



# Impact of quality performance ambiguity on contractor's opportunistic behaviors in person-to-organization projects: The mediating roles of contract design and application

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## Abstract

Contracts are critical for managing projects. However, studies increasingly found that contracts, albeit well written, might not be thoroughly implemented. This study aims to examine the impact of quality performance ambiguity on contractor's opportunistic behaviors in person-to-organization projects and to investigate the mediating role of contract design and application. A questionnaire-survey of 265 dwelling fit-out projects was undertaken in China. The results showed that quality performance ambiguity has great impacts on project development as it hinders detailed contract drafting, results in ineffective contract application and leads to opportunism. The mediation results showed that contract application rather than the written contract mediates the effect of quality performance ambiguity on contractor's opportunistic behaviors. Thus, it is recommended that project managers should pay attention to project characteristics and the gaps between the design and application of contracts in project management.

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## 1. Introduction

Opportunism is a significant barrier to project success. Opportunism may increase transaction cost and inhibit the development of collaborative relationships (Hawkins et al., 2008; Lumineau and Quelin, 2012; Wang and Yang, 2013). Examples of opportunistic behaviors are information distortion and renegeing on explicit or implicit commitment (Jap and Anderson, 2003; Wathne and Heide, 2000).

Agency theory and Transaction Cost Economics (TCE) have been widely adopted to explain the drivers and mitigations of opportunistic behaviors in projects (Zeng et al., 2015). In the agency theory, opportunistic behaviors occur because of divergent preferences and information asymmetry between the client and contractor (Eisenhardt, 1985). In order to mitigate the

opportunism, clients have to collect information to monitor contractor's behaviors and performance (Eisenhardt, 1985). However, when clients face challenges in monitoring or assessing contractor's behaviors or performance, the contractor has the motivation to shirk and fail to perform as agreed (Eisenhardt, 1985). Ambiguity in measuring project performance is one of the significant challenges facing clients.

In addition, contracts should be properly designed and applied, which are useful to align the interests of the client and contractor, control contractor's behaviors and mitigate the risk of opportunism (Eisenhardt, 1985; Williamson, 1985). TCE focuses on the transaction cost that results from the alignment between transaction attributes (i.e., asset specificity, uncertainty and transaction frequency) and governance strategies (Williamson, 1985). The TCE framework has been widely adopted in the project contract design (Chen et al., 2013; Müller and Turner, 2005; Ning and Ling, 2015; Turner, 2004; Turner and Simister, 2001). Turner

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and Simister (2001) argued that one of the most significant purposes to choose an appropriate contract is to reduce the possibility of opportunism by the client or contractor.

However, empirical results on contract-opportunism relations are still controversial. Some studies found that contracts could restrict opportunism (e.g., W. Lu et al., 2016; Poppo and Zenger, 2002) whereas others found no significant relationships (Caniëls and Gelderman, 2010; Lu et al., 2015; Wuyts and Geyskens, 2005). This study seeks to provide a nuanced understanding of the impact of quality performance ambiguity on contractor's opportunistic behaviors in person-to-organization projects and to investigate whether the relationship is mediated by contract design and application.

This study differs from previous research in two ways. First, this study investigates whether contract design and/or contract application mediate the impact of quality performance ambiguity on contractor's opportunistic behaviors. Instead of taking contractual governance as a whole (e.g., Hofenk et al., 2011; Lu et al., 2015), this study asserts to make a distinction between contract design and application (Huo et al., 2016; Roxenhall and Ghauri, 2004; Shou et al., 2016; Wuyts and Geyskens, 2005). Contract design involves detailed contract drafting (i.e., the content of contractual clauses) before the project starts, whereas contract application refers to using the written contract to manage the project during the project execution (Huo et al., 2016; Wuyts and Geyskens, 2005).

Second, this study takes person-to-organization projects as the empirical context (Ning, 2017a), differing from prior studies examining contractual strategies at the inter-organizational level, department or personal level (e.g., Huo et al., 2016). Studies argued that the form of inter-organizational projects has significant impacts on project partners' behaviors (e.g., Sydow and Braun, 2017; von Danwitz, 2017). The person-to-organization project is a variation of inter-organizational projects. In this type of projects, individual clients confront greater knowledge deficiency in terms of project development, contract design and application relative to their organizational partner. For example, in dwelling fit-out projects (i.e., the empirical context of this study), individual clients have little knowledge of dwelling fit-out materials, products and services. Thus, clients might feel helpless to deal with the quality performance ambiguity when they design the contract and to evaluate whether contractors hide or distort the critical information during the contract application.

Quality performance ambiguity is highlighted as it is often accompanied with opportunism in the project execution (e.g., Gray and Handley, 2015). In addition, compared to cost and time control, clients have few tools to control quality performance objectively. In projects that exhibit higher quality performance ambiguity, clients might possibly confront greater difficulties in curtailing contractor's opportunistic behaviors. Thus, this study chooses to examine the impact of quality performance ambiguity on contractor's opportunistic behaviors.

The remainder is organized as follows. Section 2 presents the hypothesis development. The research method is presented in Section 3. Results are presented in Sections 4 and 5. Discussion and Conclusions are shown in the end.

## 2. Literature review and hypothesis development

This study aims to examine the impact of quality performance ambiguity on contractor's opportunistic behaviors in person-to-organization projects and to explore whether the relationship is mediated by the contract design and application. The conceptual framework is shown in Fig. 1.

### 2.1. Quality performance ambiguity and opportunistic behaviors

Quality performance ambiguity might result in opportunistic behaviors in person-to-organization projects. Quality performance ambiguity indicates inherent difficulties in assessing quality performance of the product and service provided by the contractor (Anderson and Dekker, 2005; Gray and Handley, 2015). Three dimensions would contribute to quality performance ambiguity: testability, monitorability and root-cause assignability (Gray and Handley, 2015). Testability refers to the outcome measurability. Low testability indicates the difficulty of defining ex ante and verifying ex post the products procured in the contract (Anderson and Dekker, 2005). Monitorability means the extent to which contractor's behaviors could be observed and monitored by the client. To be enforceable, root cause of any quality defects should be clearly assigned to a specific party. This refers to the root-cause assignability (Gray and Handley, 2015).

High quality performance ambiguity indicates a low level of monitorability, testability and root-cause assignability. Low testability and/or a lack of root cause assignability render great difficulties in linking quality performance to contractor's rewards and attributing quality defects to the contractor side (Ning, 2017a). This may result in shirking of contractor's quality performance. Low monitorability might impede the effectiveness of inspections and checks (Turner and Makhija, 2006), which makes linking observed behaviors to quality performance difficult. Thus, it is hypothesized that:

**H1.** Quality performance ambiguity increases contractor's opportunism.

### 2.2. Contractual governance

#### 2.2.1. Contract and contract-opportunism relations

Contract could be seen as an outcome where parties look ahead, recognize hazards and devise hazard mitigation solutions (Williamson, 1985). It defines roles and responsibilities of the

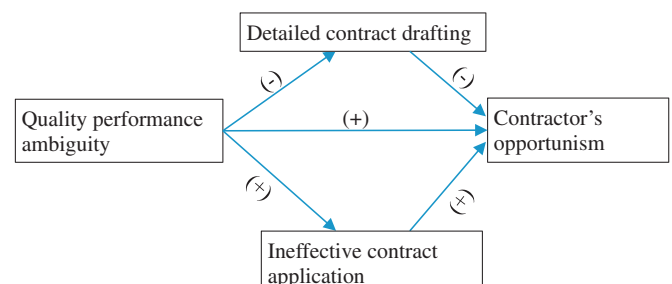


Fig. 1. Conceptual framework.

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