

THE SWIFT TRUST PARTNERSHIP: A PROJECT MANAGEMENT EXERCISE INVESTIGATING THE EFFECTS OF TRUST AND DISTRUST IN OUTSOURCING RELATIONSHIPS

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The Swift Trust exercise provides instructors with the opportunity to discuss the issues of managing trust and distrust perceptions in a team-based design. Lewicki, McAllister, and Bies's (1998) framework is used to allow students to experience the difficulties of deriving a common set of contract requirements based on team dynamics and reputational factors of a potential future trading partner. This interteam exercise provides instructors with a medium-term simulation (from three to four class periods) that can be used to discuss integrating simultaneous trust and distrust perceptions. Discussion of pedagogical issues and implications is provided to assist instructors in conducting this exercise.

Keywords: *trust; distrust; swift trust; project management; outsourcing; alternative work arrangements*

Trust in God, but keep your powder dry.

—An old New England proverb
(cited in Webb, 1996, p. 299)

The use of agreements and contracts between and within organizations is a growing trend (Barthelemy & Adsit, 2003; Benfratello & Sembenelli, 2002; Blenkhorn & Noori, 1990; Boswell, 2000; Paladino, Bates, & da Silveira, 2002; Schilling & Steensma, 2001; Zuckerman & Higgins, 2002). Evidence abounds in newspapers and magazines about firms partnering with other organizations through joint venturing, franchising, and alternative work arrangements. The effectiveness of interorganizational partnerships

ultimately is based on perceptions of trust and distrust (Jeffries & Reed, 2000; Williamson, 1985).

The Swift Trust exercise provides instructors with the opportunity to discuss the difficulties of understanding and integrating trust and distrust perspectives. The exercise is experiential, and a quasi-organizational contract is used as a medium for understanding the more complex perceived conditions of trust and distrust. Students can directly learn from the difficulties of deriving a common set of contract requirements based on their own perceptions, team dynamics, and the reputational factors of potential future trading partners. A primary concern is gauging how a future trading partner is perceived with regard to trust and distrust.

It has been the experience of this instructor that the perceptions of trust and distrust greatly influence how contract requirements are written in team-based designs. The Swift Trust exercise incorporates four very different trust and distrust scenarios in accordance with Lewicki, McAllister, and Bies's (1998) framework. Basic team-based processes are exposed through this exercise and are important for integrating individual and team-based perceptions of trust and distrust.

The Importance of Trust and Distrust in Organizational Contracting

Because contracts represent a governance structure for managing work between two or more organizations, teams developing contracts are typically required to develop contract requirements that are based on perceptions of trust and distrust. The concepts of trust and distrust have been researched for more than 40 years with an emphasis on the intentions and behaviors of those in which a trading relationship exists (Deutsch, 1960; Hosmer, 1995). Key to understanding trust and distrust is the fact that these two concepts are two unique conditions, not opposite ends of the same continuum (Luhmann, 1979). Consequently, there are unique factors that contribute specifically to the growth and decline of trust and distrust.

While partners may collaborate, they may also compete; and this leads to simultaneous trust and distrust (Brandenburger & Nalebuff, 1996; Rousseau, 1995). *Trust* and *distrust* are thus defined as positive and negative expectations, respectively, of regarding another partner's future conduct while one's organization is vulnerable in the economic relationship (Boon & Holmes, 1991). These expectations are firmly established in how team members perceive a partnership with regard to the extent their own organization can benefit or be harmed. Key characteristics of the four trust and distrust conditions are provided in Table 1.

TABLE 1
Key Characteristics of Simultaneous Trust and Distrust

<i>Characteristic</i>	<i>Definitions</i>
1. Low trust/low distrust	
a. Casual acquaintances	1a. Limited previous history so a new opportunity for everyone
b. Limited interdependence	1b. Inputs and outputs between organization's processes are independent and not integrated
c. Bounded, arms length	1c. Emotional relationship and transaction attachment between trading partners is not a factor to consider
d. Professional courtesy	1d. Respect for each other is expected and superficial
2. High trust/low distrust	
a. High-value congruence	2a. Perceptions between trading partners align
b. Interdependence promoted	2b. Sharing of work between organizations is expected
c. Opportunities pursued	2c. Creativity and innovation is an outcome of the partnership and valued by both partners
d. New initiatives	2d. New strategies for maximizing the partnership are discussed openly and pursued by both parties
3. Low trust/high distrust	
a. Undesirable eventualities expected and feared	3a. History and reputational effects indicate the trading partner is not being honest in its relationship with your organization
b. Harmful motives assumed	3b. Your organization is assumed to suffer in some way from this trading relationship
c. Interdependence managed	3c. Boundaries are set in all ways regarding access to your organization's information and resources
d. Preemption; best offense is a good defense	3d. Penalties for abuse to contractual terms and conditions are strong enough to mitigate potential trading partner opportunism
e. Paranoia	3e. Worst-case scenarios dominate your organization and team discussions regarding your potential trading partner
4. High trust/high distrust	
a. Trust but verify	4a. Focus is a positive trading relationship but anticipate potential trading partner opportunism and limit as best as possible
b. Relationships highly segmented and bounded	4b. Partition information and resources to protect core competencies and discourage trading partner opportunism
c. Opportunities pursued and downside risks and/or vulnerabilities continually monitored	4c. Provide information sharing regarding team scouting and task coordination

SOURCE: Adapted from Lewicki, McAllister, and Bies (1998) framework.

