



The effectiveness of contractual and relational governances in construction projects in China

Lu Ping, Guo Shuping, Qian Lamei, He Ping, Xu Xiaoyan *

School of Management, University of Science and Technology of China, Hefei 230026, China

Received 22 March 2013; received in revised form 28 February 2014; accepted 6 March 2014
Available online xxx

Abstract

Based on the transaction cost economics, this article addresses the effectiveness of contractual and relational governances in improving project performance and restricting opportunism in construction. Ten hypotheses are presented. Using data from construction project in China, we adopt Partial Least Squares (PLS) to test and verify our hypothesis. The results show that the contractual and relational governances are important to improve project performance, and these two factors function as complements rather than substitutes. The contractual governance is more effective in improving performance while relational governance is more powerful in restricting opportunism. The opportunism does not have a direct negative impact on project performance.

© 2014 Elsevier Ltd. APM and IPMA.

Keywords: Construction project; Contractual governance; Relational governance; Project performance; Opportunism

1. Introduction

For a long time, the low efficiency and poor performance in construction industry have been perplexing the practitioners and researchers (Briscoe and Dainty, 2005; Cox and Ireland, 2002; Love et al., 2004; Bankvall et al., 2010; Vrjhoef and Koskela, 2000).

In China, the profit rates in construction industry from 2005 to 2011 are 2.62%, 2.87%, 3.06%, 3.55%, 3.54%, 3.55% and 3.56%, respectively (National Bureau of Statistics of China, 2012), which are lower than those in the other industries. The important reason for these problems is the lack of coordination among participants (e.g. Lars et al., 2010; Love et al., 2004), which in turn originates mainly from opportunistic behaviors (Williamson, 1985). According to the transaction cost economics (TCE), some governance mechanisms could prevent opportunism (e.g., Caniels and Gelderman, 2010; Liu et al., 2009; Lui and Ngo, 2004; Williamson, 1981) and significantly enhance operational perfor-

mance (e.g., Lee and Cavusgil, 2006; Poppo and Zenger, 2002).

The mechanisms reported most in the literature can be grouped into two types. One is contractual governance (Lusch and Brown, 1996), which emphasizes the importance of the formal rules of compliance and contracts between transaction partners (Lumineau et al., 2011; Reuer and Ariño, 2007). The other is relational governance (Heide and John, 1992; Lusch and Brown, 1996; Macneil, 1980), which stresses the significance of the relationship among all the partners and the clients. Table 1 summarizes some recent studies in the contractual and relational governances. However, these studies are mainly focused on the developed countries and the industries other than construction.

The effectiveness of contractual and relational governances on performance is not context-free (Jap and Anderson, 2003; Tangpong et al., 2010). Compared with other industries, construction is more complex and has a high degree of fragmentation characteristics (Dainty et al., 2001a, 2001b). A project created by contract could be regarded as a temporary coalition of some firms together with the clients (Winch, 1989). It is temporary, unique and heterogeneous, of short-term orientation and lacks organizational routines. These characteristics pose

* Corresponding author.

E-mail address: xyx204@ustc.edu.cn (X. Xu).

Table 1
Overview of prior literature related to governance strategies.

