Relational Contracting in China’s Building Sector: Potentialities and Challenges

Kaixun Sha

School of Management Engineering, Shandong Jianzhu University, Jinan, Shandong, China

Abstract: As an alternative way of governing construction projects, relational contracting (RC) can be understood as a historically and contextually embedded practice. This paper intends to examine the potentialities and challenges of RC implementation in China’s building sector. Based on the review of law scholars’ approach and new institutional economics approach to relational governance, RC in construction is conceptualized as an intentionally incomplete, largely self-enforcing arrangement that places emphasis on ex post 3Rs: renegotiation, realignment of the interests of contracting parties and restoration of the efficiency of the project. Two types of RC in construction, i.e., quasi RC such as design-bid-build and design-build procurement strategies and “true” RC such as project partnering and framework agreements are distinguished from each other. The SWOT (strengths, weaknesses, opportunities, threats) method is used to assess both internal and external aspects of implementing RC in China’s building sector. It is concluded that the successful application of RC is dependent on the maturity of the construction market, the improvement of professionalism in the building sector, and the alteration of attitude in the part of governments who are not only legislators and policy-makers, but also the largest construction clients.

Keywords: Construction project, relational governance, ex post renegotiation, SWOT method

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1 INTRODUCTION

Characterized by the multiplicity of unforeseen contingencies, fragmentation of the construction process, adversarial nature of inter-organizational relationships and frequently occurred contractual hazards, the construction industry is known to be less productive than many other industries (Rahman and Kumaraswamy 2002). Moreover, new governmental challenges arise along with the globalization of economy, changes in government policy and legal frameworks, the extension of private sector involvement, the trend of servitization of construction, and the increasing number of large complex projects, and in particular multi-counterparty, multi-phased civil infrastructure projects (Hartmann et al. 2010; Gottlieb and Jensen 2012; Henisz et al. 2012), which has prompted the construction industry to expand its focus from “pure” project management to project governance, and to seek out and adopt an alternative way of project procurement. Consequently, tendency towards collaborative working arrangements, which is subsumed under the term “Relational Contracting” (RC), is on the increase at a frantic pace.

Over the last decades, cooperative relationships in construction have become increasingly common in practice, and have spurred a subsequent stream of research in which various forms of RC practices such as project partnering, strategic partnering, project aligning, strategic aligning, integrated project delivery, framework agreements, public-private partnerships and joint venture are examined from different perspectives, including neoclassical economic theory (Tennant and Fernie 2012), transaction cost economics and game theory (Jeffries and Reed 2000; Poppo and Zenger 2002; Lu et al. 2015), relational contract theory (Chan and Bresnen 2011), discursive institutionalism (Gottlieb and Jensen 2012), Wittgenstein family-resemblance philosophy (Yeung et al. 2012) and service-dominant approach (Jacobsson and Roth 2014). Meanwhile, an extensive empirical literature has tried to explain drivers and barriers to adopting RC practices, and the causal effects between RC practices and attainment of critical success factors, including qualitative case studies (Rahman and Kumaraswamy 2002; Rahman et al. 2007; Chan et al. 2010; Dewulf and Kadefors 2012; Gottlieb and Jensen 2012), quantitative case studies (Pryke and Pearson 2006; Doloi 2009; Suprapto et al. 2015) and
Ling 2015) and comparative studies between contractual and relational governance in construction projects (Poppo and Zenger 2002; Lu et al. 2015; Bygballe et al. 2015), between different forms of relational project delivery arrangements (Lahdenperä 2012), and between different regions (Pryke and Pearson 2006; Ling et al. 2014).