These perceptions form the basis for hard and soft contracting as described by Williamson and Ouchi (1981). The authors suggest that hard contracting is required when contract requirements are explicit. Soft contracting is used when contract terms are less specific, measurable, and clearly stated. The underlying premise in organizational contracting is that firms choose between hard and soft contracting as a framework for meeting organizational objectives and in satisfying the needs of the partnership. This may not be a valid assumption without careful thought on how team processes affect the development of contract requirements. Hard contracting is more precise and definitional in the terms that bound a business partnership. Soft contracting tends to be less stringent and more informal, many times succumbing to the social dynamics of the business relationship. Thus, soft contracting may have many more ambiguities in contractual terms but also more opportunities for off-contract partnering and conflict resolution. Hard and soft contracting compose two different views on how a partnership, as a relationship, should be arranged or governed (Schilling & Steensma, 2001; Zuckerman & Higgins, 2002).

Relational contracting requires consideration of trust and distrust because these conditions affect how requirements are written in the contract (Jeffries & Reed, 2000). An organizational contract is nothing more than a medium by which the partnership is framed. Teams perform the task of developing a contract, and their perceptions of trust and distrust of the future business partner(s) greatly influence whether contracts are hard or soft. Because teams form and adjourn quickly and regularly, Meyerson, Weick, and Kramer (1996) suggested that organizational members develop "swift trust" of future partners based on little information about a partner and little time to investigate past performance. This concept most likely applies to distrust in regard to information and time availability.

Perceptions of trust and distrust also are affected by team-based designs. Zand (1972) referred to trust at the team level as generalized expectations for all team members. Therefore, one task of team managers is to integrate varying individual trust and distrust perceptions into a team-level perception of trust and distrust. Thus, the Intel Corporation created the saying, "Put on your Intel hat" to realign individual behavior to a unified, team-based perspective.

The Swift Trust exercise provides students with the opportunity to frame an organizational contract based on perceptions of the future business partner. Based on classroom experience, the Swift Trust exercise is best used in a capstone course such as Business Policy or Strategy in either undergraduate or graduate curriculums. Two practical implications of this exercise are provided.

1. Team trust and distrust perceptions based on Lewicki et al.'s (1998) model are a central component of team-based designs in outsourcing relationships.

Team-based structures provide creativity and innovation by providing a means to accomplish a variety of organizational work. Team-based writing specifically creates a forum where the communication of organizational requirements highlights the value of a particular group's contribution relative to other organizational members. High-trust perceptions of a potential partner tend to relax the explicitness of contract requirements—partners tend to work off-contract to get tasks done (i.e., soft contracting). Informal compensating mechanisms such as team building, social networks, and spontaneous work adjustment are typical soft contracting activities.

High-distrust perceptions tend to harden contract requirements because partners feel the need to stipulate the details. Many feel that stipulating future contingencies is impossible given the unknown; however, many also believe that general contract work-around strategies can be identified a priori for resolving potential contract disputes. High-distrust conditions tend to escalate contract disputes, and individuals working in team-based designs need to resolve just how much leeway to give for potential partner distrust.

2. Students need to challenge basic assumptions that frame team trust and distrust perceptions.

Perceptions exist for many reasons. Some actually reflect the reputation of future business partners based on past performance. These expectations might include the managerial aspects of past projects being considered by the partnership contract or even administrative details as to when a partner gets paid by the other partner. Many organizations have dealt with this issue by assigning teams to review basic assumptions of every contract requirement. For instance, one requirement that a firm needs to consider is how much data to ask for from a trading partner. Do firms want cost, schedule, and scope status reports at monthly meetings? If so, this begins to move into the hard contracting realm of micromanagement. Other firms may take a more hands-off approach relying on their future business partner to deliver whatever is required (e.g., soft contracting). Thus, it behooves teams when developing requirements to consider why a perception exists about trust and distrust and then to justify what requirements are affected by that perception(s). The Student Reactions section at the end of this article discusses each trust and distrust scenario with an emphasis on giving instructors insight into what can be expected from students and teams. The Swift Trust exercise provides an

experiential activity whereby students can assess and manage perceptions of trust and distrust in a team-based setting.

The Swift Trust Exercise

DESIRED LEARNING OBJECTIVES

The goal of the Swift Trust exercise is to involve students in experiential activities that reflect what they most likely will face regarding assessing and managing trust in team-based designs. Because firms are increasingly using team-based designs and contracting to conduct organizational work, this exercise is popular with many corporate clients and with business students. The exercise along with instructor feedback should enable students to meet the following learning objectives:

- comprehend the four unique conditions of trust and distrust
- synthesize how individual perceptions guide behavior and affect team-based decisions
- explain how project management affects the development of outsource requirements under different trust and distrust scenarios
- resolve conflict in communicating outsource requirements under different trust and distrust scenarios
- compare and contrast different team-oriented styles of developing contract requirements based on simultaneous trust and distrust conditions
- describe how risks associated with distrust in a business relationship can be written into the business contract
- discuss organizational contracting implications of the four simultaneous trust and distrust conditions, including the importance of
 - a. integrating contract requirements with organizational strategic goals
 - b. assessing future trading partners regarding trust and distrust perceptions
 - c. communicating requirement assumptions within team-based designs
 - d. becoming aware of the importance of team leadership in developing outsource, or contract, requirements
 - e. balancing conflicting requirements within cost and scope constraints
 - f. collaborating inter-team in the collective authorship of requirements that lead to better written contracts.

