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Unpacking Trading Partner Trust

Unpacking Trading Partner Trust

Research and Insights into the Building
Blocks for Boosting Compatibility and Trust in
Strategic Partnerships

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PREFACE

Supplier relationships have never been as important as they are today. Forward-thinking organizations have always seen the need to improve supplier relationships to gain access to innovation, to share costs, and to potentially open new markets and increase competition. But lack of supply, inflation, and disruption are prompting organizations to work even harder, to become the customer of choice just to get supplies.

A foundational aspect of improving supplier relationships is increasing trust between buyers and sellers. So, what are the prerequisites for trust? Are organizations capable of trusting each other, and therefore able to evolve their relationships from the transactional to the collaborative? In this paper, you'll find information to answer these questions. We hope it stimulates thought around how you approach your supplier relationships.

SAP is proud to sponsor this research, and we look forward to future collaborations with the University of Tennessee team to understand the role technology plays in fostering trust, and to investigate the differences across certain industries.

Enjoy the paper and feel free to share it with your colleagues, clients, customers and trading partners!

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EXECUTIVE SUMMARY

Trust is essential for all strong partnerships. Intuitively, business partners understand the importance of trust in commercial relationships – especially for strategic business relationships such as longer-term outsourcing agreements, franchise and license relationships, and contract manufacturing and distribution partnerships where the supplier is an extension of the buying organization.

Academics – especially economists – have long espoused the need to build trust in business relationships. Economist and Noble Laureate Kenneth Arrow is one of those, arguing: “Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time.”¹

Over the years, there has been significant research into the benefits of trust in business relationships. However, little research has been done to help trading partners measure their trust levels and – more important – have a platform with tangible insights into how to improve trust. To close this much-needed gap in research, University of Tennessee (UT) researchers collaborated with researchers from Georgia College & State University and the University of Texas Health Science Center to provide a simple yet powerful **Compatibility and Trust** (CaT) assessment. The goal? To not only measure trust from the perspectives of business partners but to provide essential insights to help trading partners have tangible insights to help them increase their trust in their relationship.

The decade+ research shows powerful evidence of how organizations can use the CaT assessment to drive significant improvements in trust levels which lays the foundation for improved performance, a willingness to collaborate and invest in the relationship, and lower transaction costs associated with complex contractual relationships. Key insights include:

1. Trust Starts with Cultural Fit

Cultural fit in a trading partner relationship can be summed up as having similar perspectives on how organizations work, communicate, and make decisions. The CaT assessment allows business partners to gauge their cultural fit across these five dimensions. The research revealed that organizations that had a poor cultural fit had low trust levels.

One example of a cultural fit mismatch is a medical device company and a supplier to which it had outsourced facilities management. The medical device company’s operating culture valued flexibility and innovation while the supplier’s culture was hierarchical and process-oriented. Realizing this, the parties amicably agreed the supplier would not participate in an upcoming competitive bid process. The parties also agreed on a fair way to compensate the supplier for helping support a smooth transition to the next supplier.

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2. Your Business Model Matters

When organizations procure goods and services, they have a choice of sourcing business model ranging from highly transactional (buying goods with a simple PO) to highly strategic contracts based on achieving strategic business outcomes.

Our research using CaT assessments shows that an organization's choice of sourcing business model can have a positive impact on trust. Take a pharmaceutical company that had outsourced its facilities management to a supplier under a performance-based sourcing business model, which puts risk on the supplier to guarantee cost savings and performance levels. While savings and performance targets were being met, the pharmaceutical company was irritated with the supplier's lack of innovation. Likewise, the supplier was frustrated because its profits suffered every time it performed work outside the scope of the contract. Here the CaT assessment revealed the parties had a good cultural fit but the contract itself was pitting the parties against each other in a classic win-lose situation.

The parties made the strategic decision to shift to a Vested sourcing business using a relational contract with jointly defined defined desired outcomes. The results are significant; the supplier delivered 48 transformation initiatives and nearly 250 standardization projects, resulting in double-digit cost savings and earning incentives that yielded higher profits. Trust also increased, rising 22% by 2019. Their relationship health continues to climb and by 2021 had risen by 35%.

3. Increasing Trust is a Strategic Choice

Increasing trust in trading partner relationships starts with a conscious decision to improve trust. The CaT assessment helps trading partners take the vague concept of trust and provides a quantitative measure of their relationship health. Equally important, the assessment highlights gaps where not-so-trustful behaviors are creating friction.

A good example of how the CaT helped an organization turn around a relationship plagued with low trust is Vancouver Island Health Authority (VIHA) and a group of doctors (South Island Health Incorporated) who were operating under a labor services agreement for providing hospitalist services to VIHA. The assessment provided tangible guidance on what was causing their trust issues. They made a conscious choice to turn their troubled relationship into a trusting and collaborative relationship. Their efforts led to an increase in their CaT Index (the measure the CaT assessment uses to score trust in a trading partner relationship) from .48 to .71 in just two years. Along with increased trust came tangible business results.

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The Results Are Real: Trust = Happiness

Our research into trading partner relationship health can be summed up with a simple equation. Trust = Happiness. Happiness in terms of lower costs, improved performance, innovation and even a general feeling of positivity and happiness at work.

The CaT assessment quantifies happiness by asking trading partners to provide adjectives describing their relationship. For example, VIHA's and SIHI's baseline assessment used words like distrustful, broken, strained, untrusting, adversarial, toxic, and suspicious. In a follow-up CaT assessment two years later, team members described the relationship as collaborative, respectful, trusting, supportive and, yes, even happy. Just how happy? A comparison showed a drastic turnaround with the percentage of adjectives shifting from 84.5% negative to 86.2% positive.

The bottom line? Improving trust in your strategic business relationship can improve your bottom line by reducing transaction costs associated with friction in your relationship. Read on to learn how the CaT assessment can be a powerful tool in your toolkit.

What's Inside

This white paper includes four parts:

- Part 1 provides an overview of existing research into the **benefits of trust** and the cost associated with distrust.
- Part 2 shares an overview of the research into **how to measure trust** in business relationships.
- Part 3 profiles the Compatibility and Trust assessment survey, providing a **real example from a CaT assessment**.
- Part 4 shares the research results and provides **insights into how organizations can strengthen trust** with their trading partner.

A key part of this paper is not just sharing the research, but providing insights and case studies of how companies are using the CaT assessment to improve trust in their trading partner relationship.

What's Next

We trust you will find this research and the case studies both insightful and practical. If you found this paper valuable, please share it with your colleagues and trading partners. What is next for us is even deeper research into trading partner compatibility and trust. We hope what is next for you is a quest to improve trust with your trading partners.

To learn more about the Compatibility and Trust assessment visit the University of Tennessee's dedicated website at www.vestedway.com/CaTAssessment.



PART 1: THE BENEFITS OF TRUST

Imagine a strategic business relationship with little trust between a buyer and supplier. If you are like most organizations, the pandemic and supply chain issues around the world have created the perfect storm to highlight flawed relationships in a stressed economy. Take a typical outsourcing relationship with low trust; in a normal economic environment, this can be hidden or discounted. When the lack of trust is recognized the buying organization may create a ‘shadow organization’ to micromanage the supplier or put in ‘safeguards’ depicted by procedures, posturing, self-protection and perhaps even regulations.² This type of behavior significantly increases transaction costs associated with doing business.

But low trust in a business relationship is a two-way street. Suppliers are also not happy. Team members working don’t like to be micromanaged. The A-team turns to the C-team because the buying organization has a reputation for being hard to do business with. The Chief Financial Officer mandates that a 15% “pain in the ass factor” be added to the client’s pricing.

Simply put, the friction associated with low trust creates many hidden costs. Part 1 provides compelling research into the hidden cost of lost trust.

The Hidden Cost of Lost Trust

Stephen M.R. Covey’s book *Speed of Trust* outlines seven “organizational taxes” that are directly related to low trust.³ Each of Covey’s “taxes” exemplify increased transaction costs due to low trust.

1. **Redundancy** is unnecessary duplication. Redundancy stems from the mindset that people cannot be trusted unless they are closely watched.
2. **Bureaucracy** is when too many rules and regulations are in place such as when too many people must “sign off” on something.
3. **Politics** is when people use strategy to gain power. Sadly, too much time is wasted interpreting other people’s motives and trying to read hidden agendas.
4. **Disengagement** is when people are still getting paid even though they “clocked out.” Simply put, team members put in the minimal effort required to get their paycheck.
5. **Turnover** results when the best performers in an organization leave an organization to pursue a job where they are seen as trusted and value-added contributors.
6. **Churn** is the effort and costs associated with constantly finding new customers, suppliers, distributors and investors because of a lack of loyalty.
7. **Fraud** is flat-out dishonesty. Fraud is a circular tax; when companies tighten the reigns to prevent fraud, they reduce their fraud-related losses, but they inevitably see an increase in the other six areas.

Covey’s catchy book title is just one example of people studying trust. While most people don’t doubt there is a cost associated with lost trust, they struggle to understand the hard costs associated with lost trust. Fortunately, the value of trust in business relationships has been studied for decades by dozens of leading academics.

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The Hard Cost of Low Trust

Much research has been done to put hard numbers behind the cost of mistrust. One of the most notable was Oliver Williamson, a Nobel Laureate for his work on the concept of Transaction Cost Economics (TCE). Williamson's research shows the importance of trust in business relationships regarding transaction costs and highlights an absence of trust adds to the cost of doing business.^{4,5,6}

Some of the most notable research into quantifying the hard costs of trust in trading partner relationships comes from the automotive industry. Professor John Henke has spent over twenty years studying the impact of supplier trust in the automotive industry. His research studies supplier trust levels between automakers and component suppliers. A consistent outcome of 20+ years of research is that better relationships led to higher revenue per vehicle. Henke's 2014 article "Lost Supplier Trust, Lost Profits" tells the story of how Chrysler missed out on \$24 billion in profits between 2002 and 2014 due to Chrysler's shift to adversarial and power-based contracting models—which drove suppliers' trust levels to record lows.⁷

Jeffrey Dyer & Wujin Chu's research into supplier trust in the automotive industry supports Henke's findings. Dyer and Chu found that the 'untrusting buyers' spend six times more to source a product versus a 'trusting' buyer.⁸ This translates into an untrusting automotive manufacturer paying US\$1,500 to US\$2,000 more per vehicle for the components they purchased compared to automotive manufacturers with high trust scores from suppliers.⁹

Other notable research seeking to quantify the hard costs of lost trust includes:

- London School of Economics professor Leslie Willcocks's study of 1,200 outsourcing agreements concluded that 'power-based agreements' generate up to 40% higher costs than trust-based agreements.¹⁰
- A 2002 study by Watson Wyatt surveying 12,750 workers across all industries found that high-trust organizations had a total return to shareholders (stock price plus dividends) that was 286% higher than low-trust organizations.¹¹

Economic benefit is only one dimension of high trust. Research has also linked high trust levels to improved performance. Notable research includes:

- University of Tennessee's Chad Autry and Colorado State's Susan Golicic conducted a longitudinal study to identify whether good performance leads to better relationships or vice versa. Their findings: "relationship strength is significantly related to (supply chain) performance" They also found that "trust and commitment are key indicators of the strength of a relationship."¹²
- A survey of 207 Australian businesses (168 product related/68 service related) concluded that "closer relationships with trading partners are associated with higher levels of performance."¹³
- Dr. Paul Zak's work, published in *Harvard Business Review*, found that employees at high-trust companies report 74% less stress, 106% more energy at work, 13% fewer sick days

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and 50% higher productivity, 40% less burnout and 29% more satisfaction with their lives.¹⁴

Regardless of the research study, two common themes emerge: trust has the power to decrease transaction costs and increase collaboration and innovation.

Linking Trust to Improving Relationship Health

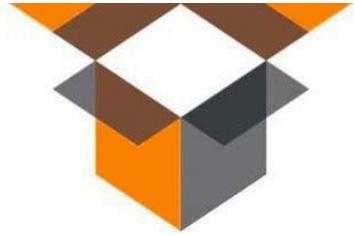
While much has been researched and written on what makes a trusting business relationship, little has been studied on how to effectively measure trust between business partners to help trading partners increase their trust levels.

This gap in the research started the authors to ask more questions.

- First, is it possible to **measure** trust from the perspectives of both the buyer and the supplier? After all, trust needs to be reciprocal to truly develop value.
- Second, by knowing the dimensions of trust, is it possible to **mend** relationships? That is, could buyers and suppliers learn how to improve in specific areas that would increase trust levels?
- Third, could these changes be **monitored** over time to understand the benefits of a **mature** trusting relationship?

These questions led to a collaboration between the University of Tennessee's Kate Vitasek, Georgia College & State University's Dr. Karl B. Manrodt and the University of Texas Health Science Center's Dr. Jerry Ledlow to develop what the researchers have coined the Compatibility and Trust assessment® – or CaT for short.

Part 2 shares an overview of the research into how to measure trust in trading partner relationships and profiles how the Compatibility and Trust assessment is structured to help organizations measure, mend and monitor their trading partner relationships.



PART 2: MEASURING TRUST IN BUSINESS RELATIONSHIPS

The journey to better understand and measure trust in business relationships began in 2010. This journey led to the development of the Compatibility and Trust assessment® – or CaT for short. The researchers initially had three objectives:

1. Create a survey instrument that could **measure** trust levels within business relationships, collecting trust data from real buyer-supplier partnerships.
2. Help organizations use the survey data to nurture trust levels to make tangible improvements in their relationship and **mend** unhealthy relationships.
3. Use the survey instrument to **monitor** changes in trust over time and understand the benefits of creating a **mature** trusting relationship.

After the survey instrument was developed, the researchers added two additional objectives:

4. Determine if the CaT assessment could predict trust in new relationships.
5. Determine if the trading partners' choice of sourcing business model would have an impact on trust levels.

To date, 122 organizations have successfully used the CaT to measure the trust levels in 98 unique trading partner relationships. Fifteen of these relationships used the CaT assessment to monitor their relationship over time.

The rest of Part 2 provides an overview of the first research Objective 1 - create an instrument that could **measure** trust levels within trading partner relationships. We address Objectives 2-5 in Part 4.

The Foundation of the Survey: Five Dimensions of the CaT Assessment

To create the instrument, Professors Jerry Ledlow and Karl Manrodt culled through a litany of research from various fields, including organizational theory, management theory, psychology, behavioral economics, and marketing research to find themes in what constituted a trusting relationship. This section summarizes the aspects of the survey design.

The professors ultimately decided on a tool with a mix of both quantitative and qualitative questions. The quantitative questions are categorized across five key dimensions: Trust, Focus, Communication, Team Orientation and Innovation.

One might ask, if you are developing a tool to measure trust, why also have questions on Focus, Communication, Team Orientation and Innovation? The reason: creating a trusting relationship – as one might expect – is multi-faceted and results from behaviors and actions that occur as

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organizations interact. For example, how organizations approach communications or how team members interact can and does impact the trust levels between organizations. As such, measuring trust between trading partners is not as simple as asking a question that says, “on a scale of 1-10, how trusting is your business partner”. While that might yield a “trust score,” it would not provide organizations with actionable information needed to monitor and mend trust within the relationship.

As they developed the survey, they turned to the foundational work of Nobel Laureate Oliver Williamson and Mari Sako. Both Williamson and Sako were quick to point out the difference between personal trust and institutional and contractual trust between trading partners.

Williamson suggests the elusive nature of trust, suggesting “trust is a term with many meanings.”¹⁵ Williamson points to three types of trust in contractual situations: personal trust, institutional trust, and calculative trust – where calculative trust is embedded into personal trust and institutional trust.¹⁶

Sako uses a similar set of trust archetypes – but further distinguishes around the concept of institutional trust with three forms of trust between trading partners: contractual trust (a trading partner will carry out their contractual obligations); competence trust (a trading partner is capable of meeting their promises); and, goodwill trust (a trading partner will make open-ended promises that focus on the benefit of both parties). Sako’s research suggests goodwill trust is superior to contractual trust and proposes goodwill trust requires a strong alignment of social norms, time and experience developed between people in the relationship.¹⁷

Manrodt’s and Ledlow’s extensive secondary research yielded common themes they condensed into the four “cultural fit” factors contributing to increased trust: Focus, Communication, Team Orientation and Innovation. Combined, the five dimensions not only look at “trust” – but the key factors that foster a trusting business relationship over time. Hence the CaT assessment seeks to measure not just trust – but critical factors that, when aligned, can improve trust.

