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Unpacking Trading Partner Trust in the Energy Industry

Unpacking Trading Partner Trust in the Energy Industry

A Report By Kate Vitasek & Karl Manrodt

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EXECUTIVE SUMMARY

Intuitively, business partners understand the importance of trust in commercial relationships – especially for strategic business relationships.

But how much does trust really matter? And are so-called “high trust” relationships really that much better off than typical supplier relationships?

That is the question University of Tennessee (UT) researcher wanted to know. And thanks to our research sponsor – SAP – and 34 willing companies we explored the factors that contribute to and inhibit trust in the Energy industry. The findings?

There is a large gap in how organizations feel about ‘good’ relationships versus ‘typical’ relationships. Team members working in ‘good’ relationships used mostly positive adjectives (85%) such as Aligned, Collaborative and Trustworthy to describe their relationship. On one hand, team members were often quite frustrated with their ‘typical’ relationships and only used positive words to describe typical relationships 63.5% of the time. Instead, they used words like Frustrating, Restrictive and Distant and in 9% of the cases they used really negative words such as Difficult, Strained and even Dysfunctional.

Stop and think about what this means. Companies have hundreds – if not thousands of trading partner relationships. If almost 30% of these typical relationships are considered frustrating, restrictive and distance and 9% of these are downright bad – think about what that means for a ‘bad’ relationship? Friction like this in a trading partner relationship has a name: Transaction Cost Economics (TCE). In the simplest terms TCE is the hidden costs associated with doing business. When you have a trading partner that is frustrating to deal with the time and cost associated with dealing with that partner go up.

As part of this study we set out to ask why there were differences. As part of the research, we used a comprehensive Compatibility and Trust (CaT) assessment that measures relationship health across five dimensions: Focus, Team Orientation, Communication, Innovation and overall Trust in terms of the consistency of performing to promise and meeting commitments. The CaT assessment revealed the biggest difference between good relationships and typical relationships stems from a lack of focus – meaning the parties report misaligned goals and a lack of clarity of how the parties contribute to each other’s success.

We trust you will find this research both insightful and practical. If you found this paper valuable, please share it with your colleagues and trading partners.

We hope what is next for you is a quest to improve trust with your trading partners.

OVERVIEW OF THE RESEARCH

Researchers from the University of Tennessee (UT), Georgia College & State University and the University of Texas Health Science Center have been teaming for over a decade to study compatibility and trust in trading partner relationships. Our work led to a simple yet powerful ***Compatibility and Trust*** (CaT) assessment that has been featured in Harvard Business Review and has been used to help hundreds of companies improve their trading partner relationships.

This study is the latest part of our research into trading partner trust. The study – sponsored by SAP – was a comprehensive benchmark on trading partner trust in the Energy industry. As part of the research, we conducted a deep-dive assessment of trading partner trust in 23 strategic relationships spanning the oil and gas and utilities sectors.

As part of the research, companies that purchase good or services (called Buyers) were asked to identify two companies that provide services to them (called Suppliers). Each Buyer was asked to provide a Supplier with whom they felt had a 'Good' relationship, and one that embodied a more 'Typical' relationship. Each pair of Buyers and Suppliers then completed our Compatibility and Trust (CaT) Assessment.[1]

The CaT is designed to help organizations understand their current levels of compatibility and trust and identify areas of opportunity to improve their relationship. Once trading partners know where they have gaps, they can use the information to consciously close the gaps and proactively work to build a stronger relationship. As part of the research, each trading partner relationship received an individual deep dive CaT assessment. We compiled three reports from the data. The first was a benchmark of the Oil & Gas sector, the second a benchmark of the Utility sector and the third report is this one – which provides a summary of the overall findings across all of the responses for the Energy industry and provides a highlight comparison between the Oil & Gas and Utility sectors.

INSIGHTS FROM THE RESEARCH

The Self-Serving Bias is Real When Evaluating Trust

Our research found the self-serving bias is alive and well when looking at trading partner relationship.

The phenomenon of the self-serving bias is often referred to as the "above-average effect." It is called this because typically well over fifty percent of respondents in surveys rate themselves as above average in areas such as driving, health, and ethics. For

[1] *For detailed information on the CaT Survey, and the research behind it, please reference our White Paper titled "Unpacking Trading Partner Trust" in UT's Vested Library listed above.*

example, one study showed 93% of Americans rate themselves as above average for driving skills.[i] The self-serving bias is explained by the fact the people make judgments that favor themselves and their self-images.