RUNNING THE EXERCISE

The Swift Trust exercise has been used successfully in corporate training, and undergraduate and master's of business administration business policy courses such as Business Strategy, Entrepreneurship, Organizational Behavior, Information Systems, Project Management, and Operations Management. It is not surprising to note, graduate students add more depth to class-

room discussions as they may have more management experience to offer, especially with regard to assessing and managing trust and distrust perceptions relative to outsourcing through team-based designs. The following steps for conducting the exercise are suggested to compare and contrast how the four simultaneous trust conditions differ.

Step 1: Assignment into teams. The instructor divides students into large groups and then assigns two task teams to a trust and distrust condition. One task team will be responsible for revising the draft work statement (Appendix B), and the other task team will be responsible for developing the project definition worksheet (Appendix C). Variations to this proposed set-up are discussed in the Conclusions section of this article. The two task teams need to present a cohesive analysis to Sam and Betty Construction (SBC) management (a role typically played by the instructor).

Student task teams should be diverse in composition either functionally, socially, or professionally to facilitate and enrich team discussions and dynamics. The instructor should be aware that the nature of project management requires teams to integrate unique functions and discourses in business such as finance, marketing, management, operations, and economics, to name a few. The Swift Trust exercise reflects this realism. As a consequence, individuals can be assigned to teams based on their area of concentration with an emphasis on diversity of team composition. Task team size should be about five to eight students to simulate realistic team-based designs.

If there are more or less than eight student task teams, then the instructor can decide what trust and distrust scenarios to cover more than once or not at all. Obviously, covering as much of the trust and distrust context adds greatly to class discussions and student learning in the final session wrap-up.

Step 2: Introduction of the exercise. The instructor explains the scenario for SBC in Appendix A as follows: the draft work statement (e.g., a document that typically contains the contract requirements in a trading venture) and project definition worksheet (e.g., SBC's internal planning document) have been provided by the Swift Trust Corporation, a potential partner of SBC, to form the basis for the partnership contract between the Swift Trust Corporation and SBC.

Because Sam and Betty, coowners of SBC, do not have much experience in architectural design, they have hired two student task teams that specialize in architectural design project management (see Figure 1).

As mentioned previously, one of the student task teams revises the draft work statement (Appendix B) and the other team develops the project definition worksheet (Appendix C) to ensure both documents meet SBC's needs.

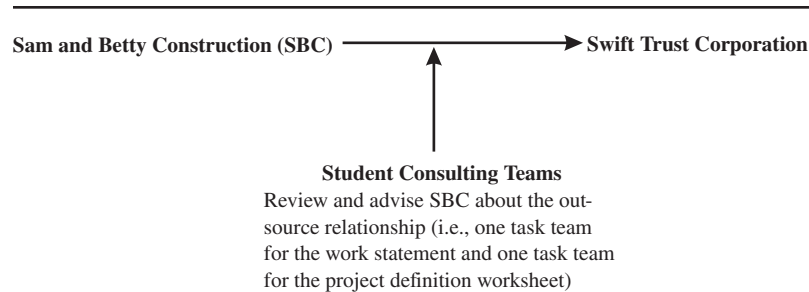


Figure 1: Student Task Teams Role in the Sam and Betty Construction (SBC) and Swift Trust Partnership

While the work statement is typically a binding document in the contract, the project definition worksheet is internally used at SBC to identify the major areas of work. Some work statement requirements are typically tied to work planned in the project definition worksheet; however, not all are included. For instance, SBC responsibilities might be more appropriate as a project definition worksheet item rather than a contractual requirement. The reason for this distinction might be that it would be more beneficial for SBC to have fewer formalized items in the contract. In other words, to reduce risk, SBC would make Swift Trust responsible for many things as in a high-distrust situation.

Thus, integration between Appendices B and C is a must. By integrating the work statement revisions and with developing the project definition worksheet, students will learn how difficult it is to manage trust and distrust perceptions in team-based designs. Instructors can also provide a few examples to indicate how a requirement might be ambiguous or where there might be areas of overlap between the work statement and the project definition worksheet (Adler, 2000). Integration between the revised work statement and project definition worksheet is extremely important. The key item conspicuously left out of Appendix B and C is the number of homes that will be built and over what time period. This is basically a scope issue found in all project management endeavors. If students have high trust for Swift Trust, then the contract becomes less of an issue, and the scope is more loosely defined, if at all, as in most organizations. If there is distrust in the equation, then teams usually put Swift Trust on probation by changing the work statement to encompass one or two homes over a period of 3 to 6 months. In a high-distrust condition, if Swift Trust meets SBC requirements as stated in the work statement, then options are included in the work statement for additional homes. The issue of scope is crucial because this determines what

deliverables and milestones there are, as well as planning for all the other items in the project definition worksheet.

Another example of integration might be a key milestone defined in Appendix C that needs to be placed as a hard requirement in the work statement. A milestone, in this case, might be an important review date or achievement that SBC might want to consider. An important milestone might be when a certain number of houses are completed or after a 6-month period, SBC might want to review Swift Trust's status as a trading partner.

In general, higher trust and lower distrust conditions lead to less revision and integration between Appendix B and C. The most revision and integration occurs in any high-trust and high-distrust condition that is likely most common today. The quote by Webb (1996) at the beginning of this article is indicative of a high-trust and high-distrust condition where the focus of the partnership is positive; however, future partner opportunism is also anticipated.

The instructor can emphasize how, in theory, the more distrust there is in a trading partnership, the more likely partners will want explicit terms framing the relationship (e.g., hard contracting) to guard against potential opportunism. Another area of discussion is the difficulty of interteam integration and communication in project management. Students not only get exposed to some of the typical assignments of teams in organizations today but also get to experience how difficult it is to do work that is dependent with work from other teams. The instructor can ask students what activities their teams did that facilitated interteam and intrateam communication, progress, or leadership.

Instructors should review the general background of this exercise with the class (e.g., reviewing Appendices A through C before student consulting teams begin working with each other). After the general scenario of SBC and Swift Trust has been introduced in class by the instructor, student task teams are given Appendices D through G and are assigned one of the four trust and distrust conditions. Appendices D through G reflect each trust and distrust condition, or scenario, and are intended to frame the relationship between SBC and Swift Trust. Table 1 also is provided as an adaptation of the Lewicki et al. (1998) framework for professors. On a cautionary note, providing Table 1 and the labels for each trust and distrust scenario prematurely to students may unintentionally drive student results and behavior. Thus, interesting results might be observed by just giving students Appendices D through G without stating the trust and distrust condition.

Step 3: Students modify work statement and project definition worksheet over next 2 weeks . Appendices A through G are used by students as

background to begin work. The student task teams must prepare a presentation for Sam and Betty that discusses what they revised in the original draft work statement and project definition worksheet. Teams should be able to see if a requirement is ambiguous, inconsistent, or needs to be changed because it does not make any sense. One week is designated for each team to work separately outside of class to revise either the work statement or project definition worksheet. Another week is necessary for both teams to then work together integrating their work statement and worksheet.

Step 4: Team presentations covering two of the four trust and distrust conditions. Teams representing two of the four trust and distrust conditions are presented in a class session—15 min each for the revised work statement and project definition worksheet. Thus, four teams, representing two of the four trust and distrust conditions, can be presented in a 1-hr class. The best results occur when opposing trust and distrust conditions are presented in the same class period. For instance, two teams might be assigned the high trust–low distrust condition and another pair the low trust–high distrust condition. If integration issues exist between teams, it is clearly evident during these presentations. If a class has eight teams grouped into the four trust conditions, then it will take approximately two class periods for presentations.

The instructor poses as SBC management and listens to ensure that student presentations make sense, are reasonable, and are clear. Instructors can anticipate giving feedback to student consulting teams in four areas:

- format and content of revised Appendices B and C
- realism of revisions for given trust and distrust condition
- evaluation of the quality of integration between Appendices B and C
- overall quality of presentation to SBC.

Teams not presenting take notes on lessons learned with regard to how well the teams they observed communicated requirement assumptions; balanced conflicting requirements within cost, schedule, and scope constraints; and collaborated in the collective authorship of their work.

After the end of the first presentation, all participants take notes about how they feel things are going and what their personal feelings are with regard to what is happening. Presentations are likely to take place during two class periods to cover each of the four trust and distrust conditions.

Step 5: Generalizations and exercise wrap-up. After all presentations have been made, a final wrap-up session is suggested where the instructor can summarize lessons learned and generalize about the importance of trust and

distrust perceptions. The instructor can use Appendix H as a guide to facilitate class discussion or as a written student or team assignment. If Appendix H is assigned as a student or team reflection paper, this is a good time to summarize student reflections regarding individual and team leadership, communication effectiveness, or any of the other competencies discussed in each of the trust and distrust scenarios in this article. The instructor can also assign students the task of assessing how well their team was able to

- comprehend how project planning assumptions affected the development of contract requirements under different trust and distrust conditions.
- predict how differences in trust and distrust perceptions affected the development and quality of contract requirements.
- compare and contrast different team-oriented styles of developing contract requirements based on simultaneous trust and distrust conditions.

List of materials. The following materials are necessary to conduct the Swift Trust exercise:

- key characteristics of simultaneous trust and distrust (Table 1 for instructors)
- Scenario background sheet (Appendix A)
- Draft work statement requirements for SBC (Appendix B)
- Draft project definition worksheet for SBC (Appendix C)
- scenarios for the four different trust and distrust conditions (Appendices D through G)
- Participant feedback guidelines (Appendix H)
- examples of revised work statement and project definition worksheet¹
- grading criteria for each of the four trust and distrust conditions¹
- Microsoft Word and PowerPoint are applications commonly used by students with a floppy disk containing Appendix B and C

Student Reactions

The reactions to this exercise are generally very favorable. Students explain that this exercise is a lot of work; however, they would do it again because of the concrete experience gained. Participants consistently identify this exercise as one of the most beneficial experiences in their undergraduate and graduate Strategy course and in corporate training.

In general, managing trust and distrust perceptions while planning project work are difficult topics in an undergraduate program. This instructor has found that students tend to see more interdependencies in the implementation of work when they are in team-based designs. Students indicate that they value diverse teams more than when they began the course. They also state

that having a diverse team allowed them to discuss perceptions of trust and distrust more realistically. Typical student comments and learning outcomes per trust and distrust condition are now discussed.

LOW TRUST AND LOW DISTRUST

In this condition, little is known about the Swift Trust Corporation. In many ways, as one student expressed, “This is like a first date.” The resulting effect of this condition is often little emotional buy-in. This is to be expected given that this condition is characterized as having no hope, fear, faith, or confidence. Teams assigned this condition typically give simplistic presentations to their instructor. In addition, teams vary greatly in the amount and quality of revisions to the work statement and project definition worksheet.

Students learn to deal with the unavailability of information in this scenario in different ways. In some cases, students add a lot of information to requirements that do not support the trust and distrust condition presented to them. In this condition, the student consulting teams do not know their trading partner that well. Therefore, these teams fill in the blanks by adding unnecessary project requirements. Not only does this make the partnership more potentially unnecessarily complex, it is also dangerous because these added requirements may create a degree of distrust between SBC and Swift Trust that is incommensurate with the maturity of their current trading relationship. Student competencies such as scope definition, communication planning, and leadership development revolve around keeping work independent and limited between SBC and Swift Trust reflecting the casualness of their trading relationship.

Consequently, the classroom discussions following the presentations benefit these teams greatly because students can experience the other three trust and distrust conditions. Morale is also an issue as teams tend to get bogged down by not seeing the purpose of the exercise as anything other than a course assignment. Instructors would be wise to call on these teams to verify that they are at least completing their required coursework and to generate purposeful discussion. There are some questions instructors may ask to energize teams in this condition:

Given that you do not have a lot of experience with Swift Trust, what indicators would you look for in the future to help you assess whether they can be trusted or not?

If you have a casual trading relationship with this partner, who in your team is best situated to work with them and why?

HIGH TRUST AND HIGH DISTRUST

As stated previously, this is likely the most common type of business relationship found today. Student reactions to this condition commonly result in detailed presentations and extensive revisions to Appendices B and C. Teams typically believe they must define the partnership to avoid miscommunication and to ward off future opportunistic intentions by Swift Trust. Student consulting teams in this condition tend to include phrases such as “verification of Swift Trust products will be done by SBC before payment is made.” Student teams typically add monitoring activities to transfer risks to Swift Trust and to limit opportunism by Swift Trust of SBC. In addition, contract requirements tend to be explained in more detail by student consulting teams to encourage high-trust behaviors and discourage high-distrust behaviors. So, according to Williamson and Ouchi (1981), contract requirements have become more explicit that suggests a trend toward hard contracting.

In addition, Swift Trust is typically directed to provide data and services that meet SBC’s objectives and working practices in the revised work statement. The underlying assumption in this condition is that the Swift Trust Corporation must seek to not only satisfy the requirements in the partnership contract with SBC but also learn SBC’s business operations and culture.

Students learn several valuable competencies in this scenario. First, the binding together of SBC’s and Swift Trust’s social contexts suggests a blending in the partnership not evident in the other trust and distrust conditions. Students learn how to manage suspicions and develop relationships simultaneously. Second, students learn how to minimize risks in outsourcing. For instance, if SBC loses money, financial risk is increased because SBC may not be able to pay Swift Trust for services rendered. If SBC loses competitive ground because of Swift Trust’s lack of adequate advice, then Swift Trust may not retain future business relations with SBC. Thus, this scenario adds some interesting strategic tension to the outsourcing decision where organizational boundaries become more blurred and partnerships become more mature and complex.

HIGH TRUST AND LOW DISTRUST

Student consulting groups in this condition typically revise little in the draft work statement but more in the project definition worksheet because although they believe that Swift Trust can be relied on, there is also more opportunity to do other things. Revisions are what Williamson and Ouchi (1981) would call soft contracting and generally include a few grammatical corrections. In this condition, teams change *should* to *shall* indicating the more legal compliance-oriented perspective in revising Appendix B.

Although not an unimportant change, the degree of change is smaller compared to some of the other trust and distrust conditions. Even known ambiguities in Appendix B are allowed to remain in the revised work statement because Swift Trust can be trusted. For instance, an obvious inconsistency is in Paragraph 7.0 of the draft work statement where *biweekly* and *annual* are two conflicting terms used for the frequency of the status reports. This and other obvious inconsistencies in the work statement are allowed to remain as groups generally believe that if there is an issue between SBC and Swift Trust, the issue can be resolved in other ways (i.e., soft contracting).

Student learning competencies for this scenario include how to maximize the social capital present or being built between SBC and Swift Trust. Specific competencies such as conflict resolution, communication enhancement, and opportunity seeking are clearly possible as interdependence is promoted. As one student reflected about her team philosophy, “SBC has an open door policy with Swift Trust. Why wouldn’t we trust them? We have a relationship with them that is effective in getting the job done.” Thus, the high-trust and low-distrust condition leads to more informal governance in the partnership.

LOW TRUST AND HIGH DISTRUST

The overriding issue here that student task teams have to resolve is how to control Swift Trust through the revision of work statement requirements to circumvent potential partner opportunism (i.e., transfer risk to Swift Trust when appropriate). It is not surprising to note, revisions to Appendix B tend to be extensive and generally focused on putting control into the hands of SBC management. For instance, in the draft work statement, adding “as accepted by SBC” to the end of the first sentence in Paragraph 2.0 gives control to SBC. In addition, in Paragraph 6.0, the statement “the seller’s project manager shall support SBC planning efforts by attending meetings, conferences, and reviews and responding to requests for information” is generally changed to “the seller’s project manager shall support SBC planning efforts *as SBC management dictates.*” These typical changes reflect the team’s distrust of Swift Trust in honoring the terms and spirit of the partnership contract. Many teams also put penalty statements in the revised work statement. For instance, the penalty “failure to adequately identify all risk factors with accompanying assumptions makes this contract subject to termination by SBC” is a common type of sanction levied on Swift Trust if they do not comply.

Thus, Appendix B bounds the partnership. Students learn that there are clear delineations between what is acceptable and what is not acceptable, how to prevent potential opportunism by setting rules and conditions, and

how to preempt a negative experience. The revised work statement serves as a formal reminder of what must be done for the partnership to be successful from SBC's perspective. Appendix B is shaded toward giving SBC control of Swift Trust and then if disputes occur, what remedies exist to bring the trading relationship back into SBC's realm of satisfaction. The student teams in the low-trust and high-distrust condition generally build extensive work statements focused primarily on details that Swift Trust provides. Little is discussed regarding what SBC brings to the partnership. As one student stated, "We have to micromanage Swift Trust because they appear to not be able to manage themselves."

Effectiveness

Student learning in this exercise is measured in three ways: (a) The primary method used to evaluate if objectives are met are through the team presentations described in Step 4. In the team presentations, student learning is assessed based on how well their task teams revise Appendices B and C. Student teams are evaluated on how well they worked together and resolved conflict in revising the requirements of the SBC and Swift Trust contract. Student perceptions of trust and distrust are also examined in how these perceptions affected their team's decisions. (b) Students are also evaluated after the exercise is completed with a written evaluation. The evaluation includes questions ranging from how they would describe this exercise relative to other forms of learning they have experienced to if they believe the exercise objectives have been met. Student answers are analyzed for to see if there are issues and problems in the exercise that would inspire change in the exercise content or how the exercise is administered. For instance, students found their relationship to SBC and Swift Trust confusing in early simulations of the exercise. Figure 1 was developed by the instructor to alleviate this confusion. (c) Finally, students are evaluated on the final exam in the course. They are asked individually to compile a Lessons Learned folder to advise future SBC teams on how to deal with a potential partner in a high-trust and high-distrust scenario. Students are to include what items with explanations of what to put into the Lessons Learned folder.

In general, most students highlight the realism the Swift Trust exercise brings to their learning experience. As one student stated, "I have been so used to regurgitation in other classes that given the opportunity to really think about what is going on in business brings a whole new value to the ideas and the concepts presented in class." The exercise also adds value in that it introduces how trust and distrust affect business operations. One student's com-

ment reflects this aspect of the exercise: “The trust and distrust scenarios were very helpful to me to understand the reality of not being so trustworthy towards everyone.” In addition, another student described the exercise as a “very different experience than I had ever had in my education. The method used does not compare closely to any others I have encountered.” Students tend to be very creative in how they try to allow Swift Trust freedom to do what they do best but at the same time retain control of how Swift Trust is involved in the affairs of SBC. The Swift Trust exercise appears to be a meaningful contributor to student learning.

Conclusions

The practical aspects of this exercise are appealing to students who have had exposure to theory on communication, team-based designs, and strategy implementation. This exercise allows students an opportunity for practical experience in the challenges of managing team-based designs when faced with different trust and distrust conditions. Instructors will find Appendix H and Table 1 (Table 1 is an excellent tool to recap the four trust and distrust conditions) to be extremely valuable in their final wrap-up discussion with the class because it is a logical and fairly comprehensive framework for understanding the multiple objectives of this exercise.

The instructor has the option of discussing the so-called less intense scenarios (i.e., Low Trust and Low Distrust and High Trust and Low Distrust) with the class and assigning the more intense scenarios to the class as homework. Time would be saved in the final wrap-up session, and this variation would provide a more uniform learning experience for students. Choosing this alternative would also put more emphasis on learning in the most likely scenario, High Trust and High Distrust.

A final variation is to fire or transfer one of the students from one team to another after the teams have been allowed to interact for a few days. The idea is to observe how team dynamics, trust perceptions, and final products change because of this change in personnel. Teams typically lose momentum; however, most recover. This also works best if students are exchanged from extreme trust and distrust conditions because they come in with a totally different perspective than the team they are entering. Student learning is increased with this variation in the exercise because it exposes them to one of the more realistic challenges of team-based designs—managing trust and distrust perceptions between the student task teams.

One of the major problems of outsourcing is how to assess and manage the trustworthiness of a future trading partner. Team-based designs work from

their perceptions of trust and distrust in developing organizational contracts. Given the increasing demands placed on managers today, a knowledge of how trust and distrust perceptions affect team-based designs is essential to successfully managing future business partnerships. Practical application of trust and distrust models must be studied and developed and educators have a duty to make students more aware of the validity of simultaneous trust and distrust. The Swift Trust exercise provides insight into these demands.

Appendix A

Participant Information for the Architectural Design Exercise

Sam and Betty's Construction (SBC) is a small business owned by Sam and Betty Smith. The construction firm is located in a typical southwestern town next to a major state university. While attending a national conference for homebuilders in Dallas, Sam and Betty became impressed by the profitability of business carried out by the city's premium homebuilders. On returning home, they converted their business into a premium operation. This conversion was a complex process that took more than a year to implement.

Almost immediately, profits soared. This increase led to additional factors in the company's growth. SBC began to market to a higher class of consumer, so these people came from miles around to take advantage of Sam and Betty's unique styles and quality workmanship. Furthermore, the business benefited when two national magazines identified Sam and Betty's town as one of the top 10 places to live in the United States.

The drawback of this success was that local customers could not afford these pricey homes. They no longer sought out SBC. Instead of the local customers, clients came from the east and west coast to look for the ultimate retirement home at a good value.

Sam and Betty observed these changes with mixed emotions. It was nice to see that SBC's new premium products were bringing in more money and customers with greater financial stability. However, customer demands were increasing while SBC's ability to stay "on top of market trends" was diminishing. Demands were centered on three issues: more use of floor space for added amenities, higher quality suppliers for home utilities, appliances, and furnishings, and a wider selection of unique home designs. Sam and Betty were concerned that their success would backfire on them and that customers would fail to see their homes as different from any other home in the area unless they were able to address these demands.

Sam and Betty discussed these issues. They realized that the future of the construction business was changing. Homes were either becoming cheaper and more discounted or more expensive and tailored to fit individual needs. Sam and Betty realized their new business model had to more successfully target the latter market. Midrange homes were hard to find in their city, and they also wondered if this was a popular national trend.

Sam and Betty had good working relationships with their customers, and this rapport usually resulted in customer satisfaction. However, they decided that they needed

to change several things about their current business practices to continue to grow and survive in this tightening construction market. Because of fluctuating interest rates, they had to take on short-term debt more frequently than anticipated to pay their premium suppliers. These setbacks tied up their working resources leaving little wiggle room for them to capitalize on other opportunities. For example, 2 months ago, a wealthy new customer came into town who wanted an immediate product. Because Sam and Betty had little immediate money to find a second source supplier, they lost the account to a competitor.

Sam and Betty determined that their primary need was finding a new architectural design partner. Sam and Betty sat down with paper and pencil and roughly calculated their requirements: To meet anticipated customer demands with more expensive and tailored homes, they would need to find a business partner from outside the local area. After many hours of research, they concluded that the most attractive firm to partner with was the Swift Trust Corporation.

Sam and Betty met twice with the Swift Trust Corporation to identify what requirements were necessary to suit the new kind of homes they were going to build. The Swift Trust Corporation subsequently provided Sam and Betty with a draft set of requirements and project definition worksheet. (Note: The Swift Trust Corporation will be referred to as just Swift Trust in the remainder of this analysis.) Sam and Betty were very excited by this initial progress; however, Sam and Betty felt overwhelmed because they did not how to review a draft work statement or project definition worksheet. Thus, your task teams have been hired by SBC to review and revise the attached set of draft contract requirements and project definition worksheet from Swift Trust based on the scenario provided to you by the instructor.

Appendix B

Draft Work Statement Requirements for SBC

- 1.0 The seller shall fabricate, support local and government inspections, and then deliver architectural designs to the procuring agency. This includes design of beams, joists, rafters, columns, and footings using solid sawn lumber, specification of concrete type, I-joists, tube steel and wide flange steel, operator and maintenance manuals, and any special tools or equipment necessary to support construction in the field.
- 2.0 The seller shall notify the buyer of any parts, materials and/or processes that could adversely affect the SBC corporation and that will, or potentially could, affect the requirements in this work statement. The primary criterion is the unintentional failure of any physical facilities and physical harm to its users. The seller should provide a list of possible hazards that should also be considered.
- 3.0 Schematics and project plans shall be prepared in accordance with SBC requirements and universal building codes and submitted for SBC approval. The seller shall perform risk analysis in accordance with the generally approved engineer-

ing principles. Compliance with building codes shall be available for SBC review.

- 4.0 All software should be identified in the analysis of architectural designs. The major thrust of this requirement shall be use by SBC to conduct cost and technical trade-offs between alternative design choices. The seller shall evaluate the design of any new or modified buildings to provide a cost, schedule and technical impact statement to the surrounding environment.
 - 5.0 The seller shall provide all utility and basic appliance hook-ups. The seller shall retain all preservation and packaging materials. The seller shall ensure that all utility and appliance owner's manuals are retained and filed for SBC ownership.
 - 6.0 The seller shall identify to SBC the project manager(s) responsible for all tasks required by this contract. The seller's project manager should be the single focus for reporting all information about the status of the architectural design and subsequent construction. The seller's project manager shall support SBC planning efforts by attending meetings, conferences and reviews and responding to requests for information.
 - 7.0 The seller shall prepare and submit a design status report biweekly commencing 5 days after contract award. These annual reports should include, as a minimum, the status of all deviations and waivers, any significant problems or issues, current schedule, inspection results, and structural and integrity analyses.
 - 8.0 The seller shall provide an architectural design that minimizes the costs of ownership to SBC. The seller shall specify the source of the cost estimates, techniques, assumptions, analysis methodology, rationale and derivation of the cost estimates.
 - 9.0 The seller shall provide architectural design support services on an as needed basis to SBC to provide trade-off analyses for a period of two months after construction is begun.
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Appendix C

Draft Project Definition Worksheet for SBC

1. Background and summary of project
2. Project objectives
3. Deliverables
4. Key milestones
5. Assumptions
6. Risks
7. Key resource requirements
8. Constraints
9. Stakeholders
10. Reviews

11. Communication plan
 12. Change management plan
 13. Financial analysis
 14. Project rewards for achievement
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Appendix D

Scenario 1—Low Trust and Low Distrust

You are considering hiring an unknown organization called the Swift Trust Corporation as a nonlocal provider to do work for your firm (i.e., provide architectural design support). You have no history or previous contact with this organization other than simply asking them to provide a draft set of requirements for ongoing architectural design. Your knowledge about this organization is limited and neutral—it is neither good nor bad with regard to their reputation.

The draft contract requirements and project definition worksheet you are to review are Swift Trust's first attempt at defining what will be required of them in terms of ongoing architectural design support. There is no reason to believe that they are being honest or dishonest with you. You expect your trading relationship to grow over time as you work with this organization. If this organization provides a good product, then this conduct bodes well for a healthy future trading relationship.

Your team has the responsibility to define requirements that best fit the trading relationship between Sam and Betty Smith and this nonlocal architectural design firm. Remember, if these requirements are worded adequately, the effect could contribute to a favorable trading partnership. Your team also needs to report back at the designated time with a tailored set of "final" requirements to expedite the formation of a timely contract. Good luck!!!

Appendix E

Scenario 2— High Trust and High Distrust

You are considering hiring a new organization called the Swift Trust Corporation as a nonlocal provider to do work for your firm (i.e., provide architectural design support). You know the reputation of this company and are confident they have provided a good first draft set of requirements for ongoing architectural design. You are also aware that the company you are considering as a trading partner has not been reliable when times have turned bad in the past. For instance, while they have honored the literal sense of contract requirements, they have also tried to steal proprietary company secrets. This organization seems to be a "fair weather" type of partner and,

consequently, you do not want to let them have access to all your practices and processes. However, if terms, conditions, and rules can be defined ahead of time, then this company typically does a very good job in providing excellent products and services.

The draft contract requirements and project definition worksheet you are to review are Swift Trust's first attempt at defining what will be required of them. As discussed previously, Swift Trust is experienced, and this draft set of requirements is most likely "Right on the money." You expect, however, that some of the terms of these requirements are purposely vague so as to provide Swift with a loophole if the project goes poorly. You will probably have to spend a lot of time monitoring and haggling with them over the development and enforcement of these requirements once the project is started.

Your team has the responsibility of defining requirements that best fit the trading relationship between SBC and this nonlocal architectural design firm. Remember, if these requirements are worded adequately, the effect could contribute to a favorable trading partnership in good and bad times. Your team also needs to report back at the designated time with a tailored set of "final" requirements to expedite the formation of a timely contract. Good luck!!!

Appendix F **Scenario 3—High Trust and Low Distrust**

You are considering hiring a new organization called the Swift Trust Corporation as a nonlocal provider to do work for your firm (i.e., provide architectural design support). You know the reputation of this company and are confident they have provided a good first draft set of requirements for ongoing architectural design support. You are dependent on this firm, and they have never disappointed other firms. Many people in your organization have friends with healthy working relationships in this firm. This firm's reputation indicates a strong, positive past performance, high integrity, and financial stability.

The draft requirements and project definition worksheet you are to review are Swift Trust's first attempt at defining what will be required of them. As discussed previously, the people at Swift Trust have a positive reputation, and this set of requirements is most likely "right on the money." You expect your trading relationship to continue to grow over time and that new ideas and opportunities will arise as you work together. Your team has the responsibility to define requirements that best fit the trading relationship between SBC and this nonlocal architectural design firm. Remember, if these requirements are worded adequately, this could contribute to a favorable trading partnership. Your team also needs to report back at the designated time with a tailored set of "final" requirements to expedite the formation of a timely contract. Good luck!!!

Appendix G

Scenario 4—Low Trust and High Distrust

You are considering hiring a new organization called the Swift Trust Corporation as a nonlocal provider to do work for your firm (i.e., provide architectural design support). You know the reputation of this company and are confident they have written this first draft set of requirements for ongoing architectural design support to exploit your organization. Because you will be moderately dependent on this organization, many employees are wary and watchful of what they have to say and how they act because their reputation indicates a strongly negative past performance. Swift Trust is not a trading partner that makes people in your organization comfortable; however, there appears to be no other option at this point.

Consequently, the draft contract requirements and project definition worksheet you are to review need to be thoroughly scrubbed to ensure appropriate checks and balances are in place to protect your organization's interests. To what level of detail you revise these requirements, if at all, depends on how vulnerable you are willing to make your organization. As discussed previously, the people at Swift Trust have a reputation for being underhanded. So this draft set of requirements is most likely "contaminated beyond belief." Because the quality of architectural design greatly affects the perceived quality of homebuilding projects, you may have to cancel this project at any time if perceived quality begins to suffer.

Your team has the responsibility to define requirements that best fit the trading relationship between SBC and this nonlocal architectural design firm. Remember, if these requirements are worded adequately, the effect could contribute to a favorable trading partnership. Your team also needs to report back at the designated time with a tailored set of "final" requirements to expedite the formation of a timely contract. Good luck!!!

Appendix H

Participant Feedback Guidelines

Your task is to observe your team processes with regard to:

Defining the problems and issues

Were the objectives of Sam and Betty clearly stated?

Is the background of SBC known?

How did the reputation of the Swift Trust Corporation affect the definition of problems and issues?

What draft requirements were problematic?

What parts of the project definition worksheet were problematic?

Did the teams attempt to collaborate? How? What was effective?

Actions taken

Were draft requirements changed? How? Why?

How was the draft project definition worksheet developed? Why?

Was there an overriding team philosophy in changing requirements? If so, how would you describe it?

Organization of Team(s)

Did team members assume roles? What were they?

Did the organization of the team change over time? How?

How was integration of team member input integrated?

How was integration between teams accomplished? Was this framework effective?

Communication

Did someone assume leadership of the team? If so, who?

Did all team members contribute to the team's final set of requirements? If not, why not?

How did the team communicate internally? How frequently? How did your team communicate with other teams?

What were the most effective forms of team communications?

Were there any communication blocks? What were they?

Pressure

Was pressure exerted by team members? Why?

How was pressure exerted by team members on other teams?

Note

1. Please contact the author for a full set of exercise materials.

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