving forward with trust-building as it pertains to the specific relationship.

The section of the assessment tool for determining trustworthiness uses the Three Cs model of ***Capability, Commitment, and Consistency***. The scale items that comprise each of the Three Cs are shown in the following table (note: some scale items have been adapted from Kumar 1996).

Customer-Supplier Trustworthiness Assessment

Capability	Commitment	Consistency
Adequate technical proficiency.	Show concern for other's success / welfare.	Honor commitments / walk our talk.
Adequate workforce skills.	Share common / mutual goals.	Deliver expected performance over time.
Sufficient production capacity.	Demonstrate honesty and integrity.	We mean what we say.
Demonstrated adaptability.	Show courtesy and respect.	We are timely in responding.
	Acknowledge cultural differences between organizations.	Provide adequate disclosure.
	Cooperative and flexible.	Seek to understand as much or more, than to be understood.
	Explain actions that impact other.	
	Make sufficient effort to become familiar with other's business.	
	Encourage / promote open, two-way communication.	

We use a seven-point scale to assess the extent of agreement with each scale item. Our approach is to get the key relationship stakeholders together and use facilitated discussion to conduct the assessment. In addition to the trustworthiness scale items, our assessment includes a number of items related to trust attitude, such as: perceived level of interdependence, perceived benefits of risking for trust, perceived equity in the relationship, and assessment of risk inherent in the relationship. After the assessment has been concluded, relationship stakeholders can set their priority improvement areas. As the initiating business partner, the organization is now ready to move forward and approach prospective customers or suppliers for intentional trust-building initiatives.

BEYOND TRUST-READINESS: A PROCESS TO BUILD C–S TRUST

The assessment of the organizational trustreadiness, followed by actions to increase it, is the important first step in a four-step process to build trust with a key business partner.

The Trust-Building Process
1. **The initiator assesses and acts to increase its organizational trust-readiness.** 2. **The initiator launches the discussion with business partner.** 3. **The partner assesses and acts to increase its organizational trust-readiness.** 4. **Partners exchange feedback.**

The purpose of the second step is to declare your intentions to build higher trust with your business partner, and to share what is needed from their organization to ensure the success of this process. As the initiator of this process you must be honest, open, and direct about what you want to achieve. The key stakeholders of the relationship must bring with them their insights and learnings from their trust-readiness experiences. By sharing what they have discovered about themselves and their own organization in terms of capability, commitment, and consistency, they will demonstrate their intentions to the business partner and will receive trust in return.

Once the business partner has accepted to move ahead, the third step is for them to demonstrate their commitment by assessing and improving their own trust-readiness. When they have completed their assessment and acted to increase trust-readiness, they will be ready to engage with you into a deeper relationship based on mutual trust and reciprocal exchange.

Understanding each other's expectations is a fundamental aspect of trust building. Being aware that the purpose is to raise the level of understanding between the two organizations, the fourth step is for relationship stakeholders to exchange constructive feedback about each other's performance and share their expectations of each other. The assessment tool is well suited for partners to exchange such feedback and give each other a basis to increase their trustworthiness.

If both business partners share a commitment to improve their business relationship, then they will also be committed to open communication. With shared commitment, business partners can use an assessment such as the one we have proposed to speed up the process to increase trust in their relationship.

Finally, the structure in place between the two organizations can foster increased trust. Direct channels of communication must exist. It should be easy to get in touch with the right person if there is any questions or issues. In the United States, the relationships between Toyota and its suppliers are so tight that Toyota promises to build your car in five days (Maynard 1999). Contracts should not be designed to restrain the actions of the other party, but should be designed to encourage collaboration and flexibility. A contract is not a proof of distrust anymore but the symbol of a commitment to a joint endeavor.

CONCLUSION

Our paper has focused on the key elements to optimize trust in customer-supplier relationships. Once business partners get clear on their reasons for wanting to build trust (benefits), have assessed what is at risk, have examined their own trust attitude (intention and willingness to risk), and have received feedback on their trustworthiness, building trust in a mutual climate of open, honest and direct communication is fostered. We have put forward an assessment process that can help relationship stakeholders set priorities for improvements. The assessment can aid organizations in identifying issues and help them articulate their interest in building trust to their business partners.

In any situation, trust is built over time, through numerous interactions between individuals, between partners (Hacker, et al. 1999, Rousseau, et al. 1998, and McKnight et al. 1998). However, in key customer-supplier relationships it is irresponsible to rest on the effects of time to build the level of trust. Both partners must be willing to speed up the process by engaging the time, resources, and effort needed to get to know each other. Because a relationship between two companies is primarily a relationship between people, it is important to enlist the right stakeholders as owners / drivers of the future of the business partner relationship. For key customer-supplier relationships it is important to manage the dynamics both within and across partner organizations.

The Performance Center is continuing its research in the area of building customer-supplier trust. We look forward to reporting our findings in the future to help more organizations move forward with strong intention; driving with cohesive purpose to build and improve trust in their key customer-supplier relationships.

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SPEAKER BIOGRAPHIES

Stephen K. Hacker

Stephen Hacker is the Director of The Performance Center, part of the Oregon University System – in partnership with Portland State University and Oregon State University. As an applied research and learning laboratory, The Performance Center provides a mechanism for University faculty and professionals in such fields as management systems engineering, organizational psychology and business administration to apply and refine research findings in organizational settings.

Stephen has been integral in developing systematic and integrated management approaches used by The Performance Center to effect measurable and sustainable change. His seventeen years with Procter and Gamble prior to his present position provided a wealth of experiences to draw upon. He is currently engaged with the U.S. Postal Service, Kollmorgen Corporation, and the Botswana Government in their cultural and performance transformations. He has also coached National Grocers Co. Ltd. of Canada, U.S. Geological Survey, and Volvo-GM among others to develop and sustain a strategic, comprehensive, and integrated approach to organizational change.

Using his organizational change experience and research, he has recently co-authored a book, *Work Miracles: Transform Yourself and Your Organization*. He has presented many papers to national and international forums addressing integrated approaches to profound organizational change.

Jeff T. Israel

Jeff Israel is the founding Principal of SatisFaction Strategies, a consulting firm specializing in the design and improvement of customer satisfaction measurement and feedback systems. He also helps his clients remove performance barriers, aligning service processes with customer expectations. He has more than 19 years experience in service quality research, serving a broad range of industries. In addition, Jeff is an Associate of The Performance Center, helping organizations and individuals improve using appropriate transformation tools and methods.

Before starting SatisFaction Strategies, Jeff worked as a market research consultant, holding positions as Office Principal, Vice President, Data Collection Manager and Field Coordinator. Jeff received his M.B.A. from Washington State University and his B.A. in Business (Marketing emphasis) also from WSU.

Currently, Jeff is Treasurer of the Customer-Supplier Division of the ASQ. He has served in other officer positions, including Division Chair, since 1995. Jeff is also is an Executive Member of the American Marketing Association. Jeff frequently speaks on customer satisfaction topics and has written and presented four papers on customer satisfaction, performance improvement and improving customer relationships. Recently, Jeff authored several chapters of The Certified Quality Manager Handbook (Quality Press), published by the Quality Management Division of ASQ in 1999.

Laurent Couturier

Laurent is currently a Ph. D. student in Industrial Engineering at Oregon State University. Laurent is a Research Assistant at The Performance Center, part of the Oregon University System, where he develops and applies the body of knowledge in management. Laurent obtained a Master of Science in Manufacturing Engineering from The Institute of Sciences and Techniques for Engineers in Lyon (France), and a Bachelor of Science in General Engineering from University Claude Bernard of Lyon (France). Laurent gained experiences in the service industry holding many temporary positions at Sauzay & Goudard (rental agency). Laurent gained manufacturing bottom-line experience through an internship in David Brown Transmission France (electromechanical transmissions manufacturer). Laurent gained production management experience as a student of The Association for the Development and Teaching of Manufacturing Engineering of Roanne (France). Besides his work and studies, Laurent likes traveling, fine art, tennis, classical music, French music, rugby, psychology, and working on his spiritual growth.