Just how much do trading partners suffer from the self-serving bias? Across the board all Buyer and Suppliers – regardless of whether they are Good or Typical – view themselves fairly positively. In fact, the average self-reported score across a whopping 81% on scale of 1 (not trustworthy at all) to 100 (extremely trustworthy). Simply put, all companies in the study report they themselves are fairly trusting when asked to score their own trustworthiness.

Finding:

Organizations overwhelmingly view their own organizations as having a high degree of trust – regardless of whether they are Buyer, Good Supplier or Typical Supplier.

How Big are the Trust Gaps?

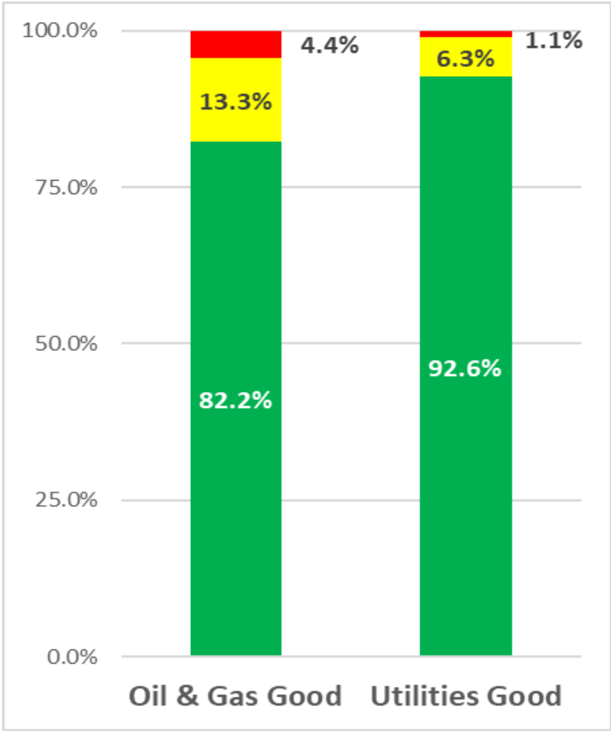
A question researchers wanted to know is what do team members think about their trading partner when it comes to trust? And would there be a big gap between Good relationships and Typical relationships.

Common sense indicates there would be a gap. But it is big and does it matter? The answer is yes – and yes.

As part of the CaT assessment team members were asked to provide three adjectives to describe their relationship. As part of the question they were asked to "score" each adjective on a scale of 1 to 100 with 1 being "very negative" and 100 being "very positive".

The findings are evocative and illustrate the friction that occurs in a trading partner relationship – both in Good and Typical relationship.

Figure 1 – Adjectives – Good



First the good news. Team members were overwhelming positive regarding their Good relationships – using words such as Aligned, Collaborative and Trustworthy to describe Good relationships.

Figure 1 illustrates team members in the Utility sector were much more positive than their peers in Oil & Gas sector using positive adjectives 92.6% of the time versus 82.2% for the Oil & Gas sector.

An interesting insight is that even in the Good relationships some team members reported a sense of frustration. For example, in the Oil & Gas sector team members used negative adjectives such as Complicated, Demanding and Frustrating 4.4% of the time and 1.1% of time in the Utility sector.

Now for the bad news. Researchers believe the findings for Typical relationships should be a warning sign. Why? There is a fairly large gap in how organizations feel about Good relationships versus Typical relationships.

Figure 2 – Adjectives – Typical

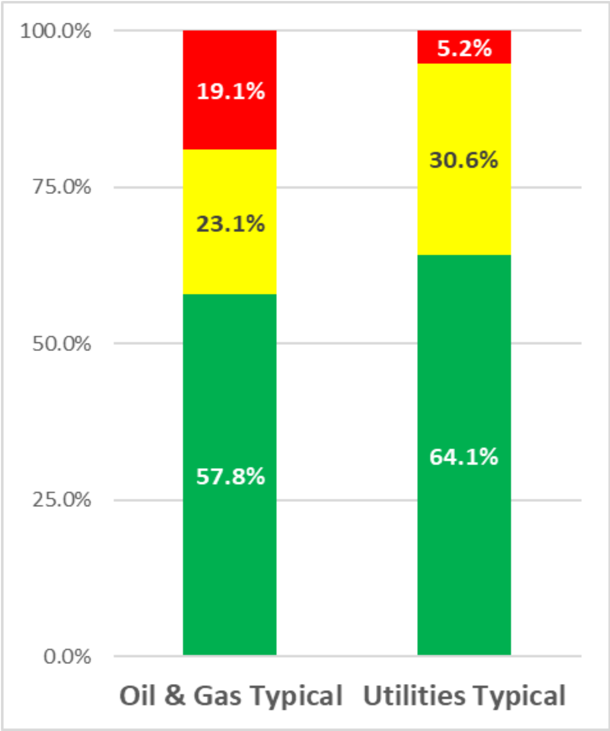


Figure 2 reveals Team members working in Typical relationships were far less positive about their trading partner, with Oil & Gas sector having only 57.8% positive adjectives (compared to 82.2% for Good relationships) and the Utility sector reporting only 64.1% positive adjectives (compared to 92.6% for Good relationships).

This means that team members were lukewarm to negative about their trading partner almost 40% of the time – with the Oil & Gas sector reporting 19.1% of the adjectives being negative and the Utility industry saying their Typical relationships are bad 5.2% of the time. Just how negative? Team members used words like Dysfunctional, Difficult and Demanding when they felt these Typical relationships were not stacking up.

One would think this type of negativity and distrust would only be associated bad relationships. However, the study showed that a lack of cooperation, honesty and trust are rampant among even Typical relationships and sometimes even slips into Good relationships (1.1% of the time in the Utility sector and 4.4% in the Oil & Gas sector).

Figure 3 provides a look at the most commonly used adjectives.

Figure 3 – A Comparison of Adjectives

Negative Adjectives	Neutral Adjectives	Positive Adjectives
• Combative • Difficult • Demanding • Transitional • Dysfunctional • Expensive • Strained	• Frustrating • Distant • Challenging • Confusing • Transactional • Complex • Dependent	• Collaborative • Trustworthy • Cooperative • Professional • Supportive • Reliable • Innovative

There is a significant difference in the positive (and negative) nature of Good relationships and Typical Relationships. Team members report a positive feeling about Typical relationships only about 60% of the time (57.8% for Oil & Gas sector and 64.1% for the Utility sector).

Causes for Gaps In Trust

So what are the core drivers of trust (and likewise distrust). Dr. Karl Manrodt and Dr. Jerry Ledlow identified five factors that enable (or deteriorate) trust in trading partner relationships. These dimensions are:

Figure 4: An Overview of Each Dimension

• ***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.
• ***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.
• ***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.
• ***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 embrace continuous improvement and transformation efforts.
• ***Trust*** is the consistency of performing to promise and meeting commitments. Without performance, trust cannot exist.

A key diagnostic of the CaT assessment is an "Index" score. The CaT Index is calculated by penalizing a trading partner relationship when there are large perception gaps between the parties. In essence, the larger the perception gap, the more the CaT Index score is reduced.

Figures 5 & 6 compare the CaT Index scores for Good vs. Typical relationships across the five dimensions. The green bar represents the CaT Index for Good supplier relationships, and the yellow bar represents the CaT Index for Typical supplier relationships. The **Figure 5** is Oil & Gas sector and the **Figure 6** is Utilities sector.

Once again the data confirms common sense: in all cases, the Good relationships scored higher than the Typical relationships.

Figure 5 – CaT Index Scores – Oil & Gas

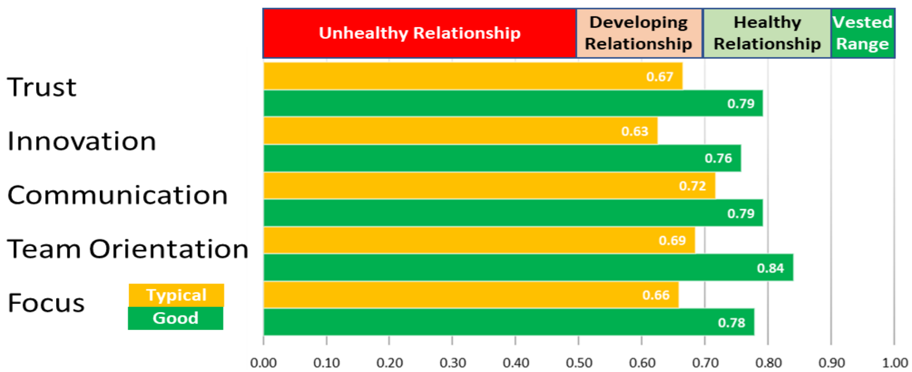
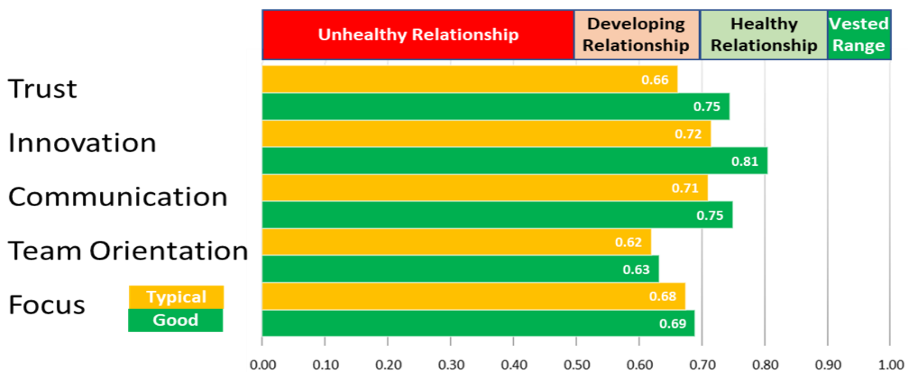


Figure 6 – CaT Index Scores – Utilities



What is interesting is comparing the Oil & Gas sector to the Utilities sector. The gaps between Good and Typical are much higher for the Oil & Gas sector.

Findings:

Good Suppliers outperform Typical Suppliers across every dimension in compatibility and trust, with the gaps being much higher in the Oil & Gas industry with an average gap of 15.5%. Team Orientation and Innovation have the highest gaps in the Oil & Gas sector and Trust and Innovation have the highest gaps in the Utilities sector

In addition to the quantitative questions, the survey asked respondents to provide answers to open-ended questions on how the trading partners could improve trust in their relationship. Across the board, both Good and Typical partners are seeking to improve their relationships which is a good sign. However, in Typical relationships team members reported wants and needs more basic in nature versus aspirational in nature. For example, Good relationships usually focus more on maximizing the opportunities (e.g., “my viewpoint is to take this from good to great” versus voicing concerns about their partners and feeling the opportunities were limited (e.g., “improvement will be incremental”).

Technology’s Impact on Trust

SAP – being a leader in technology – was keen to understand if technology affected trust levels between Buyers and Suppliers. We added three open-ended questions to determine the impact of technology on their relationships. These questions were:

- How does technology improve the relationship?
- How does technology weaken the relationship?
- How could technology improve the way you interact with your partner?

Respondents were overwhelmingly positive about how technology benefits relationships with 84% percent of respondents indicating that technology improves their trading partner relationship. Most comments cited efficiency-related causes for how technology improves their relationship.

While respondents were positive about technology, when asked how technology weakened trading partner relationships the responses were much more mixed. The majority of reasons cited for why technology weakened their relationship focused on the fact that technology reduces face-to-face interactions with their trading partner. While technology may drive efficiencies (viewed as a positive), the lack of face-to-face human interaction was seen as a negative impact on the party's relationship.

Because there is a trust gap even with the Good relationships, it is important trading partners consciously focus on trying to improve face-to-face communications. For example, trading partners should make sure they have face-to-face Quarterly Business Review meetings and should try to have team building meetings – especially for strategic supplier relationships.

The last technology question asked the trading partner team members how technology could improve the way they interacted. In analyzing these open-ended questions, we separated the responses according to the five dimensions of a CaT Assessment. **(Figures 7 and 8** on the following page).

