When Trust Fails / Operating with Local Partners in High-Risk Environments

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Executive Summary

Like many companies operating in high-risk regions around the world, the global logistics company (hereafter referred to as “GLC”) discussed in this case faced a critical decision when confronted by crisis as it scaled up operations in Afghanistan. Specifically, the company had to decide how to proceed when a seemingly trusted partnership with a local entity failed, forcing the company to make a tradeoff between financial stability and corporate credibility.

When GLC’s Afghani partner inexplicably stopped fulfilling its obligation to the company in a way that threatened the GLC’s survival going forward, the company was compelled to make an immediate decision that required making a difficult compromise between its solvency and reputation. From this experience, GLC learned a tough lesson in the non-negotiable factors that are required for successful operations in high-risk environments, developed effective policies for working with local partners, and utilized its experience to make important human resource decisions.

Companies or managers currently working in or looking to expand into high-risk regions will undoubtedly find GLC’s immediate and ongoing crisis response invaluable to their efforts. The company has compiled a set of concrete lessons learned that are immediately transferrable to any corporation working in such regions, the primary one being the importance of establishing relationships with multiple partners in order to minimize operational risk in volatile environments.

Background

Spun off from a private military and security contractor in 2010, GLC specializes in package and freight delivery to warzones and other high-risk environments around the world. The company is headquartered in the United States but maintains a corporate presence in many of the world’s more volatile and underdeveloped regions, including the Af-Pak (Afghanistan-Pakistan) region and other parts of Central and Southwest Asia, East Africa, North Africa and the Middle East, Eastern Europe and the Caspian Basin, and West Africa. Currently, GLC’s sales are split approximately evenly between U.S. government (including military) and commercial clients, with Afghanistan representing the “meat and potatoes” of the company’s business. GLC expects this to trend to shift, however, as American military presence in Afghanistan winds down, and thus it has directed significant attention toward building its portfolio of commercial contracts, particularly in Africa.

Despite the fact that the market has demanded the type of service that GLC provides for some time, companies have been reluctant to fill this void because they perceive that the risk is simply too high. However, GLC believes that it has developed a business model that enables it

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1 The company discussed in this paper has requested anonymity.
to consistently deliver for clients in some of the world’s most volatile and remote regions. Specifically, it operates as a partnership between westerners and local nationals, sending westerners, armed with both in-depth knowledge of management practices and state of the art communication devices such as tablets and smartphones, directly into the areas in which it operates, thereby enabling them to manage the outcome of GLC’s specialized freight deliveries. These employees impart on local nationals best practices and help them to understand the implications of the company’s mission, while for their part, local nationals play a vital role in navigating the complex environments in which GLC operates.

GLC has experienced explosive growth since its inception. In 2010, it made a $100 profit on its first sale, a $723 contract in Afghanistan. Within a few short months, it had landed a $2.2 million contract, on its way to earning revenues of $10 million in 2011, its first full year in operation. However, this dramatic growth has not come without growing pains and challenges, the most salient being the tough lessons that GLC has learned about operating in high-risk environments where cash is king, relationships only take you so far, and you can’t trust anyone but yourself.

Forcing Event

GLC is fortunate that its leadership team had previously worked in Afghanistan as employees of the private military and security contractor from which the company spun off. As a result, when GLC expanded into Afghanistan, it leveraged this experience to build relationships with a multitude of local vendors and create an initial network of local partners that provided support for the company’s freight delivery services. After several months, however, GLC identified a single partner that appeared to share the company’s goals and work ethic more than the others. Upon determining that the relationship was an ideal fit, GLC decided to collaborate exclusively with this partner and from that point did not employ other vendors to support its transportation and delivery operations in Afghanistan.

For the first few months of the exclusive partnership, operations went very smoothly, with the partner playing a key role in ensuring the safe and timely execution and delivery of GLC’s freight contracts. Then, in June of 2011, the partner inexplicably stopped moving a shipment of cargo that was part of contract that GLC had with the U.S. Army, abandoning it in a remote and lawless part of the country. At the time of the incident, GLC could offer few explanations for why this had occurred. However, when the partner approached the Army in an effort to steal GLC’s contract (informing the Army that only the partner – and not GLC – was capable of delivering the cargo), it became clear that the partner was motivated by what it perceived as an opportunity for a financial windfall from the incident. While the Army did not view the partner’s offer as credible, the incident significantly undermined its impression of GLC as a trusted business partner. The Army made it very clear that it would not put up with this type of drama, demanded that GLC get its house in order, and ceased to employ GLC’s services for the next five months.
For GLC, this incident was jarring, to say the least. Not only had the company been betrayed by its trusted local partner, but the U.S. Army, its biggest client, was questioning whether or not GLC was capable of completing this or any other job in the future. This was a precarious situation for a young company that depended on each and every contract it had earned to sustain itself.

Response: how did GLC address the situation?

GLC’s response to the abandonment of its cargo and more broadly to ensuring the effectiveness of its operations going forward falls into three primary categories:

- **Crisis response**: Identify the options for rectifying the problem and weigh them against their longer-term implications for the company. Specifically, which is the lesser of two evils: risking the company’s financial security or corporate reputation?
- **Partner relations**: Develop policies for managing partnerships going forward, in order to prevent a similar crisis from occurring in the future.
- **Human resources**: Observe the response of team members to the crisis and make human resource decisions to best support the business going forward.

**Crisis response**

GLC was left with two unpleasant alternatives to respond to the crisis and ensure the delivery of the Army’s cargo. Its first option was to risk insolvency by committing any and all resources to making good on the contract. This option would have major implications for the company’s continued growth. At the very least GLC would struggle to move forward with various projects the company had begun to pursue, including a client data portal, new office, and various research and development initiatives. Even worse, GLC feared that choosing this option would render the company unable to meet basic operational expenses, including payroll, which could have dire consequences for the short- and long-term health of the company.

GLC’s second option was to step aside and cede the contract to a different vendor for fulfillment. In other words, the company would tell the Army that it was unable to complete the contract and hope that both the Army and GLC’s other clients, who would inevitably hear about the incident, would understand and continue to contract with GLC. This represented a huge reputational risk for the company and GLC wondered if it would ever reclaim the trust of its clients if it failed to personally deliver on this contract. In particular, it feared that clients would perceive that this incident had weakened GLC and question whether or not they should continue to put their trust in its ability to deliver in high-risk environments.
GLC’s leadership instinctively knew the decision that needed to be made. In an industry in which companies live and die by their reputation and credibility, to fold this hand and cede the contract to another outfit would be the equivalent of sounding the death knell for GLC. Clients would never fully trust the company with their cargo if GLC failed to deliver in this instance. Determined to maintain the impression that the company was as strong and trustworthy as ever, the leadership decided to proceed full bore and expend all necessary resources to make good on the contract, even though this meant risking the company’s very existence.

GLC immediately moved forward to ensure the delivery of the cargo. Although it had other vendor contacts in Afghanistan that it knew were capable of completing the delivery, word of GLC’s predicament had made the rounds and these vendors, many of whom had previously developed good relations with GLC, did not hesitate to take advantage of the company’s vulnerability. They moved slowly, used their lowest quality trucks, and, worst of all, charged astronomical rates. In the end, the delivery was completed, albeit one month late and at an additional cost of $1.3 million. Fortunately, GLC was able to weather this storm without trimming its staff or significantly impacting its core operations, in large part because the CEO decided to forego his salary for several months and the company cut back on several initiatives. Ultimately, GLC closed 2011 with approximately $60 million in contract commitments for 2012, a figure six times greater than the company’s revenue in 2011. This was a remarkable feat given what GLC had gone through in Afghanistan just a few months earlier.

Partner relations
The crisis forced GLC to reevaluate and alter its relationships with local partners throughout the world. The company realized that relying on a sole service provider is detrimental because it gives the partner excessive control in its relationship with GLC and over the fulfillment of each contract. In this way, the crisis fundamentally changed the way that GLC conducts business at the country level. The company has instituted a policy that requires the utilization of multiple partners in every location in which it operates, and it clearly communicates this policy to every partner so that they are aware that GLC has alternatives. Furthermore, when it enters a new market, the company strives to establish multiple partnerships as quickly as possible, but at the same time is committed to vetting each partner very carefully. Finally, while GLC rewards partners who perform well by awarding them more business, it takes caution to never rely too heavily on a single partner.

Human resources
In response to the crisis, GLC also made some difficult human resource decisions in order to best support the company’s mission going forward. Although a vast majority of GLC’s employees performed exceptionally well in response to the crisis, there was a small contingent
that failed to meet expectations. This group included a few employees on the management team who had preferred to cede the contract to another firm for fulfillment and subsequently failed to fully support the decision to make good on the contract as the crisis unfolded. As a result of that experience, GLC realized that it was critical for all employees to be on board with the type of high-level decisions that the leadership team had made in response to the crisis. Ultimately, GLC terminated the employment of its Chief Operating Officer and two other employees, based in large part on how they responded to this incident. For GLC, the crisis turned into an opportunity to refine its team in order to most effectively support operations going forward.

**Evaluation**

Upon reflection, GLC feels that it made all the right decisions in navigating the company through a crisis that seemed insurmountable at times. In particular, GLC is confident that the decision to expend the fledgling company’s limited resources to ensure that it fulfilled its contract with the U.S. Army, even at the risk of insolvency, was the right decision to make. In an industry where reputation is everything, ceding the contract to a competitor would have cost GLC its credibility and threatened the company’s future survival to an even greater extent. In addition, GLC is pleased with the partnership framework that resulted from the crisis and continues to develop strong relationships with multiple vendors in each country where it operates. The new policies have allowed GLC to utilize its relationships to receive more favorable terms and improved service from its partners. Finally, GLC is extremely proud of its current workforce, which demonstrated a strong commitment to the company during the crisis and continues its strong support of the company’s mission. The incident allowed GLC to observe the types of employees that are the right fit for the company, information it continues to leverage when making human resource decisions.

**Conclusion: advice for country managers**

From this crisis, GLC learned valuable lessons that will undoubtedly be of assistance to other managers operating in high-risk environments.

- **Build relationships with multiple local partners:** The importance of protecting one’s company by establishing relations with multiple partners to turn to in both prosperous and challenging times cannot be understated. Without these relationships, companies risk being taken advantage of at best, or facing a crisis situation at worst.
- **Prioritize the protection of corporate reputation and credibility:** Reputation and credibility are critical success factors for companies that operate in high-risk
environments. In particular, the perception of strength is essential for clients to have confidence in a company’s ability to deliver in settings where few companies are capable of doing so. GLC is convinced that it would not be where it is today had it sacrificed its credibility in response to the crisis.

- **Personal relationships will only take a company so far – cash is king:** While establishing personal relationships is vital for commercial success in many emerging markets, the ability to offer local counterparts something of tangible value at any given moment is far more important. In Afghanistan, GLC built relationships with local players and accomplished a great deal over a handshake and a cup of tea, but when the company was in crisis, those players did not hesitate to take advantage of the situation to reap financial gains. This is not an ethical judgment but rather a reflection of the extraordinarily uncertain environments in which many local partners live and operate.

- **Companies operating in high-risk environments can never prepare enough:** It is critical for companies operating in volatile regions of the world to familiarize themselves with their environment, including its customs and the various players involved, and to never cease investigating and learning about their local surroundings. GLC knew that Afghanistan would be a difficult place to operate, but the company was nonetheless taken aback by the challenges it confronted months after entering the market.

- **Assemble the right team:** Not everyone is suited to work for a company that operates in high-risk environments. Leadership will inevitably have to make tough decisions at times, and although not every employee may fully agree with those decisions, every employee must fully support them. It is critical that managers in such companies pay close attention to the manner in which their employees respond to stressful events and make any necessary personnel changes in a timely manner.