In spite of significant advances, the research on RC in construction is still a fledgling field that has the potential to make a major scholarly and practical contribution. First, the conceptualization of RC in construction is still an open question. As an alternative way of contracting, RC is normally regarded to be at the same level as formal contracting, and can be classified into several subordinate types, e.g., the six categories (partnering, strategic partnering, project alliancing, strategic alliancing, public-private partnerships and joint venture) identified by Chan et al. (2010), and the three approaches (project partnering, project alliancing and integrated project delivery) proposed by Lahdenperä (2012). However, RC is sometimes “upgraded” to the higher category that is underpinned by formal contracting: “...normative and cognitive institutional supports for relational contracting reinforce the efficacy of the regulative institutional supports such as formal contracting...” (Henisz et al. 2012); whereas sometimes it is “downgraded” to the same category as its subordinate types: “cooperative project client-supplier relationships can be addressed in terms of, for example; relational contracting (RC), project alliancing (PA), strategic alliance (SA), integrated project delivery (IPD), as well as partnerships” (Jacobsson and Roth 2014). Second, the governance structure of construction projects can be divided into vertical governance and horizontal governance (Winch 2001). The former focuses on the shifting set of transactions between the client and its first-tier suppliers; and the latter deals with the supply chain, or a series of contracts developed behind the first-tier suppliers (Winch 2002). In the domain of RC, however, too much attention is paid to the vertical dimension, or the client-main contractor relationships, regardless of the fact that there is no lack of RC practices in the horizontal dimension (Reeves 2002). Third, the credibility of some empirical findings may be problematic due to their limited sample spaces. In addition, a more general problem with the empirical literature on RC is that the results achieved under given conditions inevitably have their limitations, or even are contradictory to each other. For example, it is widely accepted that trust is at the core of RC, but the findings of an empirical study on project partnering in Australia suggest that “trust and confidence have little or no effect on project success” (Doloi 2009), which is coincident with the opinion of “too much trust is as bad as too little” (Jeffries and Reed 2000). In order to achieve meaningful results, it is essential to scrutinize RC as a locally emergent and socially constructed practice (Hartmann and Bresnen 2011).

This article seeks to investigate the potentialities and challenges of applying RC in China’s building sector. The paper proceeds as follows. First, the essence of RC is reexamined. Based on the review of law scholars’ approach and new institutional economics approach to relational governance, RC in construction is conceptualized. Two types of RC in construction are distinguished from each other, and the determining factors in implementing RC in construction are identified. Then, the SWOT matrix is used to assess both internal and external aspects of implementing RC in China’s building sector. Finally, conclusion provides a summary of the research findings and identifies directions for further research.

2 MAKING SENSE OF RC IN CONSTRUCTION

The renewed interest in contract theory occurring during the 1970s and 1980s was partly attributable to the work of law scholars (Gilmore 1974; Macaulay 1985; Macneil, 1974a, 1974b, 1978, 1980, 1983, 1987) and new institutional economics (Jensen and Meckling 1976; Fama and Jensen, 1983a, 1983b; Williamson 1985; Grossman and Hart 1986). Since then the nature and form of contracts has been investigated from different theoretical perspectives, yielding some valuable insights into RC in construction.

2.1 Law Scholars’ Approach to RC

When commenting on the essential bankruptcy of conventional contract theory, Gilmore (1974) made his shocking statement: “Contract, like God, is dead!”. The “contract” here does not refer to contracting practice per se but rather the systematic theory of contract law designed for the United States in the late 19th and early 20th centuries (Gilmore and Collins 1995). In fact, contracting practices do not die. Instead, they can be found in all sorts of business activities, and present themselves in constantly changing patterns - crowdsourcing, e.g., is an emerging type of contracting practice in the internet age. Therefore, the so-called “death of contract” is simply a measure of the mismatch between obsolete contract theory and rapidly changing business practice, which has brought about nothing but growing research enthusiasm.