The dynamics of how each organization aligns its behaviors on each dimension can strengthen – or weaken – the health of a relationship. For example, a buying organization may not openly share forecast information. This can negatively affect the supplier’s ability to create realistic delivery dates. Likewise, when a team member at a supplier does not openly share, the supplier will miss a critical deadline; it almost always hurts trust – especially if the behavior is repeated.

Figure 1 (following page) provides a high-level overview of each dimension.

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Figure 1 – An Overview of Each Dimension

<ul style="list-style-type: none">• Trust is the consistency of performing to promise and meeting commitments. Without performance, trust cannot exist.
<ul style="list-style-type: none">• Focus is the ability to combine individual roles into a corporate direction to benefit all stakeholders. There is a common purpose and direction and clarity around that direction.
<ul style="list-style-type: none">• Communication is the efficient and effective transfer of meaning through words and actions to achieve and grow mutually beneficial outcomes. It includes open and timely sharing of relevant information to a partner’s decision-making ability.
<ul style="list-style-type: none">• Team Orientation is the ability to focus and direct individual goals and objectives into a cohesive group strategy. Team orientation is a key indicator of how well trading partners work together.
<ul style="list-style-type: none">• Innovation is an organization’s ability to dynamically deal with change and its tolerance for risk and trying out new ideas and solutions. Strong and trusting relationships allow the parties to share risks and rewards, invest in each other’s capabilities, and collaborate to achieve common goals.

When developing the CaT, the trio focused on developing the survey that could seek to take the opinions of individuals within a unique trading partner relationship and measure the overall compatibility and trust of the trading partner relationship. While it might seem counter-intuitive to include the perception of an individual’s personal trust when measuring the relationship between organizations, as pointed out by the organizational philosopher Peter Drucker (1909-2005), organizations are “a community of human beings.”¹⁸

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A 360 Degree “Two-World View” Survey Instrument

In his 1987 megahit “Man in the Mirror,” pop singer Michael Jackson sang: “I am starting with the man in the mirror.”¹⁹

That is where the trust-creating process must start—with the man or woman in the mirror. Strategic partners must ask themselves, “Do I, based on how I have acted in the past, deserve to be trusted by others?” While individual levels of trust are critical, it doesn't extend to corporate trust. This is where Williamson's concept of Institutional Trust comes into play. As such, one must also ask another critical question, “Does our company deserve to be trusted, given our past behavior?”

Simply put, trust is multifaceted. An individual who works in a firm that outsources a key part of their operations may think they are trustworthy and readily admit that the firm they work in is not necessarily trustworthy. That same individual may fully trust a particular individual from her partner's organization but have less trust in the partner's overall organization.

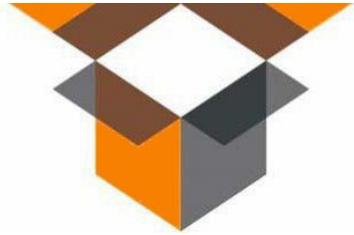
For this reason, the CaT was designed to help organizations have a two-world view of their partnership – assessing not only the trust of an organization's partner but also helping organizations assess their own organization's ability to be trustworthy. A key aspect of the CaT assessment is to help organizations understand how their action and behaviors may inhibit trust in their trading partner relationships. In essence, the CaT assessment helps organizations look in the mirror.

To do this, the CaT assessment captures the perspective of the buyer and supplier for each dimension.* Any gaps between how the partner views them – relative to their own perception – are noted and discussed.† Having a holistic gives the trading partners the insight they need to close any gaps they may have across each of the five dimensions – ultimately helping them improve the health of their relationship.

* For ease of understanding, we use the terms “buyer” and “supplier” to refer to trading partners throughout the paper. However, not all CaTs involve a buyer and supplier. For example, business trading partners could be two partners in a joint venture or two functions working within one firm (e.g., an organization and its shared services organization and organization and its union workforce).

† Ideally organizations followup the CaT assessment with a workshop to discuss the results and build tangible action plans to close gaps that are impacting trust levels.

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Combination of Quantitative and Qualitative Data

The CaT instrument consists of a series of quantitative and qualitative questions.

The **quantitative questions** are designed around each of the five dimensions. As mentioned previously, the assessment is conducted using a 360-degree “two-world view.” For example:

- The buyer provides responses about their own organization and their perspective of the supplier.
- The supplier provides responses about their own organization and their perspective of the buyer.

The CaT contains several **qualitative questions**. The qualitative questions help provide additional insight and context into the participant’s responses to the questions. For example:

- Open-ended questions seek to understand actions and behaviors that improve or weaken the relationship (e.g., “What do you do that weakens the trust in your relationship?” and “What does your partner do that weakens the trust in your relationship?”).
- Respondents provide three adjectives to describe the current relationship.
- Respondents “grade” their perception of the relationship on a scale of “A” (excellent) to “F” (failing).

See Part 3 for a sample of the CaT Survey Results.

Target Respondents

Researchers leveraged UT’s work in its Vested Outsourcing program to recruit respondents. In prior research, UT researchers had developed a relational contracting methodology to help organizations create win-win outcome-based outsourcing deals. Making the shift to a Vested agreement requires a high degree of transparency and collaboration as the parties develop mutually defined outcomes and agree on a pricing model that incentivizes the supplier for success against the desired outcomes. The thinking was that organizations wanting to make the shift to Vested would want to understand and improve the trust levels to support this relationship and would agree to complete a CaT Assessment.

Organizations that took UT’s Executive Education courses were made aware of the CaT. In addition, UT worked with Centers of Excellence such as EY and The Forefront Group for outreach efforts to see if organizations wanted to participate.

Participating organizations were asked to identify “key roles” in the relationship, with “key roles” being defined as people in their organization who were most familiar with their business partner. Individuals in the key roles were then asked to complete the anonymous CaT assessment. The rationale behind targeting key roles is that the people closest to the relationship would have the most insight into the relationship (e.g., someone who worked full time with their partner would have more reliable responses than someone who may only work with their partner once a month). The average number of “key role” respondents was 13 for the buyer and 15 for the supplier.

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Confidentiality

The tool is administered via a confidential internet-based link. The aggregate results of the survey are shared with the trading partners as part of a formal CaT report out and coaching meeting. All individual responses are anonymous and no identifiable individual responses are shared with anyone.

Demographic Data

A key part of the research was to launch the survey and collect data from existing partner relationships. This paper analyzes 129 CaT assessments comprised of 122 organizations representing 98 unique trading partner relationships. Below is a high-level profile of the participating organizations.

Profile of Participants

- 120 (93%) of the CaTs were done with organizations with existing trading partner relationships, with only 9 (7%) being from new relationships.
 - On average, the CaT assessment was done 1.7 years into the existing contract. However, in many cases, the trading partners had been working together under previous contracts.
 - The CaTs for new relationships were done to assess the compatibility of potential partners and were conducted typically at the end of a bid process.
- The average annual contract value was \$94 million.
- The average length of the contract was five years.

There was significant diversity across industries with over two dozen different industries represented. **Figure 2** shows the industry profile.

Figure 2 – Industry Profile

Buyer Industry	#
Information Technology & Telco	22
Life Sciences - Pharma, Consumer & Medical devices	16
Manufacturing	10
Healthcare and Social Assistance	8
Aerospace and Defense	5
Finance and Insurance	4
Food Services	4
Real Estate, Rental and Leasing	4
Government Services	4
Industrial Goods	4
Energy	2
Utilities	2
Retail	2
Educational Services	1
Wholesale Trade	1
Transportation	1
Professional Services	1
Other	7

Industry was defined by the industry of the buying organization. Sixty-two percent of the CaTs were in five industries (IT, Life Sciences, Manufacturing, Healthcare and Aerospace/Defense). # = unique trading partner relationships

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Scope of Trading Partner Relationship

The scope of the trading partner relationship also ranged significantly. Scope of trading partner relationship was defined as the type of workscope (e.g., business process outsourcing, supply chain/logistics, real estate/facilities management outsourcing). Forty-two percent of the CaTs involved real estate/facilities management outsourcing deals. Most relationships had a work scope that was process-focused and long-term in nature.

= unique trading partner relationships

Figure 3 – Scope of Relationship

Deal Industry	#
Real Estate/Facilities Management	41
Supply Chain/Logistics	21
Engineering/Construction	12
BPO (Business Process Outsourcing)	11
Development Project	4
Manufacturing (Contract Mfg.)	3
Labor Services	2
Software	2
IT Outsourcing	1
Other	1

Type of Sourcing Business Model

A third key demographic collected was the type of business model the parties used. This was done to help address the fifth objective: to determine if the sourcing business model used correlates with trust levels. Here we posed two hypotheses.

The first hypothesis was that organizations using relational contracts – particularly a Vested model – would see higher levels of trust while organizations using more arms-length transactional agreements would have lower levels of trust. Forty percent of the CaT involved relational contracts, and 60% involved non-relational contracts (e.g., transactional and classical performance-based agreements).

We analyzed 120 of the 129 CaTs to determine the impact of sourcing business model selection on trust levels. The nine CaTs from new relationships were removed from this analysis because the researchers felt the effect of sourcing business model choice could not be determined because these relationships were “too new” to assess the impact of the sourcing business model. For example, several of the CaTs for the new relationships were done as part of a competitive bid process before the parties started their relationship.

The second hypothesis was that new relationships would likely have the lowest Combined CaT Index because they had not had time to mature their relationship over time. Eight percent of the CaTs (9 CaTs) were from new relationships (as defined by either not having worked together before in a contractual relationship or having done the CaT immediately following signing a contract). Here we compared the results from the nine CaTs to the 120 CaTs representing existing relationships.

See Part 3 for a sample CaT Assessment and Part 4 for the results of the research.



PART 3: SAMPLE CaT ASSESSMENT RESULTS

The CaT is designed to help organizations understand their current levels of compatibility and trust and identify areas of opportunity to improve their relationship.

It does this by providing an overall “raw score” and highlighting “perception gaps” between the parties and then interweaving the qualitative information from the respondents to provide additional insight. Once organizations know where they have gaps, they can use the information to consciously close the gaps and proactively work to build a stronger relationship. Understanding and closing gaps across each of the five dimensions of compatibility and trust is essential for a healthy relationship.

The CaT report consists of seven components.

1. Self-Grades
2. Self-view vs. Perception
3. CaT Index Score
4. Absolute Gap Size
5. CaT Alignment Map
6. Adjectives
7. Open-Ended Questions

Part 3 goes into detail about each of the seven types of analysis, providing an example from a CaT assessment from British Columbia’s Island Health Authority (called the ‘Administration’) and the South Island Hospitalists group (called ‘Hospitalists’).

For context, Island Health (the buyer) provides health care services through a network of hospitals, clinics, health units, community-based services, home support, and residential care centers for over 767,000 people in the Vancouver Island region.²⁰ Island Health’s Hospitalist practice was launched in 2000 when a small group of Hospitalists (incorporated as South Island Hospitalists, Inc) was hired to care for patients 24/7, 365 days per year in the two tertiary-level hospitals in Victoria, British Columbia (BC) under a transaction-based outsourced labor services agreement.

In the following pages, we profile a CaT assessment using the Island Health-Hospitalists trading partner relationship. Later – in Part 4 – we continue to use the Island Health-Hospitalists example showing how the CaT assessment formed the foundation of a strategic discussion that helped the parties overcome past contract discussions that had significantly eroded trust between the parties.

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Analysis 1: Self-Grades

In the CaT tool respondents grade their relationship on a scale ranging from A (excellent), to and F (failing). Self-grades are usually the first finding shared with the parties in the CaT report-out workshop.

Figure 4 below reveals that the Administration and Hospitalists each give themselves a higher score than their partner. For example, the Administration gives themselves a score of B+ while giving their partner a C+. Likewise, the Hospitalists give themselves a score of a B- while giving the Administration a D-.

Figure 4 – Grading Scores

	I Grade Myself	I Grade My Partner
Administration	B+	C+
Hospitalists	B-	D-

Scoring oneself better than you score your partner makes sense when you think about it. Psychology teaches us that people are inherently biased and overconfident in their own abilities and qualities, known as [illusory superiority](#). Illusory superiority (also known as the above-average effect, the superiority bias, the leniency error, the sense of relative superiority, the primus inter pares effect, the Dunning-Kruger effect and the Lake Wobegon Effect) is the common observation stemming from a cognitive bias where a person overestimates their own qualities and abilities relative to the same qualities and abilities of other people. In essence, people have an inherent flaw in believing they are better than others. For example, when drivers are asked if they are good drivers, 88% will say they are “better than average.”²¹ The concept became popular when the best-selling book *Lake Wobegon Days* was published and got named after the fictional town where all the children in Lake Wobegon are above average.²²

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Analysis 2: Self-View vs. Perception

A key analysis of a CaT assessment is a comparison of the partner’s “self-view” compared to the perception of one’s partner. Here the CaT uses quantitative questions to help the parties realize their biases revealed in the self-score.

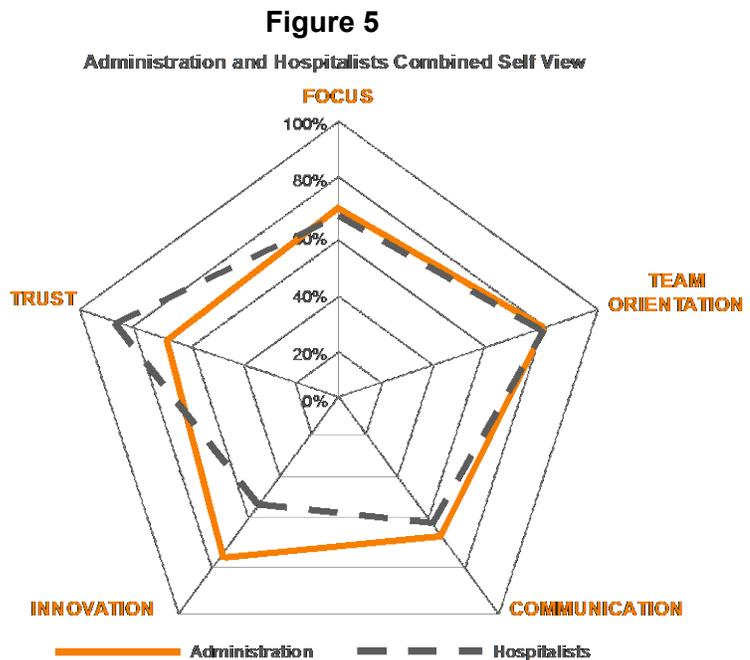
The CaT looks at the collective data across four views*‡:

- The buyer’s self-view
- The buyer’s perception of the supplier
- The supplier’s self-view
- The supplier’s perception of the buyer

These views are presented using common visual tools. Spider charts make it easy to compare an organization’s self-view with its partner’s perceived view. Stoplight charts help organizations understand whether they should be concerned (e.g., do any gaps fall into yellow or red stoplights due to large gaps)? Bar charts compare and contrast CaT scores by dimension.

For instance, the first spider chart (**Figure 5**) compares the **self-view** of both the buyer (Administration) and the supplier (Hospitalists). The second and third spider charts (**Figure 6** and **Figure 7**) compare the **perception gaps** between the partners. Looking at the difference between self-view and perception allows the CaT assessment to highlight potential friction points in the relationship.

Figure 5 shows how each organization views itself across each of the five dimensions. The self-views are analogous to a DNA footprint because they represent how people in the relationship say they work. For example, the Administration (shown in orange) think of themselves as having a somewhat high level of Focus, Team Orientation and Innovation relative to the Hospitalists. However, they view themselves as only being moderately trustworthy (Trust) and have moderate Communication effectiveness.



‡ For ease of understanding, we use the terms “buyer” and “supplier” to refer to trading partners throughout the paper. However, not all CaTs involve a buyer and supplier. For example, business partners could be two partners in a joint venture or two functions working within one firm (e.g., an organization and its shared services organization, an organization and its labor union).

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The spider chart also reveals how the supplier (here the Hospitalists are noted in **dark grey**) shares their perspective of each dimension. When the self-views are compared in the spider chart it is easy to see how closely the organizations align (or are misaligned). Collectively, both parties are:

- Highly aligned on Focus and Team Orientation with virtually no gaps in their answers;
- Well-aligned in Communication.

Tight alignment on these dimensions indicates the parties have a good ‘cultural fit’ as team members say they believe they have similar ways they prefer to work (e.g., a high Team Orientation score on the spider chart reveals both organizations like to collaborate and feel they are good at working in teams).

However, the self-view comparison also reveals that the parties are not aligned in their view of Trust and Innovation. Specifically:

- Administrators view themselves as much more innovative than Hospitalists, with a 22% gap between the parties. Simply put, the Administrators value agility and innovation to changing market conditions, while the Hospitalists are more risk averse and prefer to work in a steady state environment with little change.
- The parties are also misaligned in their view of Trust. The Hospitalists view themselves as highly trustworthy, as depicted by their answers to questions that suggest “we almost always do what we say we will do.”

While it is interesting to point out the differences in the self-views, it is important to note that this may or may not be a source of friction in the relationship. For example, let’s look at the gaps in Innovation. If the Administration expects the Hospitalists to be agile and drive continuous improvement initiatives, they will likely be frustrated with a partner whose DNA is prone to value stability. However, if the Administration expects little innovation from the Hospitalists, it will probably not be a source of friction.

The next two spider charts (**Figure 6** below, and **Figure 7** on the following page) compare the **perception gaps** between the partners. These charts further peel back the onion layers and tell a deeper story about the partnership. **Figure 6** compares the buyer’s (Administration) self-view and the supplier’s (Hospitalists) perception of the buyer, and the second chart (**Figure 7**) compares the supplier’s (Hospitalists) self-view to the buyer’s (administration) perception of the supplier.

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Figure 6

Administration and Hospitalists' Perception of Administration

In the spider chart to the right (**Figure 6**), you can easily see there are *significant differences* in the Administration's self-view and the Hospitalists' perception of the Administration across all of the dimensions:

- Communication has the smallest gap at 22% points;
- Team Orientation has the most significant gap of 47% points.

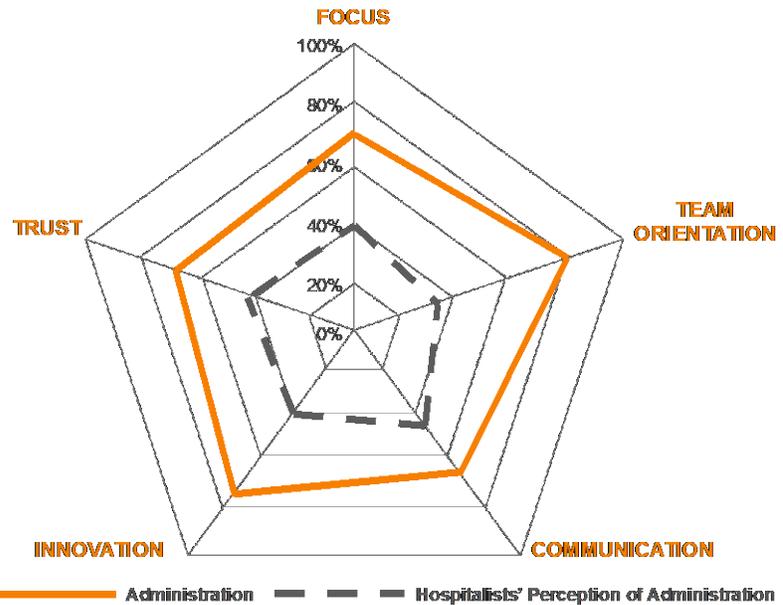
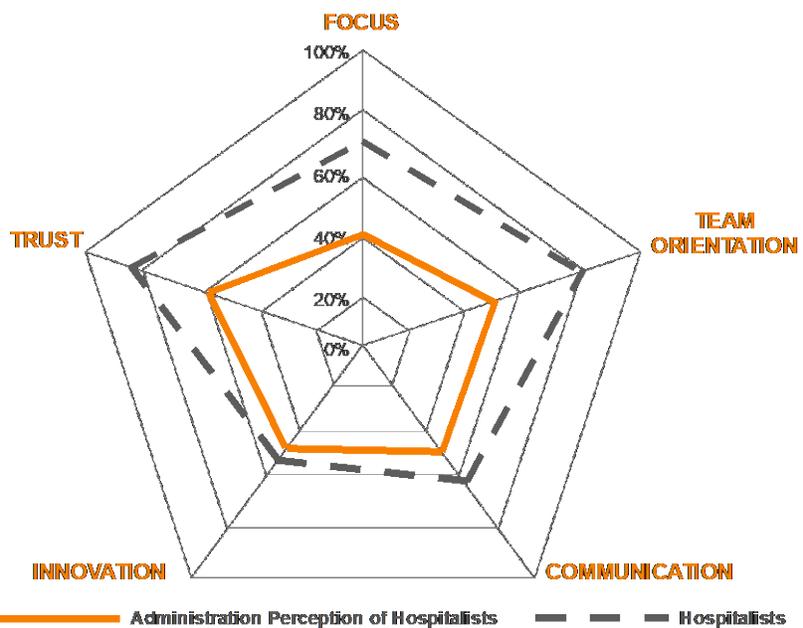


Figure 7

Hospitalists and Administration's Perception of Hospitalists

Likewise, in **Figure 7** to the right, there are significant *differences* in 4 of the five dimensions between the Hospitalists' self-view and the Administration's perception of the Hospitalists.

- Innovation has the smallest gap at 4% points;
- Team Orientation has the largest gap at 30% points.



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The gaps between self-views and the partner's perception are important because the gaps indicate a perceived misalignment in the behaviors and cultures between the parties; this perception is important since the key and engaged individuals from both parties complete the survey. In essence, the 'perception is reality' is measured. Gaps between the self-view and the other party's perception indicate a lack of understanding of the other party's behaviors and operating cultures. In most cases, the self-score is higher than the partner's perception score – quantifying the illusory superiority bias referenced in Part 1.

Having perception gaps can be a cause of friction. For example, if one party values transparency and open/candid conversations – but perceive that their partner is not transparent, open or candid – it can cause negative feelings because they are not getting what they want out of the relationship. In fact, it could be perceived by one party that the other party may be withholding information on purpose. In this case study, Hospitalists described the Administration's communication style as “opaque” and “disingenuous” as depicted in the open-ended questions.

Perception gaps can also lead to misalignment or misunderstandings in the relationship that can erode trust, as they were doing in the Island Health example. How? Perception gaps can easily cause an individual to act, behave, and make decisions that are not as fair as they would normally make. Dan Ariely – a renowned behavioral economist – describes this tendency as “people rationalize their pettiness” in his best-selling book [The Honest Truth About Dishonesty](#),

Perception gaps can also lead to **shading** if left unchecked. Shading – a term coined by Nobel Laureate Oliver Hart - is a retaliatory behavior in which one party stops cooperating, ceases to be proactive, or makes countermoves. Shading happens when a party isn't getting the outcome expected from the relationship and feels the other party is to blame or has not acted reasonably to mitigate the losses. The aggrieved party often cuts back on performance in subtle ways, sometimes even unconsciously, to compensate. Shading impacts Oliver Williamson's concept of calculative trust referenced in Part 1.

Shading can easily create a back-and-forth “tit-for-tat” friction that leads to inefficiencies and increased transaction costs. Any error or mistake can lead to doubts about the partner's credibility; this starts the downward spiral of doubt, resulting in less trust and higher transaction costs. For example, the lack of trust meant that the Hospitalists did not want to make economic concessions during contract negotiations because they did not trust the Administration to be fair later. This forced inflexibility into the system, which then could not flex to meet the needs of situations outside the parameters of the budget.²³

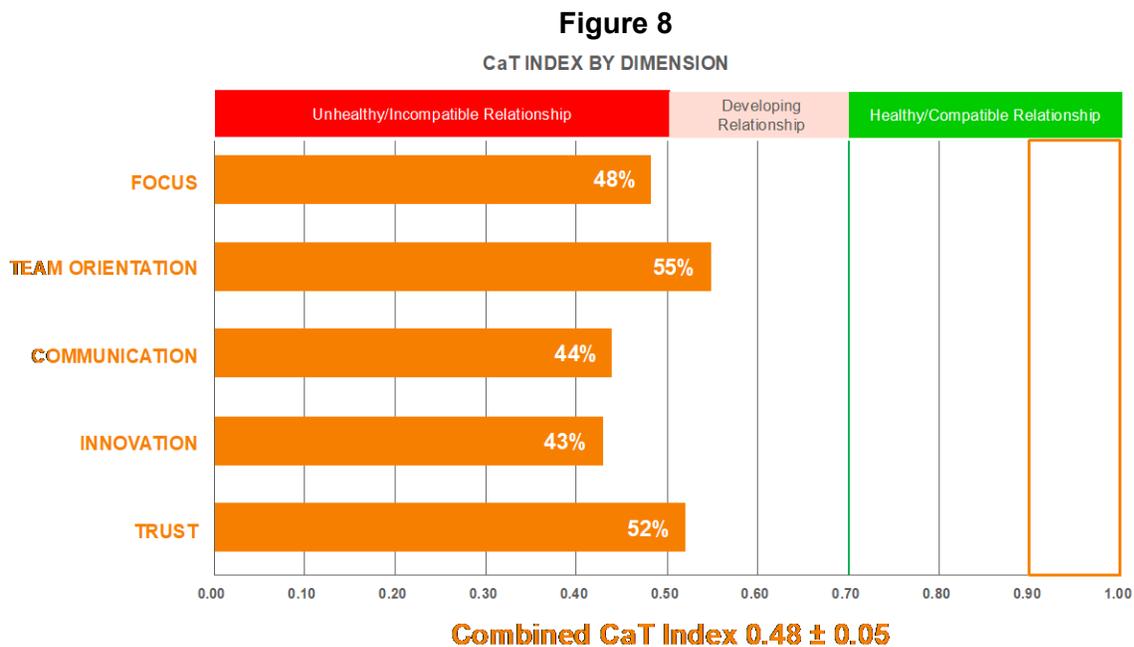
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Analysis 3: CaT Index Score

A key diagnostic of the CaT assessment is the CaT Index score. The CaT Index score is a measure of overall compatibility and trust between two parties.

Figure 8 is the CaT Index score chart from the 2016 Island Health-Hospitalists CaT baseline. Each of the five dimensions has a CaT Index. The Index is calculated by penalizing large perception gaps between the participants. In essence, the larger the perception gap, the more the CaT Index score is reduced. Likewise, the higher the CaT Index, the more compatible or a better “culture fit” exists between the organizations.



In addition to the CaT Index for each of the five dimensions, there is an overall Combined CaT Index. The Combined CaT Index is calculated by taking the average of the CaT Index scores for each of the five CaT dimensions. The Combined CaT Index score for the Island Health-Hospitalists baseline CaT is 0.48 on a scale of 1 to 100. Overall the Island Health-Hospitalists relationship was classified as *unhealthy* as the Combined CaT Index fell below 0.50. **Figure 8** also clearly shows three of the five dimensions are classified as unhealthy,

In addition to the spider charts, the CaT report presents the results between the self-views and perceptions in a table format using color-coded “stoplight” indicators. The Island Health-Hospitalists stoplight chart is shown in **Figure 9** (following page).

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Figure 9: Island Health-Hospitalists Stoplight Chart (2016 Baseline CaT)

COMPATIBILITY and TRUST DIMENSIONS	Administration	Administration Perception of Hospitalists	Hospitalists	Hospitalists Perception of Administration	CaT INDEX by Dimension	Average Score
	Percentage Score	Percentage Score	Percentage Score	Percentage Score	Index 0.00 to 1.00	Percentage Score
FOCUS	● 72%	● 42%	● 71%	● 37%	● 0.48	● 56%
TEAM ORIENTATION	● 81%	● 51%	● 81%	● 34%	● 0.55	● 62%
COMMUNICATION	● 68%	● 47%	● 63%	● 45%	● 0.44	● 56%
INNOVATION	● 74%	● 48%	● 52%	● 40%	● 0.43	● 53%
TRUST	● 68%	● 61%	● 85%	● 43%	● 0.52	● 65%

The stoplight chart allows team members involved in the trading partner relationship to readily see how large their perception gaps are. The raw percentage scores are presented for each view across the five dimensions. In addition, you can see the average score for each dimension and the CaT Index score. The stoplight chart shows the difference between the average score and the CaT Index. Recall that the CaT Index is calculated by penalizing parties for having large perception gaps. In the case of the Island Health-Hospitalists relationship, yellow average scores turn into red scores when looking at the CaT Index.

Analysis 4: Absolute Gaps Size

Figure 10: Total Differences in Gaps

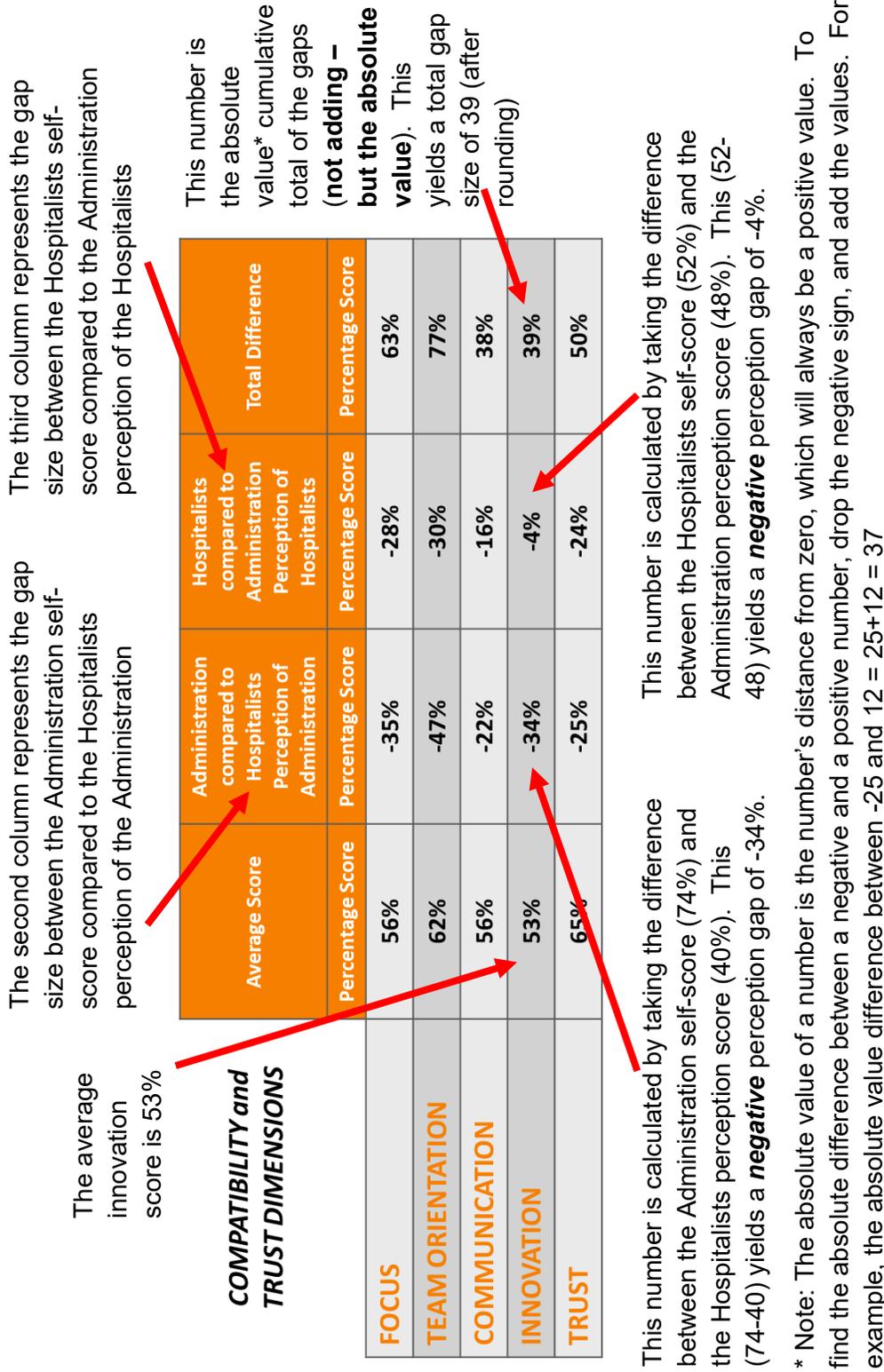
A second stoplight table shows the total difference (e.g., the absolute value of the cumulative total) of the gaps for each dimension. This is done to highlight the total gap size. See **Figure 10** at right for the example from the Island Health-Hospitalists stoplight table. Let's take a closer look at the Focus dimension to see how the scores are derived.

COMPATIBILITY and TRUST DIMENSIONS	Average Score	Administration compared to Hospitalists Perception of Administration	Hospitalists compared to Administration Perception of Hospitalists	Total Difference
	Percentage Score	Percentage Score	Percentage Score	Percentage Score
FOCUS	56%	-35%	-28%	● 63%
TEAM ORIENTATION	62%	-47%	-30%	● 77%
COMMUNICATION	56%	-22%	-16%	● 38%
INNOVATION	53%	-34%	-4%	● 39%
TRUST	65%	-25%	-24%	● 50%

Figure 11 on the following page illustrates how to interpret the stoplight table.

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Figure 11: How To Interpret The Stoplight Table



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Analysis 5: CaT Alignment “Map”

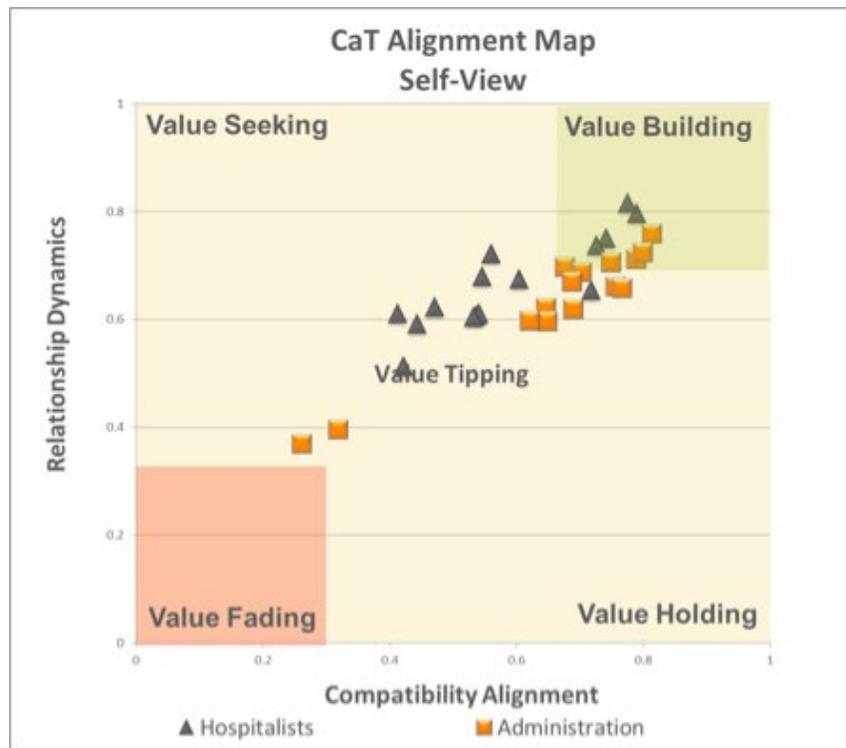
The CaT Alignment Map uses a scatter plot where each survey respondent’s anonymous data is plotted on an axis of compatibility alignment and relationship dynamics across these five areas:

- Value Seeking – The party with less power in the relationship submits to the party with power;
- Value Holding – The party with more power in the relationship takes a muscular approach;
- Value Tipping – The parties shift between the Value Seeking and Value Holding styles; the relationship lacks trust and openness;
- Value Fading – The relationship is dysfunctional and exhibits destructive behavior;
- Value Building – The parties work together to build and share value equitably in the relationship; there is a good level of trust.

Figure 12 shows the self-view CaT Alignment Map for the Island Health Administration and the Hospitalists.

An individual's placement on the graph is determined based on how they answered the questions, with some questions relating to compatibility and other questions relating to relationship dynamics. Scatter plot charts are done for both self-views and perceptions. The scatter plot is similar to each party's 'DNA footprint' by providing an overall “map” of the people taking the assessment. You can compare the self-view “map” of the DNA footprint from the buyer to the supplier and the map of their perceptions.

Figure 12



The self-view CaT Alignment Map shows how individuals (anonymously) map their view of their organization across the five areas. Here, the chart reveals:

- Most of the Administrators (noted with orange squares) view their organization as using either Value Building or Value Tipping behaviors, with two Administrators having answered questions revealing they believe their organization uses behaviors on the verge of being value fading.

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- The majority of the Hospitalists (noted with grey triangles) view themselves less positively than the Administration, as demonstrated by the placement of the grey triangles further down in the Value Tipping zone.

In some cases (as seen with the self-view map from the Administration and the Hospitalists), some team members may have a negative self-view of their organizations. There are many reasons for this – the most common being that individuals are often put in a position where they are required to act in short-term and opportunistic ways that negatively affect relationships. For example:

- A procurement person on the team is measured/bonused on the price reduction and has strict guidance from the Chief Procurement Officer to use a hard-ball “every dollar every year” approach with their suppliers
- The negotiations team has been trained with traditional (non-collaborative) negotiation techniques such as “good cop/bad cop” or “information is power” and does not reveal any information that may give their trading partner any advantage.
- The supplier’s salesperson is continuously put in a position to nickel and dime the buyer on scope creep because their finance department is pressing them about low margins.

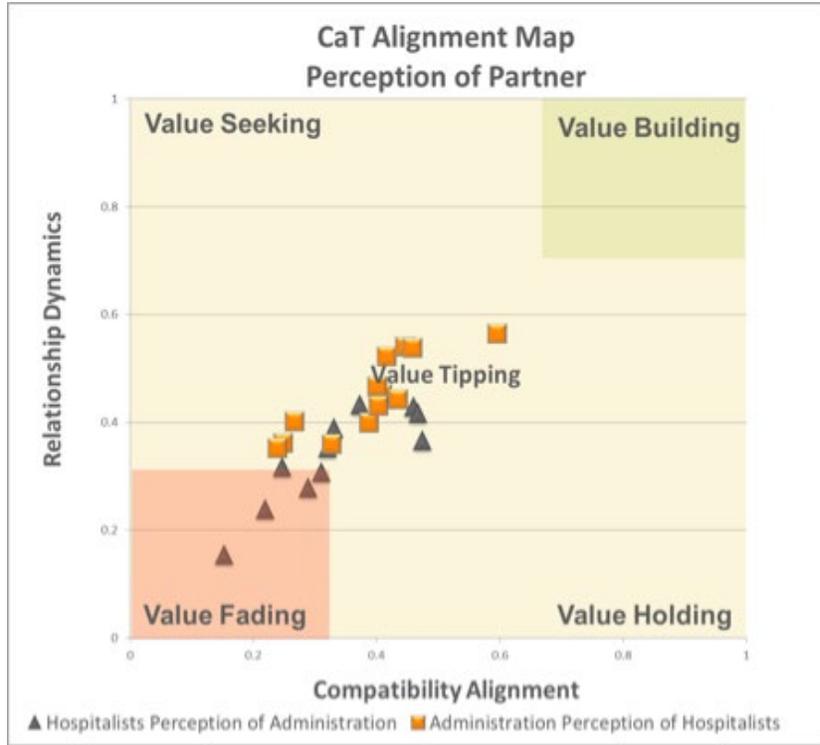
As mentioned, these types of behaviors can easily create aggressive (or passive-aggressive) behaviors as partners often respond with shading behaviors. The CaT helps identify the magnitude of how many people view their organizations as having a negative (Value Tipping or Value Fading) mindset in both the buyer and supplier organizations. This helps identify how much the parties will need to proactively drive change management efforts to get team members to resist the urge for short-term opportunism that negatively affects the relationships.



Figure 13

Now let’s look at the Alignment Map showing the perception of each partner.

The second CaT Alignment Map (Figure 13) shows the perception of each party. In this case, both the Administration and Hospitalists team members view their partner more poorly than the self-views. This is illustrated by the majority of dots having shifted further down on the map to Value Tipping or Value Fading. In fact, half of the Hospitalists view the Administration as even being Value Fading.



The analysis also reveals that three Hospitalists perceive the Administrators have behaviors that are value fading.

The CaT Alignment Map data can be a cue to help trading partners discuss and learn actions they may be taking that are creating value erosion. Cross-referencing the quantitative data with the qualitative data helps the parties understand the impact of each other’s actions. For example, Hospitalists perceived that the Administration “promotes those who have misbehaved and bullied others” and “bargains in bad faith.”

Analysis 6: Adjectives

One of the most revealing analyses of the CaT is the use of adjectives describing the relationship. Each respondent is asked to pick three adjectives to describe the relationship. We have found the best way to highlight the adjectives is the create a word cloud.[§] Figure 14 below is a word cloud of the adjectives from Island Health and the Hospitalists’ initial CaT Assessment baseline in 2016.

[§] A word cloud is generated from a list of all of the adjectives. The larger the word in the word cloud, the more times team members used that word.

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Figure 15

84.5% negative

Broken	0	Misunderstood	0	Authoritarian	8	Unpleasant	18
Suspicious	0	Abusive	0	Poisoned	9	Disingenuous	18
Destructive	0	Broken	0	Terrible	9	Poor	19
Toxic	1	Disruptive	0	Impersonal	9	Terrible	20
Dysfunctional	2	Deplorable	0	Broken	10	Strained	20
Nontrusting	2	Broken	0	Deceitful	10	Non Trusting	20
Opaque	2	Frustrating	0	Contentious	10	Distrustful	20
Bullying	4	Truthful	0	Unfair	10	Broken	20
Toxic	5	Damaged	0	Dysfunctional	10	Subordinate	20
Dishonest	5	Violent	0	Stressful	10	Misaligned	22
Fractured	6	Broken	0	Disrespectful	11	Non Transparent	23
Difficult	9	Bullying	0	Bad	11	Untrustworthy	23
Suspicious	12	Distrust	0	Antagonistic	11	Surprising	23
Contentious	12	Intimidation	0	Deceitful	11	Uncommunicative	23
Challenging	12	Terrible	0	Poorly Communicated	11	Distant	24
Disjointed	15	Tenuous	2	Mistrusted	11	Adversarial	24
Opaque	19	Suspicious	2	Untrusting	12	Fractured	24
Self-Serving	20	Tainted	2	Tenuous	12	Mistrusting	24
Failing	22	Acrimonious	2	Manipulative	12	Strained	24
Suspicious	25	Bullying	2	Conflicted	13	Manipulative	24
Strained	25	Broken	2	Fractured	13	Dark	24
Guarded	25	Tense	3	Mistrusting	13	Frustrating	24
Tense	27	Untrusting	4	Abusive	13	One-Sided	25
Strained	28	Amorphous	4	Frustrating	13	Distrustful	25
Troubled	28	Opaque	4	Adversarial	14	Distrustful	25
Fluctuating	28	Threatening	4	Misunderstood	14	Strained	25
Variable	29	Dysfunctional	5	Hostile	15	Damaged	25
Poisonous	0	Unequal	5	Adversarial	15	One-Sided	25
Abismal	0	Abandoned	5	Distrustful	15	Distrustful	22
Distrustful	0	Adversarial	6	Mistrustful	16	Strained	27
Toxic	0	Toxic	6	Damaged	17	Dysfunctional	20
Poor	0	Bullied	6	Unhealthy	18	Broken	22
Disrespectful	0	Distrustful	7	Strained	18	Dysfunctional	21
Shambles	0	Fraught	8	Defective	18	Untrusting	23

9.9% positive

Hopeful	75
Passionate	76
Changing	76
Complicated	78
Mutual	79
Worthwhile	85
Critically Important	90
Hopeful	91
Hopeful	91
Hopeful	97
Potential	76
Pleasant	81
Very Good	85
Caring	85
Equality	85
Trusting	85

5.6%

neutral

Challenged	30
Transactional	35
Shifting	37
Co-Dependent	40
Fragile	65
Fragile	35
Blocked	65
Leaderless	65
Cooperative	68

Text in Green are Administration adjectives **Text in Blue are Hospitalists adjectives**

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Additional insight is gained by looking at the color-coding of the adjectives. Text in **Blue** denotes the supplier's (Hospitalists) adjectives, and text in **Green** indicates the buying organization's (Administration's) adjectives. In addition, there is a number next to each adjective. Survey respondents are asked to slide a bar in the survey to classify each adjective on a scale of 1-100, with 0 being very negative and 100 being very positive. The adjectives are then grouped into negative, positive and neutral categories. The analysis gives a quick view of the feel of how positive or negative team members are about the relationship

Analysis 7: Open-Ended Questions

Open-ended questions provide additional insight for the parties to see how behaviors are supporting or eroding trust. For example, one question is, what does your partner do that weakens the relationship? The table below shows a small sample of the key insights revealed in the initial CaT. During the CaT assessment workshop, team members are asked to share examples to further deepen the team members' understanding.

What do the Hospitalists do that weakens the relationship?	What do Administrators do that weakens the relationship?
<ul style="list-style-type: none"> • At times are disrespectful toward Administration • Express their “specialness” over other groups • Not maintaining civility in heated discussions 	<ul style="list-style-type: none"> • Does not listen • Hides their agenda • They promote those who have behaved badly and bullied others • Bargains in bad faith

Even more powerful is the open-ended question that asks survey respondents to state what they wish their partner could do to improve the relationship.

What do you wish the Hospitalists would do to improve the relationship?	What do you wish the Administration would do to improve the relationship?
<ul style="list-style-type: none"> • To truly open themselves up to working differently with us • Regular communication, problem-solving and relationship building • Be willing to sit down and develop a shared vision of success • An improved collaborative approach to problem-solving 	<ul style="list-style-type: none"> • Send actual decision-makers to talk with us rather than lower-level administrators to placate us • Believe in us! We are the backbone of our two hospitals. Support us! • Be more honest, transparent, trusting, forthcoming, kind, supportive and appreciative • No more hidden agendas. More visibility. Shadow us for a day to see how we work. Listen.

We find the vast majority of the wishes are reasonable requests – and that if followed – would significantly improve trust and the relationship. Partners can use this information to **mend** the health of their partnership.



PART 4: RESULTS OF THE RESEARCH

As noted earlier the first objective of the research was to create a tool that could measure trust in trading partner relationships and collect empirical data across multiple relationships.

In this section, we share the results for Objectives 2-5.

2. Help organizations use the survey data to nurture trust levels to make tangible improvements in their relationship and **mend** unhealthy relationships.
3. Use the survey instrument to **monitor** changes in trust over time and understand the benefits of creating a **mature** trusting relationship.
4. Determine if CaT could predict trust in new relationships
5. Determine if the business partners' choice of sourcing business model would affect trust levels.

Insights and learnings relative to each objective are discussed below.

Objective 2: Use The Survey Data To Nurture Trust And Mend Relationships

A key objective of the research was to determine if the tool could measure where organizations had gaps in trust, ultimately helping them identify specific areas where they could work to mend and improve their relationship. No doubt relatively healthy relationships may be improved, but what about relationships with significant trust issues? It is, for this reason, we have focused on the relationship between Island Health and the Hospitalists.

How bad was the state of their relationship? To answer that question, we need to provide some additional insight and background.

Recall that Island Health provides health care services through a network of hospitals, clinics, health units, community-based services, home support, and residential care centers and they began providing care for patients as part of an outsourced labor services agreement beginning in 2000.

By 2014, Island Health and the Hospitalists had gone through contract negotiations four times. Dr. Maskey (MD, CCFP, FCFP) joined Island Health as a Hospitalist in 2006 and was the site chief between 2009 and 2013. She describes contract negotiations as “long, acrimonious and difficult, with a tense and distant relationship between contract renewals” and shares her perspective.

“The chasm between the Administrators and physicians had always been wide. There was a running joke that we were separated by a rhododendron forest because some Hospitalists work in the Royal Jubilee Hospital and the Administrators work in offices on the same campus in a separate building called Begbie Hall. I remember early in my Hospitalist career the first time I tried to meet with someone in Begbie Hall. It was June and rhododendrons were in full bloom. I left the hospital and walked through this canopy of amazingly beautiful rhododendrons. And at the end

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was Begbie Hall – an old nursing building. I went to enter, but the door was locked. The rhododendron forest became symbolic for me about our relationship with the Administrators because it was like there was this great divide between us and them. Instead of going on a wonderful stroll through the rhododendron canopy, it was more like you were going through a scary and evil forest. And when the Hospitalists did make the effort, it always seemed you were shut out.”²⁴

Dr. Maskey continues, “Many of the Hospitalists didn’t even know what the Chief Medical Officer looked like or where the office was. It was like there was this mysterious group of Administrators who lived on the other side of the great divide of this rhododendron forest. We perceived that they didn’t care or have a clue about what we really did, even though we were the physicians who were caring for the majority of the inpatients in Victoria, BC.”

Kim Kerrone joined Island Health in September 2012 as Vice-President, Chief Financial Officer, Legal Services & Risk. She could sympathize with Dr. Maskey’s frustration. “Island Health had three or four Chief Medical Officers over the years, and it was easy to see why it was difficult to establish any kind of lasting relationships. Also, the Island Health Administrators and the Hospitalists had used traditional negotiation approaches which did not help close trust gaps.”

Despite attempts at negotiation, the contract expired in July 2014. The parties continued to operate under the terms of the expired contract, but the environment to achieve a new contract was challenging, and by 2016 contract negotiations had stopped altogether. Kerrone reflects, “We had made no progress on getting a contract because of the deep-seated feelings of distrust and animosity between the two sides. Patient care was happening, but we didn’t have a contract; it was just a really bad environment – there was no trust, no trust whatsoever.”

Kerrone also wondered how much of the trust gap was real or built on perceptions inflamed and magnified over the years.

The parties engaged the Forefront Group (a Vested Center of Excellence) to facilitate a three-day offsite, which kicked off with the CaT assessment report out on May 30th, 2016.²⁵ Over 20 people attended the workshop, including 12 Island Health Administrators and nine Hospitalists. Before the workshop, participants completed a Compatibility and Trust (CaT) assessment. Fifteen Administrators and 41 Hospitalists took the CaT online self-assessment.

A key part of the CaT assessment is to help organizations understand perception gaps. Kim Kerrone reflects: “I remember the CaT survey had a question for us to grade ourselves and to grade our partner. We gave ourselves a B+ and the Hospitalists a C+, and they did the exact opposite. For some, the perception was, ‘We are the good guys, and they are the bad guys.’ It was interesting because the Hospitalists thought the exact same thing from their perspective! That was very illuminating.”

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Courtney Peereboom – one of the Administrators - was disheartened by what the CaT revealed – especially the adjectives. “Seeing the words on the Wordle (a word cloud) from that survey was very disturbing. When you look back at it, we were in a terrible place.”

The facilitators shared the results of the rest of the CaT assessment (as shown in Part 3). The Forefront Group facilitated the parties through discussions to help them understand the root causes of poor trust.

Peereboom explains her reaction to seeing the spider charts with the somewhat aligned self-scores versus the misaligned perception scores. “The results of the CaT were interesting. We all went into the workshop thinking we were so far apart from each other, but the CaT revealed that at our core we were somewhat aligned in our values, which was surprising.”

A key focus of the workshop was to provide ample time for the parties to discuss why they felt there were such large perception gaps. Each CaT chart was “unpacked,” and team members were given ample time to discuss why there were gaps. For example, Team Orientation had the largest perception gap. The facilitators drew on the open-ended questions from the CaT assessment and created a safe space with small groups where the parties could begin to learn how perception gaps were creating an environment of distrust and negative behaviors.

Dr. Kenneth Smith, MD, CCFP, summed up the cause of the perception gaps. “Simply put, neither side knew what the other was doing: the Hospitalists had no idea what the Island Health budget was for them, and Island Health Administrators did not know how the Hospitalists scheduled patient care. It was easy to see how there were such huge perception gaps.”

As part of the workshop, the facilitators also asked the attendees to write down three adjectives describing an *ideal relationship* between Island Health and the Hospitalists. Each participant wrote down three words. During a break, the facilitators created a Word Cloud of the ideal adjectives. The Wordles from the “Today” adjectives from the CaT assessment and the “Future State” adjectives were posted at the front of the room with facilitators challenging the parties to seek to understand the results of the CaT assessment and to think about how they might change their behaviors to begin to “live into” the Future State. (See **Figure 16** on the following page)

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Objective 3: Monitor Trust Over Time

Understand the Benefits of Creating a Mature Trusting Relationship

To achieve Objective #3, the researchers would need to see “before and after” CaT assessments comparing the baseline CaT results with a follow-up CaT assessment after the parties had worked on closing their five-dimensional gaps.

Of the 98 unique trading partner relationships assessed, 15 relationships have participated in multiple CaT assessments which allowed the researchers to see if there were improvements in relationship health over time. Most of these relationships had shifted to a Vested sourcing business model where compatibility and trust are crucial for success. Five of the 15 trading partner relationships have used the CaT assessment to trend their relationship health over time, with four relationships conducting three CaT assessments to date and two conducting four CaT assessments.

Out of the 15 trading partner relationships that repeated CaT assessments:

- The average time between CaTs was 18 months.
- 80% of the trading partner relationships improved their Combined CaT Index.
- The total average improvement in relationship health as measured by the CaT Index was a 9% improvement versus the previous year.
- The highest single-year increase in relationship health as measured by the Combined CaT Index was 32%.
- Of the three CaTs that did not see an increase in relationship health improvement after doing their original baseline CaT– the reduction in relationship health as measured by the Combined CaT Index was relatively *minor* – averaging less than a 2% reduction in relationship health.

The following pages provide two case studies to show how these changes have been documented and used to improve the relationship: Island Health-Hospitalists and a pharmaceutical company that outsources its facilities management operations.

Deep Dive: Island Health-Hospitalists

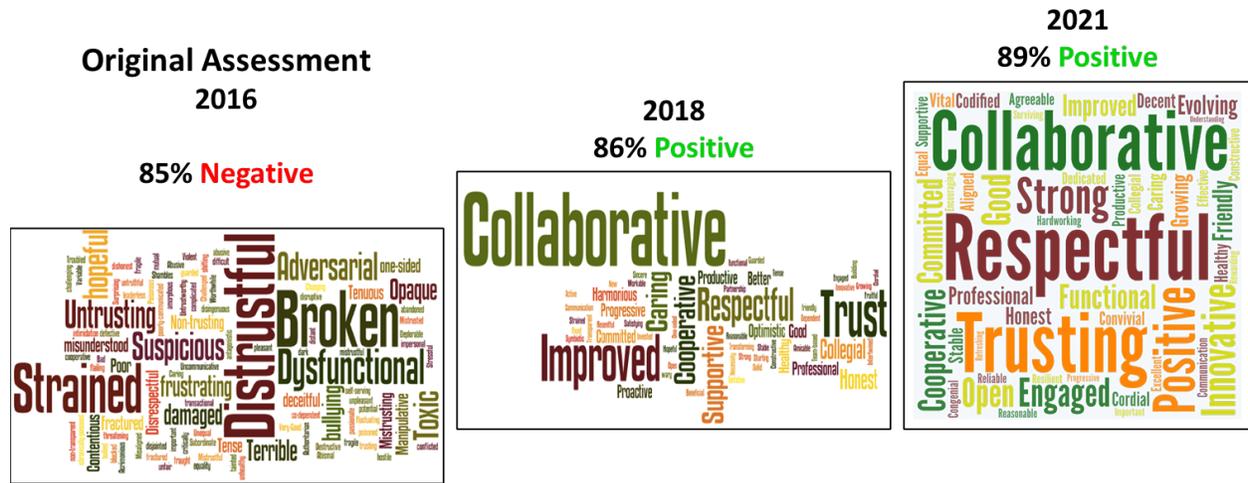
The Island Health-Hospitalists relationship is one of the relationships that have completed multiple CaT assessments. The baseline CaT was in 2016; the partners completed a follow-up CaT in 2018 and the third CaT in 2021. The results were phenomenal, with the parties having a staggering turnaround in relationship health as measured by the CaT.

Looking at the before and after adjectives of the relationship, there was **a shift from 84.5% negative words to 86.2% positive in just over two years**. The parties maintained a positive relationship even five years later in 2021 (see **Figure17** on the following page)

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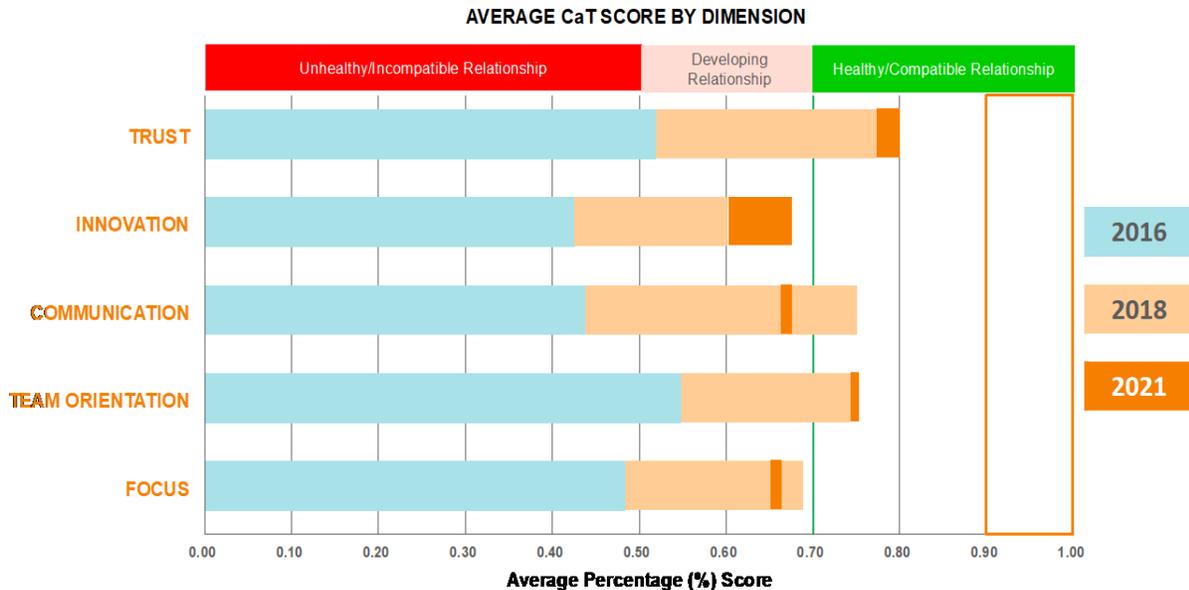


Figure 17 – Word Cloud Comparison



The overall Combined CaT Index increased from 0.48 in 2016 to 0.71 in 2018. **Figure 18** below shows the trend in relationship health as measured by the CaT Index for each of the five dimensions.

Figure 18 – CaT Scores by Dimension



When the parties repeated the CaT in 2021, they were in the midst of the Covid-19 pandemic. We interviewed both Island Health Administrators and the Hospitalists to see how they have fared during the pandemic.²⁶ They told us that when the pandemic hit their region in March 2020, the Island Health system was suddenly faced with a dramatic change in its patient mix. The total patient count dropped by 60% as the health system postponed elective or non-urgent procedures to mitigate the spread of Covid-19. Even though the physicians needed to manage fewer cases,

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those patients were at higher risk, on average, than those they handled in normal times. The impact on the budget and workload was drastic. The existing scheduling formulas did not work in the new environment; questions such as who would get to work which hours and who would have to work in the new high-risk Covid-19 ward were front and center.

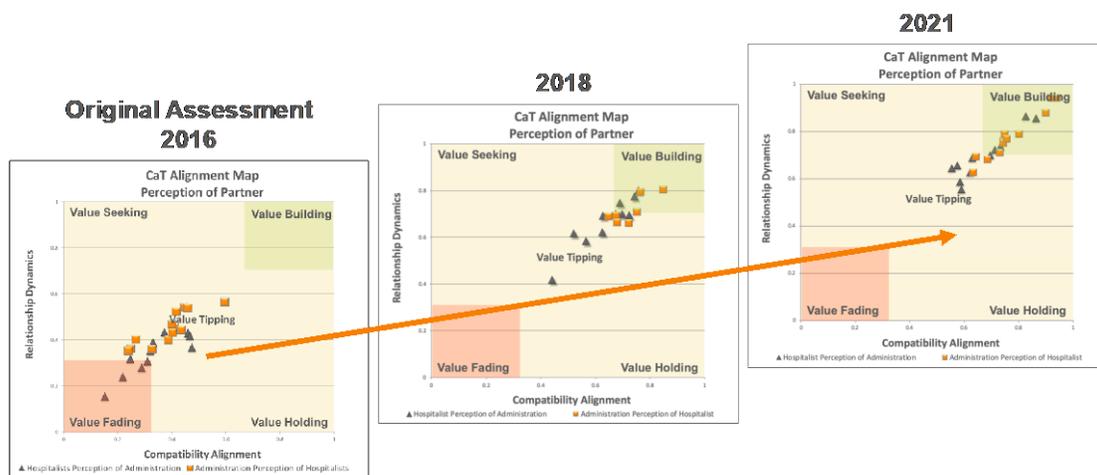
Simply put, stress was high and it was harder to stay aligned due to social distancing mandates that prevented face-to-face planning meetings. But rather than turn to classical tit-for-tat 'us-versus-them' negotiations they would have done in the past, Island Health and the Hospitalists dealt with what could have been a contentious situation by approaching their contract as a flexible framework with the goal to maintain relationship health. The trading partners turned to their shared vision and guiding principles they had created as part of the strategic relationship reset in 2016 to address the challenges to work through a very stressful period for both partners.

The result of a 2021 CaT assessment? Despite the stress of the pandemic, Team Orientation, Trust and Innovation shifted into high gear and even increased. For example, the parties implemented an innovative new program that entailed the Hospitalists seeing patients in their homes.

The parties shifted slightly backward in terms of the Focus and Communication dimensions of the CaT assessment. This was attributed to the fact that with all of the changes due to Covid-19 they could not keep their focus on the desired outcomes and objectives they had established as part of their face-to-face governance alignment meetings and they had transitioned their face-to-face meetings to virtual meetings.

A key insight from trending the CaT assessments is that the parties were able to continually shift to have a larger percentage of the team members moving closer to the Value Building behaviors – even despite the significant and stressful pandemic disruption to their relationship (**Figure 19**).

Figure 19 – Value Perception of Partner



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Last, the stoplight chart in **Figure 20** below shows the results of the progress across each of the five dimensions. Average scores (depicting the overall maturity of each dimension) went from mostly yellow and red in 2016 to almost all green by 2018 (a decrease from 24 out of 30 scoring criteria being red and yellow to only 3 out of 30 scoring criteria being yellow with no red scores).

Figure 20 – Stoplight Scores in 2018

COMPATIBILITY and TRUST DIMENSIONS	Administration	Administration Perception of Hospitalists	Hospitalists	Hospitalists Perception of Administration	CaT INDEX by Dimension	Average Score
	Percentage Score	Percentage Score	Percentage Score	Percentage Score	Index 0.00 to 1.00	Percentage Score
FOCUS	● 81%	● 78%	● 76%	● 70%	● 0.69	● 76%
TEAM ORIENTATION	● 88%	● 82%	● 82%	● 76%	● 0.74	● 82%
COMMUNICATION	● 79%	● 74%	● 76%	● 72%	● 0.75	● 75%
INNOVATION	● 83%	● 77%	● 72%	● 66%	● 0.60	● 74%
TRUST	● 78%	● 76%	● 81%	● 73%	● 0.77	● 77%

Deep Dive: Pharmaceutical Company and Outsourced Facilities Management Provider

A global pharmaceutical company (Pharma Co.) had outsourced its facilities management (FM) services throughout its Europe, Middle East and Asia (EMEA) region – with some sites being outsourced for over 25 years. As Pharma Co. grew, so too did its outsourcing relationships. By 2013 Pharma Co. realized they had a web of service providers. Some of Pharma Co.’s sites used multiple suppliers (e.g., separate suppliers for dining, cleaning and maintenance). Other Pharma Co. sites had migrated to an integrated facilities management (IFM) approach and used a single supplier to perform all FM services within a single site.

In 2012, Pharma Co. launched a competitive bid process to create a strategic partnership with a single supplier to manage Pharma Co.’s FM operations across ten countries. Specifically, Pharma Co. was hoping to drive standardization, reduce costs, increase employee satisfaction and deliver on a transformation agenda to install the IFM supplier at all sites that had previously had other incumbent suppliers.

As part of the competitive bid process, Pharma Co. had found their perfect partner in FM Inc. Pharma Co. and FM Inc. had been working together for over 25 years. The parties self-reported significant trust in their trading partner relationship. After a rigorous Request for Proposal process, Pharma Co. vetted FM Inc.’s capabilities to ensure it could take on all of the FM services across Pharma Co.’s major operating sites.

In 2013, the parties entered into a three-year GMP (gross maximum price) performance-based sourcing business model that shifted risk to FM Inc. for performance against pre-defined service level agreements (SLAs) at a set budget.

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Unfortunately, the reality did not live up to the hype, leaving both parties with unmet needs. While the contract drove standardization, cost efficiency and employee satisfaction – it did not achieve Pharma Co.’s transformation agenda. In addition, the parties were in a constant battle over scope creep and deteriorating profits for FM Inc. The result? The once strong buyer-supplier trading partner relationship was on the rocks.

In the spring of 2015, as the current contract neared its expiration date, Pharma Co. began to consider how it could further mature its outsourcing efforts and was in the process of creating a Request for Proposal to go back to the market. During this period, Pharma Co. came across the work of the University of Tennessee on the Vested sourcing business model, which promised the ability to transform outsourcing. Pharma Co. engaged EY – a Vested Center of Excellence – to do a risk assessment and review of Pharma Co.’s existing outsourcing approach. EY proposed that Pharma Co. look more deeply at the Vested model as an alternative approach. EY conducted a ‘Deal Review,’ which also included a CaT assessment.

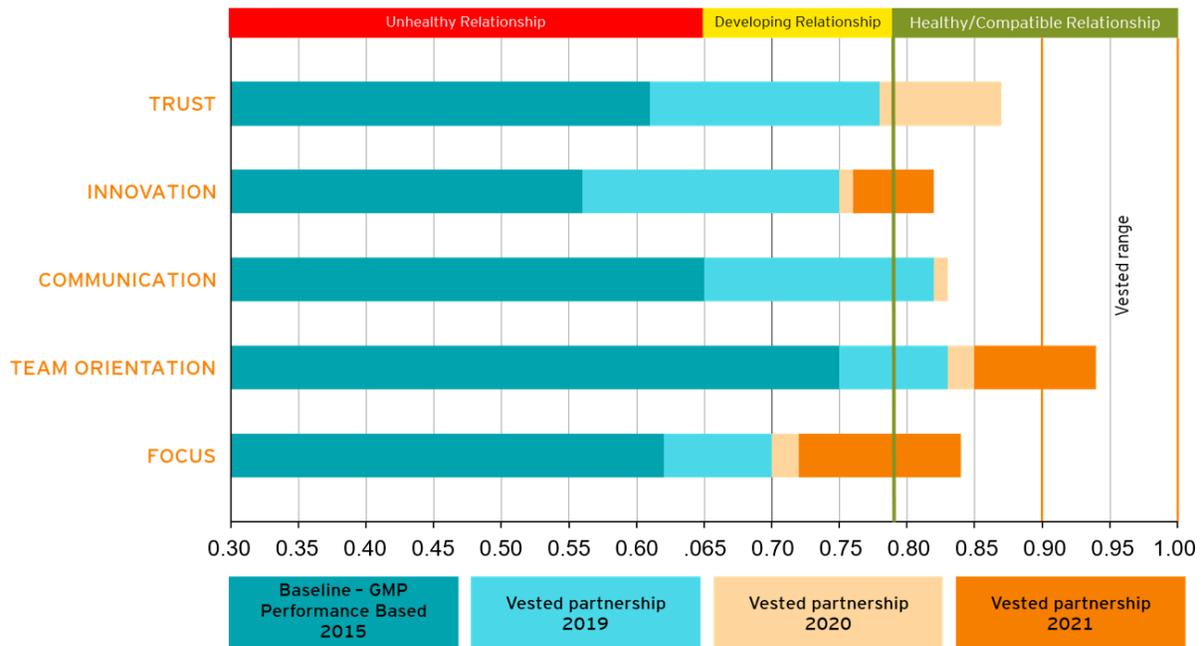
The Deal Review revealed the issue was not with FM Inc’s capabilities – rather, their traditional performance-based sourcing business model was creating an “us versus them” mentality. The CaT assessment provided hard data around the topic of trust – giving the parties a clear baseline for their relationship health and showing where the party’s behaviors had eroded trust since 2013. Ultimately Pharma Co. embarked on a nine-month journey to establish a true partnership under a Vested model with FM Inc. It was a breath of fresh air for FM Inc. – who was also very frustrated with the relationship.

In 2016 Pharma Co. and FM Inc. signed their Vested agreement and began an 18-month journey to transition the operating model to implement the Vested Five Rules they had agreed to in their contract. The journey didn’t however stop after the introduction of Vested. Both parties understood the importance of ensuring continuous alignment of interests and the benefits of a trusting relationship. As such, the parties have continued monitoring their relationship with “Health Checks” facilitated by EY. Each of the Health Checks includes a CaT assessment.

Figure 21 (on the following page) shows the significant results in relationship health as measured by the CaT Index. Today, the relationship is internationally recognized for its collaboration and has multiple industry awards.

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Figure 21 – Pharma Co. and FM Inc. CaT Assessment Trend



Overall, relationship health increased by 35% in six years, with team members reporting trust levels are far beyond the best levels they can remember in the history of the relationship. Relationship health increased by 22% between the baseline year and the first Health Check and has continued to mature as the parties actively work to further build trust in their relationship. This increase is in despite of the Covid pandemic wreaking havoc on most FM operations.

Objective 4: Can The CaT Be Used to Predict Trust in New Relationship

The fourth objective was to determine if the CaT assessment could predict trust in new relationships. The hypothesis was that the CaT assessment could gauge cultural fit because the CaT assessment profiles how strongly organizations align with each of the five CaT dimensions. Recall that when you look at the self-views, it is analogous to an organization's 'DNA footprint', with the overall score comprising all the people taking the assessment. For example, an organization full of people that love collaborative and teaming approaches will have a high CaT self-assessment score in the "Team Orientation" dimension.

There is, of course, a downside to conducting a CaT assessment on a new relationship. For starters, the trading partners are only beginning to establish a working relationship and have not had time to build behavioral profiles that either increase or decrease trust. While the participants can easily answer the CaT survey questions relating to their own company to establish the DNA profile of their own organization across each of the five CaT dimensions – they may not be able to fully address perception gaps. And because there are likely high perception gaps due to the new relationship the CaT Index will likely be low. In fact, this is precisely what the data shows. The Combined CaT Index for new relationships was far lower (.60) compared to the overall Combined CaT Index for existing relationships (.71). This was no surprise.

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During the research period, nine CaT assessments were conducted with “new” trading partner relationships; in other words, the parties had not worked together at all. To date, the nine relationships have not completed a follow-up CaT. For this reason, it is not yet possible to reach a conclusion on the hypothesis that the CaT assessment can gauge cultural fit. However, a separate longitudinal study conducted by one of the authors indicates assessments such as the CaT should be able to predict the outcome of a new relationship with a new partner.²⁷

The researchers and the co-authors who lead many field-based CaT workshops as part of the research still believe the hypothesis is valid. However, in the short term, there are exciting learnings from the research, including two case studies of how the researchers believe the CaT assessment can predict trust in new relationships.

Deep Dive: Down-Selection Process During a Competitive Bid

During the research period, only nine of the CaT assessments were conducted with “new” trading partner relationships without previous experience working together. Four of the CaTs were sponsored by a single buying company that wanted to use the CaT assessment as part of a down-selection process when picking a new supplier to provide outsourced services.

The buying company wanted to see if the CaT could provide insights into the potential cultural fit with each of the four suppliers participating in the bid process. The rationale was that the selected supplier should have a cultural fit profile with a strong Team Orientation, open and transparent Communication patterns, and a culture conducive to Innovative. The buying company used the CaT during the last phase of the competitive bid process to help identify the suppliers' inherent DNA across the five dimensions of compatibility and trust. Here, the CaT assessment was done at the end of a six-month bid process right before the buyer made the down-select decision.

The results of the CaT showed that all four supplier relationships had a relatively low level of trust as defined by the Combined CaT Index score. This was not a surprise because the relationships were new, and the team members did not have ample time to interact with each other outside of the bid team’s interactions. However, the CaT Assessment did provide insight that the buying company felt helped assess the potential suppliers. For example, two suppliers (Supplier 1 and Supplier 2) had a much higher Combined CaT Index score. In addition, the CaT Index revealed that Supplier 2 had the highest CaT Index for Team Orientation and Innovation and was only slightly lower than Supplier 1 on Communication.

CaT Index	Supplier 1	Supplier 2	Supplier 3	Supplier 4
Combined CaT Index	.60	.62	.54	.47
Focus	.62	.60	.51	.46
Team Orientation	.53	.59	.54	.48
Communication	.61	.60	.54	.43
Innovation	.65	.76	.60	.47
Trust	.59	.56	.52	.49

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The buying company used this information and other information in the bid process and their experiences with the suppliers during the bid process to make their final supplier selection, ultimately picking supplier 2.

Deep Dive: Cultural Misfits

A second exciting example comes from a Medical Device Company (MDC) that outsourced its “hard service” facilities maintenance across its North American operational sites. This example will provide insight into how the CaT could have been employed as a predictor of cultural fit.

In this example, MDC had performed the work in-house and had decided to outsource the operations – including transferring the majority of MDC’s facilities maintenance employees to the supplier.

MDC picked the supplier following a typical request for the proposal process. After the bid process, the parties entered into a three-year cost-plus transaction-based contract for the supplier to perform the maintenance services. Almost from the outset, the trading partners experienced very low levels of trust.

In this case – like with the Island Health-Hospitalists and Pharma Co.-FM Inc. case studies – MDC was highly frustrated with their supplier. The bid process revealed that the supplier had the right capabilities. In addition, the procurement team from the MDC had checked references, and the supplier had received glowing reviews from their clients. Nonetheless, the relationship with the supplier started off rocky and only got worse as time went by.

After 18 months into the three-year contract, the Vice President of Real Estate and Facilities Management for MDC weighed his options. MDC was facing the decision to work hard to fix the relationship and extend the contract, take the work out to bid to find a new supplier, or bring the work back in-house. Both parties decided to have a neutral third party do an independent assessment. The third party was a Vested Center of Excellence and recommended the parties use a CaT assessment as part of a broader Deal Review.

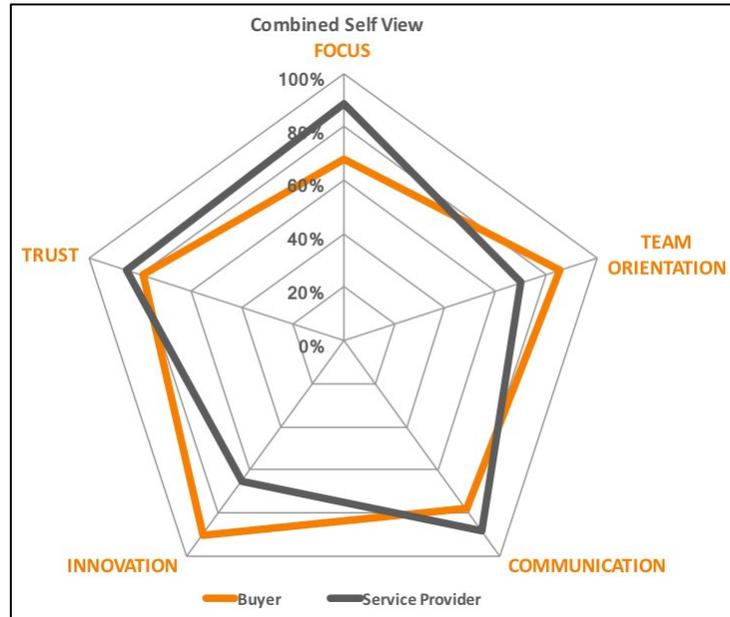
The CaT revealed a classic case of poor cultural fit.

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Figure 22

MDC was very innovative and always seemed to be going in different directions. They described themselves as having ADHD (attention deficit hyperactivity disorder). They were also extremely consensus-driven, meaning they found it difficult to make decisions without a large number of people. As you can see from the spider chart in **Figure 22**, MDC scored high on Innovation and Team Orientation but low on Focus.



Why do we say the supplier was a poor cultural fit? A tell-tale sign of poor cultural fit is when the self-assessments have large gaps. Recall the Island Heath-Hospitalists case study. While they had *large perception gaps*, their *self-views were fairly similar* – thus having a relatively high cultural fit. In the case of MDC, the self-views had high gaps. Here, the supplier was very conservative and operationally focused. They liked to have a plan and execute the plan with a long-term focus. Operational efficiencies were far more critical to the supplier than innovation. Although the supplier adhered to rigorous continuous improvement methods, it was mainly with the goal of perfecting their already existing processes. As such, the supplier scored high on Focus and low on Innovation since they did not like change. Additionally, they scored low on Team Orientation because, as an organization, they valued individual contributors and performance over working in teams.

As part of a broader Deal Review, the Vested Center of Excellence made a comparison of each organization' using a combination of website data and information gleaned from interviews from the Deal Review (see **Figure 23** on the following page).

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Figure 23 – Comparison of Companies

	Medical Device Company (MDC)	Supplier
Long History	Started in 1949	Incorporated in 1885
Annual Revenues	\$15 Billion	\$35 Billion
Global Operations	40,000 employees / 120 countries	142,000 employees / 150 countries
“Values” stated on the organization's website	1) Innovation	1) Innovation & Ingenuity
	2) Integrity & Honesty	2) Integrity & Safety
	3) Sustainability & Quality	3) Sustainability
	4) Personal Worth of Employees	4) Employee Engagement
	5) Good Citizenship	5) Customer Satisfaction
“Values” in practice as described in the Deal Review interviews	1) Innovation – but with a lack of focus (ADHD)	1) Assimilate companies & new employees
	2) Business units maintain autonomy	2) “No one on site empowered to act”
	3) Compel with facts	3) Mandates
	4) Action-oriented	4) “Everything at Supplier takes 90 days”
	5) Agility & flexibility	5) Standardized process

While the values expressed on the organization’s websites were similar, in practice the companies had developed an operational culture not aligned with their stated values. The result was that the operating culture became the one the companies practiced rather than preached. A key benefit of the CaT assessment was the emphasis on incompatible areas in a quantitative way (e.g., MDC had a culture of Innovation and Team Orientation while the supplier did not). This helped the trading partners literally “see” their areas of incompatibility.

The Vested Center of Excellence facilitated difficult discussions during a CaT Workshop. The conclusion? It was apparent that unless one of the organizations significantly changed its operating culture, they would always be misaligned in basic philosophies which would continue to erode trust and a poor working relationship.

Recognizing the poor cultural fit helped the parties determine the path forward: rather than let their frustrations grow, the parties worked on an amicable way to exit the relationship that would mitigate harm to each party. The solution was that MDC would launch a competitive bid to find a new supplier, and the existing supplier would opt out of participating in the bid. In addition, the current supplier agreed to assist with transitioning the work and employees to the new supplier once the new supplier was selected.

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Objective 5: Does The Choice of Sourcing Business Model Impact Trust

The fifth objective was to determine if the type of sourcing business model used as the foundation for the trading partner’s relationship correlated with trust levels. The researchers had two hypotheses.

1. The first hypothesis was that organizations using the relational contracting process – particularly a Vested model - would see higher levels of trust while organizations using more arms-length transactional contracts would have lower levels of trust.
2. The second hypothesis was that new relationships would likely have the lowest Combined CaT Index because they had not had time to mature their relationship.

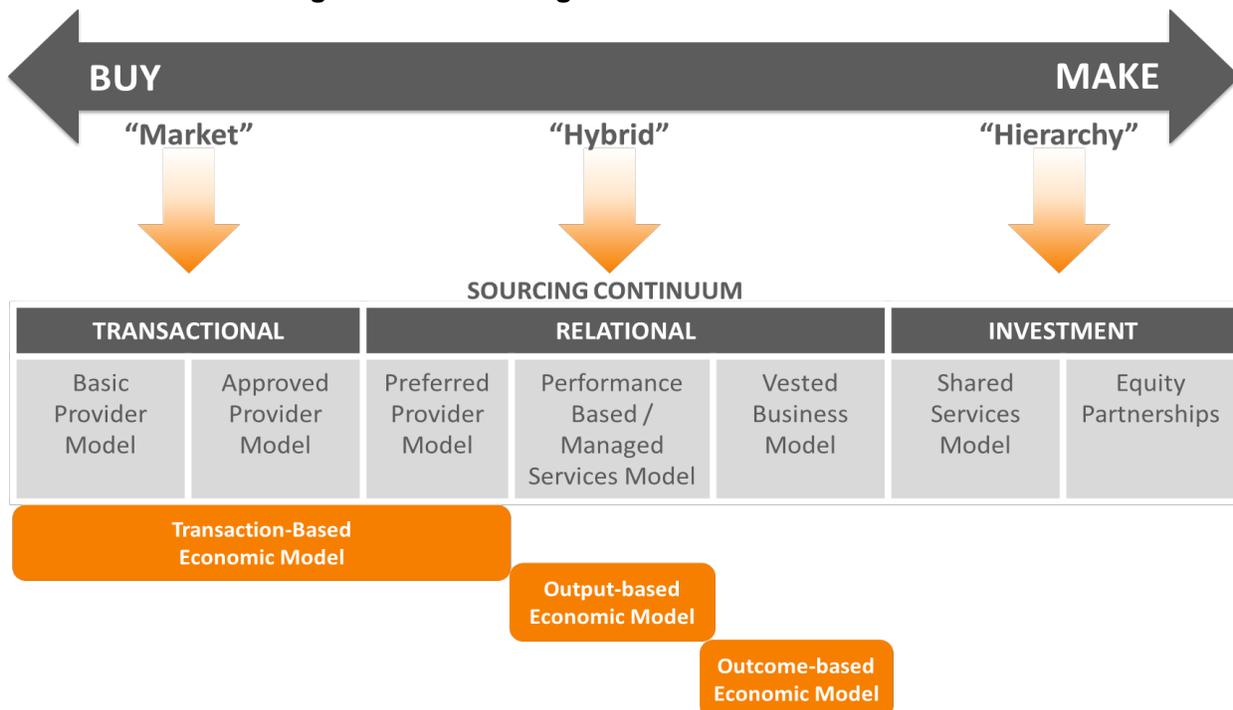
Below are the research results regarding each hypothesis.

Hypothesis 1:

Relational Contracts – Especially Vested Agreements – Would Have Higher Trust

The researchers were keen to understand if the sourcing business model choice would affect trust levels. Two of the researchers – Vitasek and Manrodt – had done extensive work on sourcing business model theory. Sourcing business model theory maps seven common sourcing business models along a continuum from the most basic/transactional model to the most strategic model which consists of investment-based models where a company makes a physical investment in providing goods and services (e.g., investing in a joint venture or acquiring a supplier). **Figure 24** provides a high-level graphic of the sourcing business model continuum.

Figure 24 – Sourcing Business Model Continuum



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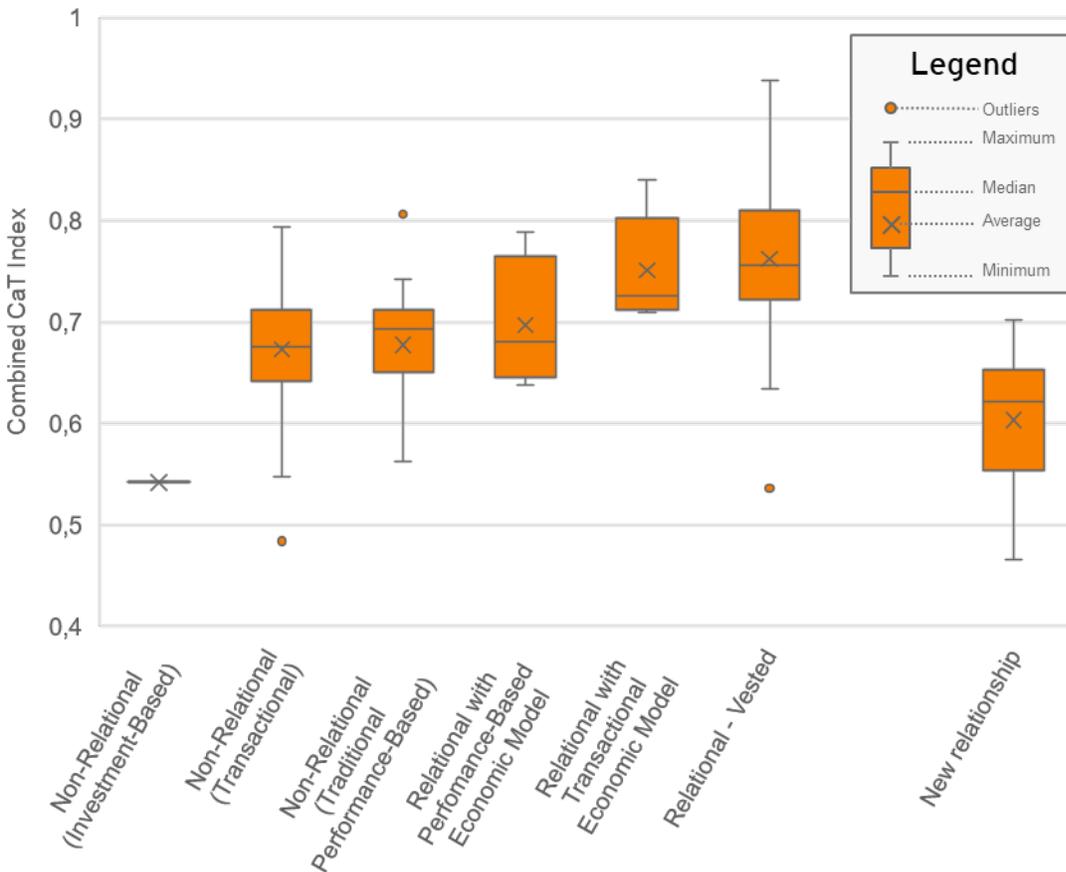


A key concept of sourcing business model theory is that organizations seeking to create value from their supplier relationships should move along the sourcing continuum and use more relationship-focused sourcing models (preferred provider relationships, performance-based agreements, Vested agreements). As part of this evolution, organizations should focus on more advanced output-based or outcome-based economic models.

As part of the research, the team mapped the type of sourcing business model used for each CaT. The nine “new” relationships were segmented out of the analysis by design with a rationale that new relationships would be “too early to tell” if the choice of sourcing business model affected relationship trust levels.

The hypothesis was proven. Partners using a relational model outperform non-relational models across all five of the CaT dimensions. (see **Figure 25**)

Figure 25 – Compatibility and Trust Across Different Sourcing Business Models



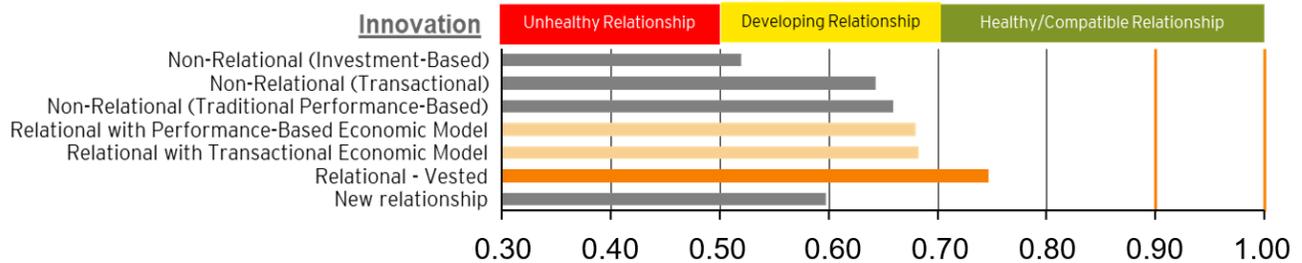
Specifically, Vested agreements had the highest overall Combined CaT Index with an average of 0.76 – 13.4% higher than the average non-relational contract. The higher degree of relationship health makes sense as all 38 trading partner relationships had a goal of creating a formal relational contract with a mutual (win-win) outcome-based economic model.

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The data also revealed that the difference for a Vested sourcing business comes from the Innovation dimension with a 0.064-point higher CaT Index over the next highest score (see **Figure 26**).

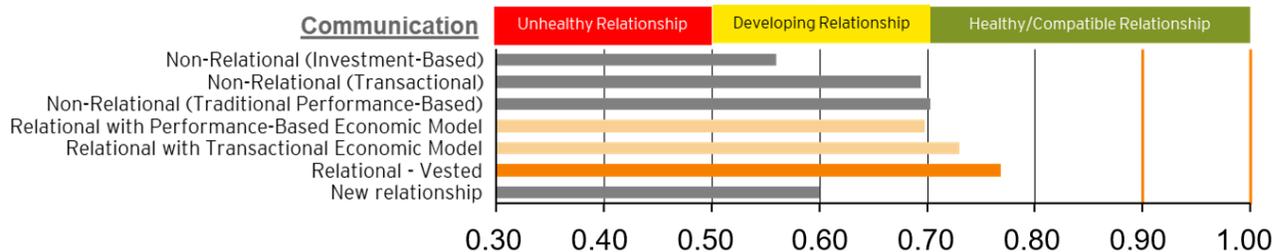
Figure 26 – CaT Index for Innovation Dimension (by Sourcing Business Model)



This also makes sense because Vested agreements, by design, are used to drive transformation and innovation toward mutually defined desired outcomes. Take, for example, the Pharma Co. – FM Inc. trading partner relationship. The parties made the shift to a Vested agreement in 2017. Their Q2 2019 Quarterly Business Review reported the parties were tracking 48 transformation initiatives being scaled to multiple locations – 50% of which were classified as innovations. These 48 initiatives equated to 238 standardization opportunities.

The next most significant difference comes from the Communication dimension with a 0.038-point higher CaT Index over the next highest score (see **Figure 27**).

Figure 27 - CaT Index for Communication Dimension (by Sourcing Business Model)



Another key finding comes from looking at the eight of the 38 trading partner relationships that completed a CaT before creating a Vested Agreement. Interestingly, **these partnerships had an increase in their Combined CaT Index by an average of 15% compared to a 6% year-over-year improvement for the broader population that had done multiple CaTs over time.** The Island Health and Pharma Co examples previously shared are two of these eight trading partner relationships.

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Another interesting observation comes from looking at the data for the one trading partner relationship using an investment-based sourcing business model. While there is not enough data to draw conclusions about this sourcing business, there are interesting observations. This CaT was for a joint venture between two healthcare providers. Interestingly – while the parties had a joint venture and were attached at the hip via an outcome-based economic model – the parties used a highly transactional contract instead of a relational contract.

Therefore, the trading partners experienced significant distrust and engaged a Vested Center of Excellence to do a Deal Review. A key finding from the CaT was that the less dominant partner viewed the more dominant partner as abusing its power in the relationship – often “bullying” the smaller partner to get their way. The lack of trust in the relationship had triggered shading. Recall from Part 3 that shading – a term coined by Nobel Laureate Oliver Hart – happens when a party isn’t getting the outcome expected from a contractual relationship and feels the other party is to blame. The result is that the aggrieved party often cuts back on performance in subtle ways, sometimes even unconsciously, to compensate. Deal Review interviews revealed that shading was rampant, and a cycle of “tit-for-tat” friction had led to inefficiencies and increased transaction costs.

The researchers believe that the transactional nature of the contract – despite having a highly aligned outcome-based economic model that shared financial risks and rewards – was a significant contributor to the trust issues. For example, instead of having boundary-spanning outcome-based success measures, the dominant partner imposed a highly detailed performance scorecard on the smaller partner. In addition, the dominant partner established a “vendor manager” role to manage the smaller partner even though the smaller partner was not a “vendor.”

Hypothesis 2:

New relationships would have lower trust levels

The second hypothesis was that new relationships would likely have the lowest Combined CaT Index because they had not had time to mature their relationship.

The data supports the hypothesis. As shown above in **Figure 25**, the average Combined CaT Index of the nine new relationships is well below established relationships. The analysis shows that the overall Combined CaT Index for new relationships is far lower (.60) compared to the overall Combined CaT Index for existing relationships (.71).

A closer look at all 129 CaTs shows that only one sourcing business model type (the CaT representing the one Non-Relational Investment-Based model) had a Combined CaT Index lower than new relationships. As there was only one, the researchers assume that the results are likely not representative of the broader results for this type of model.

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Additional Insights

The below additional insights were also distilled from the research.

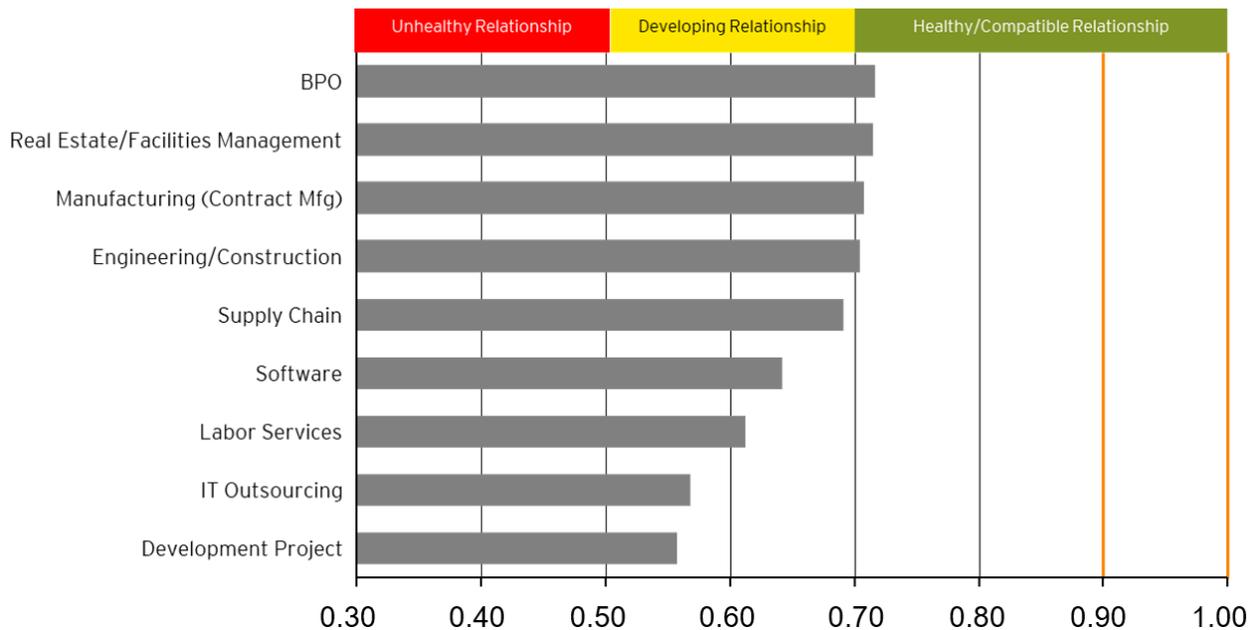
Insights by CaT Dimension

An interesting insight is that overall, the CaT dimensions Team Orientation and Communication dimensions scored higher than Focus, Trust and Innovation. Innovation had the lowest CaT Index among all five dimensions except in the Vested deals. Based on experience conducting Deal Reviews, facilitating new deals and supporting ongoing relationships, the researchers believe that Innovation often is an area within relationships that falls short of meeting expectations. Since the Vested model puts Innovation as a cornerstone for the business model and is designed to accelerate transformation, the researchers hypothesize that Vested deals are more likely to meet expectations within Innovation.

Insights by Scope of Trading Partner Relationship

An analysis of the CaT data reveals that IT Outsourcing and Development projects have the lowest average Combined CaT Index of 0.57 and 0.56, respectively. The scope of trading partner relationships with the highest level of compatibility and trust were Business Process Outsourcing (BPO) and Real Estate & Facilities Management outsourcing (RE/FM). These deal types had a Combined CaT Index ranging from 0.71 to 0.72, with BPO deals having the highest average Combined CaT Index. See **Figure 28** and **Figure 29**.

Figure 28 – Combined CaT Index Sorted by Scope of Relationship



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Figure 29 – CaT Index Across Each Dimension (Sorted by Scope of Relationship)

Industry	Combined CaT Index	Trust	Innovation	Communication	Team Orientation	Focus
BPO	0.72	0.67	0.70	0.73	0.77	0.72
Real Estate/Facilities Management	0.71	0.71	0.70	0.73	0.76	0.68
Manufacturing (Contract Mfg.)	0.71	0.73	0.66	0.75	0.73	0.67
Engineering/Construction	0.70	0.66	0.64	0.73	0.77	0.68
Supply Chain/Logistics	0.69	0.67	0.66	0.71	0.73	0.66
Software	0.64	0.60	0.61	0.59	0.74	0.69
Labor Services	0.61	0.66	0.56	0.61	0.65	0.77
IT Outsourcing	0.57	0.55	0.53	0.54	0.67	0.53
Development Project	0.56	0.54	0.62	0.55	0.54	0.54



CONCLUSION AND FUTURE RESEARCH PLANS

A little over a decade ago, a trio of academics from the University of Tennessee, Georgia College & State University and the University of Texas Health Science Center set out to develop an instrument that could **measure** trust levels within business relationships. The result was a pioneering Compatibility and Trust (CaT) assessment. A key goal was to collect data from existing buyer-supplier partnerships and determine if the CaT assessment data could be a source of information to help companies make tangible improvements in their relationship and **mend** unhealthy relationships.

Summary or Research Results

Over the 10+ year research journey, the researchers have collected data from 122 organizations representing 98 unique trading partner relationships. The data set represents 129 CaTs. The research has shown that:

- New trading partner relationships have lower trust levels than existing relationships. As noted earlier, the Combined CaT Index for new relationships is .60 compared to .71 for existing relationships.
- Relational contracts – especially Vested agreements – have a higher trust level than transactional contracts. The proof point is that Vested relationships had the highest Combined CaT Index with an average of .76 – 13.4% higher than the average non-relational contract.
- Trading partners can use the CaT assessment to help them mend unhealthy relationships. Proof points include two deep-dive case studies showing these results:
 - Island Health and the South Island Hospitalists trading partner relationship increased the Combined CaT Index from .48 to .71 in just two years. In addition, the percentage of adjectives shifted from 85% negative to 86% positive over the same time period.
 - A Pharma and facilities management supplier had a 35% increase in the Combined CaT Index after six years, with a 22% jump in the first two years.
- Trading partners that actively monitor relationship health have higher trust levels than those that do not actively monitor relationship health. Proof points include:
 - Trading partners that monitor their health over time had a Combined CaT Index of .767 (for their latest CaT) compared to a Combined CaT Index of .675 for trading partner relationships that only did a baseline CaT.
 - 80% of trading partners that used the CaT to monitor their relationship over time had an increase in their Combined CaT Index, with a total average improvement of 9% over the previous year.
 - The highest single-year increase in relationship health was a 32% increase.

One area where the research fell short was in proving the hypothesis that the CaT could predict trust in new relationships. While the research hints that the hypothesis is true, there is insufficient data to support the hypothesis.

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A Look Ahead to Future Research

The research shows powerful evidence of how organizations can use the CaT assessment to drive improvements in trust levels. We are excited about the potential for research in this area we are already starting the next generation of research.

Industry Benchmark Reports

A key strength of the research is the number of CaTs – especially in the life sciences and IT/Telco industries. In addition, there is significant data for some workscope sectors. For example, 61 CaTs representing 41 unique training partner relationships have been done for real estate/facilities management partnerships and 24 CaTs have been done for 21 unique trading partner relationships.

A key vision for future research includes using the CaT assessment to capture even more data from trading partner relationships and conduct comprehensive industry benchmark reports. UT is currently leading a significant research initiative with SAP, which has sponsored industry-specific research into supplier trust for two industries (energy/oil & gas and financial services) as the foundation for the study.

The research aims to do a deep dive understanding of buyer-supplier trust in two industries with ten companies in each industry. For each industry, participating companies will:

- Pick two supplier relationships for a CaT Assessment (one for a “great” supplier and one for a “typical” relationship)
- Receive a complimentary CaT assessment for each relationship which shows where they have gaps in trust, transparency and cultural fit, which may hinder the success of the relationship

With the additional data, UT researchers can create the first-ever industry-specific reports on compatibility and trust for both industries. This formal report will be provided compliments of SAP and will hopefully bring even more interest to companies wanting to learn how to improve trust with their trading partners.

Offer CaTs in Various Languages

A second research initiative is to offer CaTs in various languages. A leading Argentinian oil and gas company is funding the translation of the CaT into Spanish, which will launch in the fall of 2022. In addition, EY will fund the translation into Swedish and NEVI (the Dutch Association for Purchasing Management) will support the translations into Dutch. The goal is to make the CaT assessment even more accessible.



Predicting Trust in New Relationships

A third focal point will be to prove the hypothesis that the CaT can predict trust in new relationships. While the existing research hints that the hypothesis is true, there is insufficient data to prove the hypothesis. A future goal will be to consciously ensure that any “new” relationship conducts at least one follow-up CaT. This will allow researchers to understand how differences in the cultural fit dimensions of the CaT positively (or negatively) impact the trust levels in trading partner relationships.

Analyzing If Compatibility and Trust Levels Vary By Geography

Out of the 98 unique trading relationships in the data set, 46 primarily operate in North America (NA), and 40 in Europe. The remaining 12 are either global trading partner relationships or primarily operate in AsiaPac. Only one trading partner relationship primarily operates in Africa. The researchers hypothesized there may be cultural differences by geography and plan to explore this as part of future research plans.

Re-evaluate What is “Healthy” vs. “Unhealthy”

An interesting finding is the overall distribution curve across all of the CaTs. As referenced, the CaT assessment uses the CaT Index score to determine the overall health of the trading partners' relationship. Once the Index is scored, the partnership is plotted on a scale of 1-10, and the partner's relationship is categorized as Unhealthy (an Index score of less than 50), Developing (an Index score between 50 and 70) and Healthy (an Index score over 70).

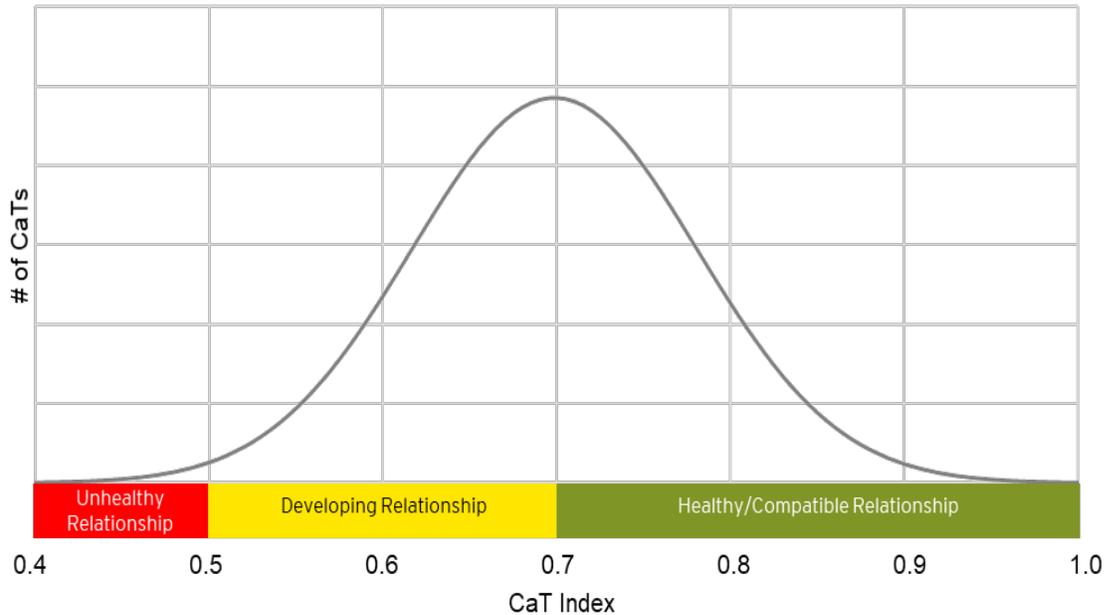
With 129 CaTs, the data is revealing trends. Ironically, fifty percent of the CaTs fall in the “healthy” classification, with the other 50% falling into the developing or unhealthy relationship categories. **Figure 29** (following page) shares the overall distribution curve of the results for all CaTs across the scale.

When the researchers were developing the CaT, they had no data; as such, they took a stab in the dark at assigning thresholds for each category. Initially, the researchers put the “best-in-class” threshold as a Combined CaT Index of 0.90 or better. Only 2 of the 129 CaTs (1.5%) fell into the best-in-class range. Likewise, only 1.5% of the CaTs fall into the unhealthy range of scoring below 0.50.

Now that there is significant data, the researchers believe the distribution curve is too tight for categorization. As the research continues, the goal will be to establish the appropriate threshold.



Figure 29 – Results of All CaTs



Correlate “Innovation” Scores with Innovation Results

In Part 4, we shared an observation that trading partners using a Vested sourcing business model scored higher in innovation when compared to CaTs for other sourcing business models. The researchers hypothesize this is because Vested deals are more likely to meet expectations around innovation due to the win-win economic model and set of “rules” that foster innovation.

A future research initiative will be to determine the relationship between Innovation Scores and each sourcing business model.

The Bottom Line

The bottom line? It is your bottom line.

Our research – in addition to that profiled in Part 1 - shows compelling evidence that improving trust in trading partner relationships can improve your bottom line by reducing friction in the relationship. This, in turn, lowers transaction costs and increases the overall happiness of team members working in the relationship. After all – who wouldn’t want to shift to stronger and more collaborative, respectful and trusting relationships?



ABOUT THE AUTHORS

Kate Vitasek is a world authority on highly collaborative win-win relationships for her award-winning research and Vested® business model. Author of seven books and a faculty member at the University of Tennessee, she was lauded by *World Trade Magazine* as one of the “Fabulous 50+1” most influential people affecting global commerce. Vitasek is a contributor for *Forbes* magazine and has been featured on CNN International, Bloomberg, NPR and Fox Business News. She can be reached at kvitasek@utk.edu.

Karl Manrodt, Ph.D., is a Professor of Logistics at Georgia College & State University. Manrodt has co-authored eight books and over 70 scholarly articles, including *Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models for Modern Procurement* and *Vested: How P&G, McDonald’s and Microsoft are Redefining Winning in Business Relationships*. He is a popular speaker and has traveled around the world, sharing his insights and advice on how to create a world-class supply chain.

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Jerry Ledlow, Ph.D., is a Professor in the Department of Healthcare Policy, Economics and Management at the University of Texas – Tyler Health Science Center. Ledlow is a board-certified healthcare administrator with over 35 years of successful practical and academic experience in leadership and management positions. He is a Fellow in the American College of Healthcare Executives. Ledlow’s research includes nine volumes of texts/books.

Andrew Downard, Ph.D., is an experienced senior executive, consultant and academic with broad exposure to leading-edge international companies. He has significant experience in the procurement, supply chain and contracting functions. Andrew is the founder of Collaborative Impact Advisory, a boutique consultancy focused on helping clients maximize the value they get from their business relationships. Ci-Advisory is also a Vested Centre of Excellence. As well as gaining his Ph.D. by researching supply chain relationships, Andrew is a graduate of the University of Tennessee’s Vested program and a Certified Deal Architect.

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FOR MORE INFORMATION

Please visit <https://www.vestedway.com/compatibility-and-trust-assessment/> for more on CaT Assessments. You can access a copy of the Frequently Asked Questions, and be linked to a Center of Excellence to begin your assessment.

The University of Tennessee is highly regarded for its Graduate and Executive Education programs. Ranked #1 in the world in supply chain management research, researchers have authored seven books on the Vested business model and its application in strategic sourcing.



We encourage you to read the books on Vested, which can be found at most online book retailers (e.g., Amazon, Barnes and Noble) or at www.vestedway.com/books.

For those wanting to dig deeper, UT offers a blend of onsite and online courses including a capstone course where individuals get a chance to put the Vested theory into practice. Course content is designed to align with where you are in your journey ranging from Awareness to Mastery. For additional information, visit the University of Tennessee’s website dedicated to the Vested business model at <http://www.vestedway.com/> you can learn more about our Executive Education courses in the Certified Deal Architect program. You can also visit our research library and download case studies, white paper and resources. For more information, contact kvitasek@utk.edu.



* Prerequisites for *Creating a Vested Agreement* class are:

Five Rules, Is Vested Right?, Getting Ready, and the Vested 3-Day Executive Education Course



Be working with a Vested Center of Excellence



ENDNOTES

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- ¹⁶ *Ibid.* Note: Calculative Trust involves the processes of weighing and calculating likelihoods and pricing in those outcomes into the contractual arrangement. For the purposes of the CaT Assessment, we do include Calculative Trust – but rather seek to measure Institutional Trust and Personal Trust levels between team members in a trading partner relationship. Institutional Trust refers to the social, legal, or organizational environment within which contracts operate. In context to the CaT assessment, institutional trust is the overall trust between the two organizations as measured by the CaT Index. Personal Trust is the individual trust between team members. Williamson believed that while low personal trust contributes to Calculative Trust, there is very little of the weighing and balancing of risk found in the Calculative Trust arena. In this case because the relationship that the parties to the contract have, they forgo the process calculation at the individual level for the most part.

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To learn more about the Compatibility and Trust assessment visit the University of Tennessee's dedicated website at [www.vestedway.com/CaTAssessment](http://www.vestedway.com/CaTAssessment).