Figure 7 – Oil & Gas

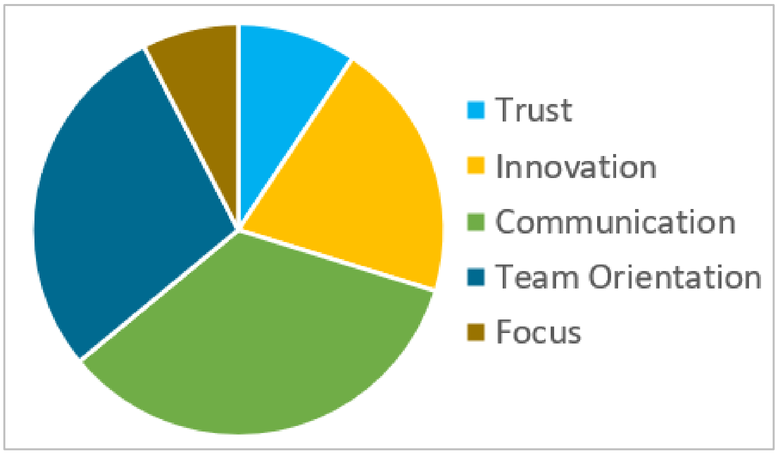


Figure 8 – Utilities

In all cases, the respondents sent a clear message that technology clearly helped the teams work closely together to achieve their goals. For both Oil & Gas and Utilities, survey respondents indicated technology had the biggest opportunity to impact trading partners **communications** (41.6% for Utilities and 34.2% for Oil & Gas).

Team members indicated the next highest impact areas were ***Innovation*** and ***Team Orientation*** with respondents in the Oil & Gas sector ranking ***Team Orientation*** (28.4%) and ***Innovation*** (20.4%) while team members in the Utilities sector flipped their priorities putting ***Innovation*** (18.5%) first and then **Team Orientation** (16.2%).

Finding:
Respondents are encouraged about the efficiencies technology can have. However, they believe technology has reduced their face-to-face interaction and view

CONCLUSION AND NEXT STEPS

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 the Compatibility and Trust (CaT) assessment to measure trust levels within business relationships.

This latest phase of our research set out to do a deep dive into the Energy industry to determine if there are gaps in compatibility and trust between an organization's "Good" suppliers and their "Typical" suppliers.

On the surface the research validates the obvious: Good supplier relationships outperform Typical relationships. But the real findings are when you go deeper and look at the qualitative data. There is a large gap in how organizations feel about Good relationships versus Typical relationships. For example, team members working in Good relationships in the Oil & Gas sector used mostly positive adjectives (82.2%) such as Aligned, Collaborative and Trustworthy to describe their relationship. On the other hand, team members were often quite frustrated with their Typical relationships and only used positive words describe their Typical relationships only 63.5% of the time. Instead, they used words like Frustrating, Restrictive and Distant and in 19.1% of the cases they used really negative words such as Difficult, Strained and even Dysfunctional.

Across the board, there is a desire to improve the trading partner relationships in both Good and Typical relationships. However, in Typical relationships the wants and needs seem more basic versus aspirational improvements. For example, Good relationships tend to focus more on maximizing the opportunities "my viewpoint is to take this from good to great" vs. voicing concerns that both companies have about their partner "improvement will be incremental".

Last we explored how technology impacts trust. Interestingly, the Oil & Gas sector reported that 85% of the responses were positive with regard to how technology is helping their partnership, yet only 53% of Utility sector respondents viewed technology as enthusiastic. In both sectors, technology is seen as a vehicle for streamlining operations. However, it is also seen as an inhibitor to trust because companies are replacing face-to-face communications with digital interfaces. The learning is that organizations should focus on how to bring out the best of the best of both.

The bottom line? It is your bottom line.

Our research shows compelling evidence there is a significant difference in trust levels between a buying organization's Good supplier and Typical supplier relationships. The gaps in trust create frustration, which increases friction and leads to significant negative energy transaction costs in the relationship.

ACKNOWLEDGMENTS

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ABOUT SAP

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.

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ABOUT THE AUTHORS

Kate Vitasek is an international authority for her award-winning research and Vested® business model for highly-collaborative relationships. She is the faculty member at the University of Tennessee's where she leads the UT's Certified Deal Architect program. She has written seven books and over 300 articles in publications including *Harvard Business Review*, *Forbes, Chief Executive Magazine*, *Information Week*, *CIO Magazine* and *World Financial Review*. She has also appeared on *CNN International*, *Bloomberg*, *NPR*, and *Fox Business News*.

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.

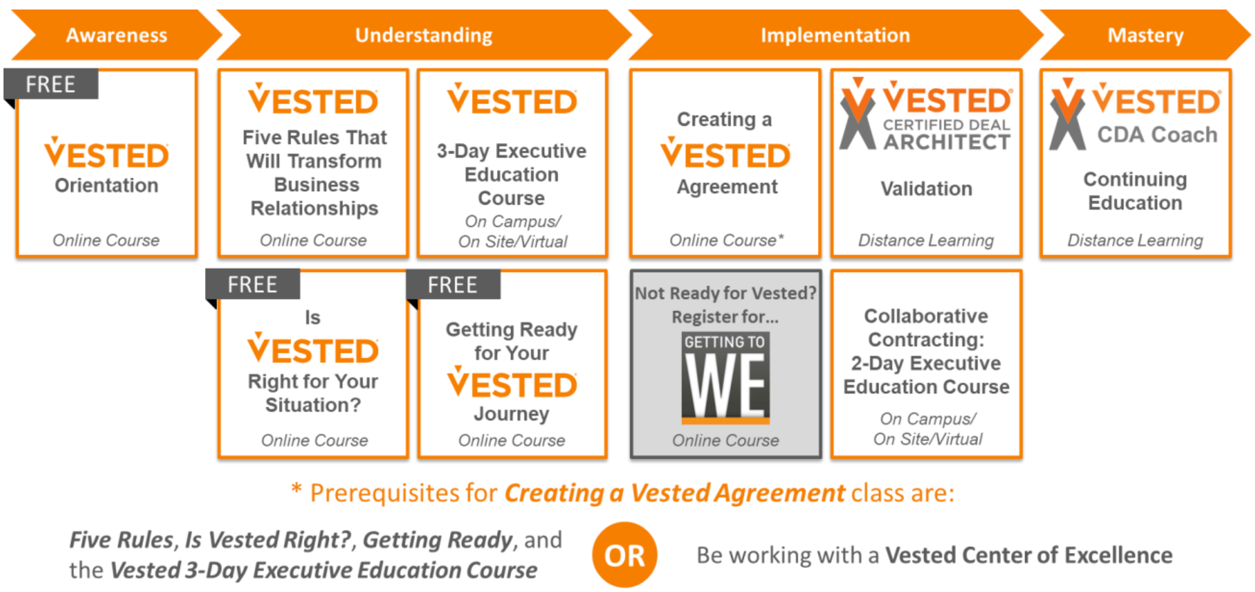
FOR MORE INFORMATION

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.

WHY | WHAT | HOW | WHEN | NEGOTIATE THE RELATIONSHIP | TELLS THE REAL STORIES

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.](http://www.vestedway.com/books)

For those wanting to dig deeper, visit the University of Tennessee's website dedicated to the Vested business model at http://www.vestedway.com/ where 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 papers and resources. For more information, contact kvitasek@utk.edu.



Ask a Faculty Member About How to Conduct a CaT Assessment

Learn first-hand the value of a CaT Assessment with one or more of your suppliers.
CaT assessments cost $2500 per supplier relationship and are typically split between the buyer and supplier. For more information, contact kvitasek@utk.edu.

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To learn more about Vested, visit the University of Tennessee's dedicated website at www.vestedway.com

[i] Ola Svenson. "Are We All Less Risky and More Skillful Than Our Fellow Drivers?" *Acta Psychologica*, Vol. 47, No. 2 (February 1981), pp. 143– 148. Available at https://www.sciencedirect.com/science/article/abs/pii/000169 1881900056?via%3Dihub. Also see, "Do Most Drivers Really Think They Are Above Average?" *Smith Law Office*, December 13, 2017. Available at https://www.smithlawco.com/blog/2017/december/do-most-drivers-really-think-they-are-above-aver/. Katia Hetter, "I'm the good driver, you're the bad driver," *CNN* , August 22, 2011. Available at https://www.cnn.com/2011/ 08/22/living/good-bad-drivers/index.html.
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