Authors/years	Focus	Country/type of exchange	Survey	Findings
Cannon et al. (2000)	Contracts governance Norms governance	US and others Buyers–suppliers	Emails 443 (23%)	<ul style="list-style-type: none"> • Contracts and social norms were both found to be effective in enhancing supplier performance individually or in the plural form. • Increasing the relational content of a governance structure containing contractual agreements enhances performance (the plural form) when transactional uncertainty is high, but not when it is low.
Poppo and Zenger (2002)	Formal contracts Relational governance	US Information service exchanges	Email 152 (6%)	<ul style="list-style-type: none"> • Formal contracts and relational governance function as complements. • This interdependence underlies the ability to generate improvements in exchange performance.
Kalnins and Mayer (2004)	Contract Relationship	North American and others IT service	Text 394 contracts	<ul style="list-style-type: none"> • Site-specific measures of relationship lead to a preference for low-powered T&M contracts (i.e., substitute). • Hybrid contracts are more likely to be used at intermediate levels of ex ante cost uncertainty and ex post quality measurement difficulty.
Ferguson et al. (2005)	Governance mechanisms ·Relational ·Contractual	US/Can/Mex Commercial banking	Experimental 160 dyads	<ul style="list-style-type: none"> • Relational governance is the predominant governance mechanism connected to exchange performance. • Contractual governance is also positively associated to exchange performance, but to in a lesser degree.
Carson et al. (2006)	Volatility and ambiguity Contractual governance Relational governance	US and others R&D outsourcing	Survey 125 (31%)	<ul style="list-style-type: none"> • Formal contracts will be robust to ambiguity but not to volatility, whereas relational contracts will be robust to volatility but not to ambiguity. • Relational and formal contracts each have advantages and disadvantages in specific situations and are not simply substitutes.
Lee and Cavusgil (2006)	Relational-based governance Contractual-based governance	US Technology-intensive	Survey 184 (66.7%)	<ul style="list-style-type: none"> • Relational-based governance as opposed to contractual-based governance is more effective and influential in strengthening the interfirm partnership, stabilizing the alliance, and facilitating knowledge transfer between alliance partners. • Under high pressure of environmental turbulence the positive effects of relational-based governance are enhanced.
Yu et al. (2006)	Formal governance Relational governance	China Taiwan manufacturing	Survey 77 (83%)	<ul style="list-style-type: none"> • Both formal and relational governance mechanisms affect suppliers' tendencies to make specialized investments. • Calculative trust acts as a moderating factor in the relationship between transaction-specific investments and formal governance mechanisms.
Liu et al. (2009)	Transactional Mechanisms Relational Mechanisms	China Household appliance manufacturer	Survey 225 dyads (25%)	<ul style="list-style-type: none"> • Transactional mechanisms are more effective in restraining opportunism, while in improving relationship performance relational mechanisms are more powerful. • When two mechanisms are used together, it will be greater benefits than when they are used separately.
Hoetker And Mellewig (2009)	Alliance Formal governance Relational governance	German Telecommunications industry alliances	Survey 83 (32%)	<ul style="list-style-type: none"> • The optimal of governance mechanisms depends on the assets involved in an alliance, with relational mechanisms best suited to knowledge-based assets and formal governance best suited to property-based assets. • A mismatch between asset type and governance mechanisms can be harm to the performance of the alliance.
Ryall and Sampson (2009)	Formal contracting Relational mechanisms	US Telecommunications and microelectronics	Text 52 contracts	<ul style="list-style-type: none"> • Complementarity between formal and relational contracts. • A firm's contracts are more detailed and more likely to include penalties when it engages in frequent deals (whether with the same or different partners).
Goo et al. (2009)	Formal contracts Relational governance	South Korea IT outsourcing	Survey 92 (62.3%)	<ul style="list-style-type: none"> • Formal contracts and relational governance function as complements, instead of as substitutes. • Well-structured service level agreements have significant positive influence on the various aspects of relational governance in IT outsourcing relationships.

some specific challenges to management (Hanisch and Wald, 2011). For instance, the opportunism often occurs (e.g., Lau and Rowlinson, 2009; Lo et al., 2007) and the collaboration in the coalition could be difficult (Phelps et al., 2009). The previous research on project governance mainly focused on the governance structures, diverse project governance framework and models in project-based organization, and the governance of project process (e.g. Miller and Hobbs, 2005; Turner and Keegan, 1999, 2000, 2001; Winch, 2001), but did not involve the governance mechanisms, which are closely related to

performance (Lee and Cavusgil, 2006; Liu et al., 2009; Luo, 2002; Poppo and Zenger, 2002).

In this paper, we try to address the effectiveness of the governance mechanisms in construction industry in China, by means of an empirical analysis. Specifically, we intend to verify the effects of both contractual governance and relational governance on the opportunism and project performance. Furthermore, we also want to identify the relationship between contractual and relational governances, and the relationship between opportunism and project performance. This study could be helpful to guide

Download English Version:

<https://daneshyari.com/en/article/6748196>

Download Persian Version:

<https://daneshyari.com/article/6748196>

[Daneshyari.com](https://daneshyari.com)