

Drivers and barriers to adopting relational contracting practices in public projects: Comparative study of Beijing and Sydney



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Received 14 January 2013; received in revised form 8 April 2013; accepted 16 April 2013

Abstract

When contracting parties adopt relational contracting (RC) as opposed to formal contracting stance, the construction project may achieve good outcomes. However, public projects usually face more constraints in adopting RC, as close relationships may lead to allegations of corruption. The aim of this study is to undertake a comparative analysis of drivers and barriers to adopting RC practices in public construction projects in two different markets viz. a centrally planned economy and a free market economy by investigating practices in Beijing and Sydney. The survey research design was adopted and data of public construction projects in Beijing and Sydney were collected using a structured questionnaire. The results revealed that relationship quality and level of harmony among contracting parties are significantly good in both cities. In Sydney, the level of inter-personal relations between contractors and consultants is significantly higher than in Beijing. It was found that the same 18 factors drive contracting parties in Beijing and Sydney to adopt RC practices, and in 6 instances, these are significantly greater drivers in Sydney. The barriers to adopting RC practices are totally dissimilar in both cities. Contracting parties in Beijing could not adopt more RC practices because of a lack of training in relational arrangement and public clients lack initiative in adopting RC practices. The conservative industry culture that encourages preservation of the status quo is also prevalent in Beijing. In Sydney, the only significant barrier is public sector accountability concerns. To cultivate readiness to embrace RC practices, it is suggested that industry professionals and the government adopt recommendations highlighted in this study according to the type of market structure.

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Keywords: Project outcome; Performance; Relational contracting; China; Australia

1. Introduction

In the construction industry, the practice of adopting adversarial contracting approaches and the pursuit of individual company gain have produced a less efficient industry with criticisms relating to low productivity and innovation (Egan, 1998; Kumaraswamy et al., 2010). The poor delivery of clients' objectives has been traced to the incompetence of stakeholders to engage cooperatively (Colledge, 2005).

Cooperative engagements suggest that parties need to develop close relationships.

Relationships between multiple project team members can be based on formal contractual liaisons, relational links or a combination of each. In a formal contract, parties usually act in an atomized manner, looking out for their own personal interests (Williamson, 1975). On the other hand, relational contracting (RC) embraces and underpins different approaches that establish working relationships between the parties aimed at win–win situations for all (Sanders and Moore, 1992). RC allows mutual future planning and considers contracts to be relationships among the parties, in the process of projecting the

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exchange into the future (Macneil, 1974). RC practices such as collaborative working arrangements are expected to be adoptable in private sector projects.

On the one hand, contracting parties in public sector projects need to maintain arm's length relationship with each other to avoid allegations of corruption. Moreover, public projects are usually procured through a competitive bidding process and thus public clients have lesser rights to offer future relationships to contractors. On the other hand, greater adoption of RC practices is beneficial as it leads to better project outcomes (Ling and Tran, 2012). Research is therefore needed to find ways to increase the usage of RC, and remove the obstacles to the adoption of RC practices in public projects.

The aim of this study is to undertake a comparative analysis of drivers and barriers to adopting RC practices in public construction projects in a centrally planned market and a free market economy represented by Beijing and Sydney respectively. The specific objectives are to: identify relationship quality among contracting parties; investigate if there is significant difference in relationship quality in both markets; identify significant differences in drivers and barriers to adopting RC practices in the two markets; and offer recommendations on how to increase adoption of RC practices in the two different markets.

International architectural, engineering or construction (A/E/C) firms would be interested in China (represented by Beijing in this study) because it is the world's second largest economy and its construction industry has achieved healthy growth and development in the recent years (Tai et al., 2009), making it a likely market destination for international A/E/C firms. Non-Chinese international A/E/C firms with the intention to enter China's construction market are likely to be familiar with an open market economy. To inform them of how different it would be to operate in China, Australia (represented by Sydney) was used to contrast the findings from China because it has a free market economy.

As both China and Australia are large countries in terms of geographical spread, Beijing and Sydney were selected for in depth study. Beijing was chosen because it is China's capital and is the epitome of a centrally planned economy. Sydney was chosen to represent a free Western market economy.

The comparative study between Beijing and Sydney may inform A/E/C firms of how different types of markets shape the motivating and impeding factors that influence RC adoption in public projects. With knowledge of the specific drivers and barriers in different markets, A/E/C firms may be able to implement RC practices successfully in the respective markets.

2. Definitions

Yeung et al. (2012) differentiated between relational contracting (RC) and relational contract. RC is a philosophy or a set of principles that are adopted in a contract. RC is defined as the working relationships among the parties who do not often follow the legal mechanism offered by the written contracts, and instead govern the transactions themselves within mutually acceptable social guidelines (Macaulay, 1963). RC focuses on trust and partnership (Colledge, 2005). Rahman and

Kumaraswamy (2004, 2005) found that RC provides the means to sustain ongoing relations in long and complex contracts by adjustment processes of a more thoroughly transaction-specific, continuous and administrative kind. Some examples of RC practices include having flexibility when situations change, compromising on unclear issues, sharing project information and solving problems jointly.

Relational contract is a contract containing elements of RC (Yeung et al., 2012). The types of relational contracts include project partnering (CII, 1991), strategic partnering (Bennett and Jayes, 1998), project and strategic alliances (Walker et al., 2002), public private partnership and joint ventures (Palaneeswaran et al., 2003). It is a set of contracting principles that provides an alternative for people carrying out transactions to cooperate and implement specific measures in the contract especially in times of uncertainty and complexity (Macneil, 1974). A relational contract is a sub-set of RC practices.

This study focuses on the drivers and barriers to adopting RC practices in public projects in China and Australia, represented by Beijing and Sydney respectively.

3. Market structures of China and Australia

China maintains a centrally planned economy, also called authoritarian capitalism (McGregor, 2012) where the state directs and controls a large share of the country's economic output. The Chinese government usually controls and assigns construction works to nominated construction enterprises in its centrally planned economy (Liu and Low, 2007) through administrative orders (Zhang, 2003).

Australia operates a free market economy. Individual consumers and businesses act in their own rational interests while producers produce what consumers need and want (Bollen, 2007). Its government has a policy of *laissez-faire*, where there are not many laws and regulations to control businesses. The open market competition in Australia encourages economic benefits in its building and construction industry, which plays a significant role in the economic prosperity of the country (Nitschke, 2010).

The economies of China and Australia present two poles, and hence a comparative study of the drivers and barriers to adopting RC practises could inform A/E/C firms of unique challenges when operating in different markets.

4. Drivers for adopting RC practices

The motivating factors that may lead to the adoption of RC practices were identified through literature review. They are classified into 5 constructs and are reviewed below.

4.1. Better cost outcome

Studies have shown that desiring better cost outcome drives the adoption of RC. Better cost outcome involves the reduction of: total project cost; cost of changing partners; and risks. Reducing total project cost can be achieved by cooperating with partners to share development costs and technologies (Akintoye

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