Relational contract theory can be regarded as a counter to both the “death of contract” notion and the legal formalism theory that focuses mainly on the express terms of a contract and almost ignores every issue arising from the overall context of the contractual relation. This theory is closely associated with the work of Macneil, the pioneer in coining the term “relational contract”. Taking the relationship between contracting parties as the unit of analysis, relational contract theory can be summarized as follows: (1). Contracts should not be assumed as discrete transactions but as “relations among people who have exchanged, are exchanging, or expect to be exchanging in the future” (Macneil 1987); (2). Relations are mostly held together by their own internal values and wider social/economic factors. Thus, even a simple transaction, e.g., the gasoline purchase at a station on the New Jersey Turnpike by someone rarely traveling the road,
can properly be understood as involving a wider social and economic context (Macneil 1978); (3) Contracts are derived from four “primal roots”: specialization and exchange, sense of choice, conscious awareness of past, present and future, and the social matrix (Macneil 1974a); (4) Contracts are pervasive since exchanges occur almost everywhere, and where an exchange occurs a contract exists; (5) Contracts vary widely in the depth of the relationship to which they are applied. All the contracts can fall along a relational spectrum from the highly relational such as long-term employment contracts to the “as if discrete”, such as spot purchases of commodities. (6) Relations are governed by a set of “norms in a positivist sense”, or principles “of right action binding upon the members of a group and serving to guide, control, or regulate proper and acceptable behaviour” (Macneil 1980). Because of the significant role of norms, Macneil’s theory is classified as the norms-based approach (Mouzas and Blois 2013). The importance given to these norms varies according to where an interaction lies on the contractual spectrum ranging from relational to discrete.

In spite of the criticisms of relational contract theory that is less relevant to practice due to its over-emphasis on the importance of contextual variables (Eisenberg 2002; McKendrick 2002; Mouzas and Blois 2013), the theory has been widely used as a valuable tool in management studies. A conceptual insight here is that a relational contract should not be considered “as a conclusive list of fixed rights and obligations, but rather as a starting point for renegotiation and adjustment when circumstances change or difficulties arise” (Kimel 2007).

2.2 New Institutional Economics Approach to RC

New institutional economics adopts another approach to RC. In the context of relational contract theory, almost all contracts are relational, while some contracts are “far more relational than others. They lie on one end of a relational spectrum of contractual behavior, opposite from the non-relational end where the discrete transaction is found” (Macneil 1983). In the context of new institutional economics, however, the argument that “firms 5tn, markets, and relational contracting are important economic institutions” (Williamson 1985) implies that RC is the hybrid of the firm and the market. So RC here mainly refers to long-term contracts agreements that are often governed by less formal, relational norms (Klein 2005). This is just the way construction projects are.

As a major part of the new institutional economics, transaction cost economics takes the transaction as the basic unit of analysis and asserts that organization form matters. This approach adopts a contracting orientation and holds that any contracting problem can be examined in transaction cost economizing terms (Williamson 1985). The central exercise is to “align transactions, which differ in their attributes from governance structures, which differ in their costs and competencies in a discriminating (mainly, transaction cost economizing) way” (Williamson 1991b). The basic model can be described as a function where the organizational form is the dependent variable, while some properties of the underlying transaction such as asset specificity, uncertainty and frequency are independent variables among which asset specificity has the greatest significance (Williamson 1991a). A distinguishing nature of transaction cost economics which is particularly relevant to RC is its special emphasis on harmonizing ex post contractual relations mainly through private ordering rather than court ordering (Williamson 1985).

Incomplete contract theory is another major branch of the new institutional economics. It divides contractual rights into specific rights and residual rights, and focuses on the efficient allocation of residual rights to match decision functions to residual risk bearing (Grossman and Hart 1986). This approach maintains that ownership is the purchase of residual rights, and explains the survival of organizational forms largely in terms of the comparative advantages of characteristics of residual claims in controlling the agency problems of an activity (Grossman and Hart 1986; Fama and Jensen 1983a). A conceptual insight here is that any contract cannot be costlessly written and enforced and that the real effects of contracts are dependent on the balance of their costs and benefits.

2.3 A Conceptualization of RC in Construction

Collaborative working in the construction industry is not a new matter since the construction project per se is a coalition where several firms temporarily pool together their resources, capabilities, and knowledge to deliver bespoke products (Winch 1989; