



Trust influencing factors in main contractor and subcontractor relationships during projects

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Abstract

Trust is crucial for achieving optimum benefits from supply chain integration and collaboration in the construction sector. Yet relationships between main contractors and subcontractors continue to be influenced by issues that promote vicious circles of distrust. This research investigates the trust influencing factors in main contractor–subcontractor relationships on projects. Empirical data was gathered from across four case studies through semi-structured interviews, non-participant observations and document reviews, and analysed using thematic analysis. Findings revealed that the change management process, economic climate, payment practices, perceptions of future work opportunities, job performance and the project-specific context influence trustfulness and trustworthiness of the different parties. The findings also imply that stronger trust in the main contractor's supply chain can only be realised and sustained through promotion of trustworthiness-induced rather than benefit-induced trustfulness. © 2015 Elsevier Ltd. APM and IPMA. All rights reserved.

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1. Introduction

Relationships between main contractors and subcontractors continue to be influenced by problems such as unfair and late payments, poor health and safety (H&S) standards and substandard workmanship (Arditi and Chotibhongs, 2005), all of which contribute to the lack of trust on projects (Dainty et al., 2001). However, inter-organisational trust in project-based environments continues to be linked with reductions in transaction cost as a result of lesser dependence on powerful and costly control systems (Zaghloul and Hartman, 2003). Due to the high uncertainties in project based environments, firms are also able to respond to new information and approach work in a flexible manner when relationships are driven by trust, thus

contributing to significant time and cost savings (Swan et al., 2002). Project actors are also less likely to withhold information deliberately and act against the interest of the overall project when relationships are trust driven, hence resulting in open and reliable flow of information (McDermott et al., 2004).

Establishment of trust in construction can however be a daunting task (Wong et al., 2005) and difficulties in securing optimum benefits from supply chain integration and collaboration efforts in the UK construction sector have mostly been attributed to deficiencies in trust (see Akintoye and Main, 2007; Akintoye et al., 2000; Dainty et al., 2001). Whilst trust remains essential for achieving flexibility and ensuring that information flows reliably throughout the supply chain (Swan et al., 2002), challenges still persist as to how trust-based collaborative relationships can be realised and sustained, particularly between main contractors and subcontractors. There continues to be a lack of in-depth understanding about the main issues that undermine trust between main contractors and subcontractors as well as how these can be overcome. For example, there are still debates as to

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how to promote fair payment practices in the UK construction supply chain — a persistent source of distrust in main contractor–subcontractor relationships (see CIOB, 2014; Nichol, 2014).

Despite the trust-related problems that manifest in main contractor–subcontractor relationships, subcontracting still continues to account for between 70 and 90% of construction works by contract value (Chiang, 2009; Hartmann and Caerteling, 2010). Thus interest on how construction supply chains can be collaboratively managed continues to grow, particularly with evidence from the manufacturing sector on how the use of alliance-type arrangements has enhanced business performance (Love et al., 2002). Walker (2007) reiterated the need to integrate both upstream and downstream firms that contribute to the construction process and in particular, making it possible for subcontractors and suppliers to contribute to design, programming and other areas of collaboration. Similar performance improvement targets and visions have also been set for the construction sector in the UK, with the Construction 2025 Strategy Report advocating that future growth opportunities can be exploited through early engagement of the supply chain in design development and collaboration through building information modelling (BIM) implementation (Department for Business Innovation and Skills, 2013a,b). However, for these industry visions to be fully realised, a trust-based collaborative environment is required to facilitate high levels of information sharing and to secure commitments of the supply chain from the very early stages of a project. Hence, significant research attention is still required on how to achieve trust-based collaboration in the construction supply chain.

Currently, much of the empirical research work on trust is dominated by a focus on improvements in client and main contractor relations through the use of collaborative procurement procedures and contracts (Eriksson and Laan, 2007; Laan et al., 2011; Pinto et al., 2009; Wong et al., 2005), with limited empirical synthesis on trust development at the main contractor and subcontractor interfaces of the construction supply chain. This study therefore sought to interrogate this important line of empirical inquiry. The main objective was to explore the factors that influence trust development in main contractor–subcontractor relationships, and to identify strategies that could help improve upon trust-based collaboration within this context of the construction supply chain. To achieve this objective, literature on subcontracting in construction and the concept of trust and its development are firstly reviewed. Based on these reviews of the literature, a research question is posed on the key issues that influence inter-organisational trust development between main contractors and subcontractors on projects. This is followed by an account of the research methodology and empirical findings that provide basis for drawing conclusions to the study.

2. Subcontracting and its ramifications

Data from the UK construction statistics annual (Office for National Statistics, 2013) indicates that out of the 247,105 construction firms that were registered in the UK in the third

quarter of 2012, only 2.1% employed more than 25 personnel, with 17.3% operating as sole ownership firms whilst another 36.7% employed only one personnel. This demonstrates the extent to which the UK construction sector in particular is heavily reliant on small firms that often find work as subcontractors under a main contract. This entrenched nature of subcontracting in the construction sector is partly due to the specialist nature of most construction works (Yik et al., 2006) and the strategic choice by large construction firms to emphasise flexibility as a source of competitive advantage (Winch, 1998). Manu et al. (2013b) indicated that the reasons for prominence of subcontracting practice in construction are the ability to fine-tune labour flexibility, bargain down labour cost, encourage quicker completion of tasks, externalise less rewarding and dangerous activities, transfer financial risk, avoid workers' compensation cost, and rapidly meet changing product market demands. Despite the undisputed contribution of subcontracting to organisational and managerial flexibility as well as provision of specialised services, the management of relationships between main contractors and subcontractors during projects can be quite complex and problematic.

Traditionally, price has been the main mechanism for coordinating transactions between contracting parties although this transaction approach is often challenged because it ignores social and relational aspects of the transaction process (Kale and Ardit, 2001). According to Kale and Ardit (2001), firms become socially embedded in ongoing transactions as a result of relational experiences that develop over time. These prior relational experiences promote the diffusion of information about qualities and probable behaviour of an opposite party in a transaction, and hence serve as a safeguarding mechanism as to which parties should be avoided or selected. The already established routines, trust, values and relational norms also contribute to inter-organisational learning, which enhances coordination of the transaction (Kale and Ardit, 2001). Main contractors would therefore have to carefully arrive at a trade-off in the priorities they place on either price-driven (market) or trust-driven (relational) governance mechanisms during transactions with subcontractors (Hartmann and Caerteling, 2010).

Cox and Ireland (2002) argue that to select from a range of relationship management choices available to firms in the construction supply chain, the power circumstance between buyers and suppliers would have to be properly understood. Whilst the natural tendency would be to manage discrete transactions with arms-length relationships that are price driven, the shift towards long-term collaborative relationships would be determined by the extent to which parties have to work closely together to maximise profit or satisfy other alternative goals (Cox and Ireland, 2002). The extent to which the product or service is standardised or commoditised, number of alternative suppliers available to the buyer, number of alternative buyers available to the supplier, switching costs for both buyers and suppliers and the level of information asymmetry advantage that one party has over the other; are all factors that determine the power position of a firm in the supply chain. Based on a firm's power position, the most economical

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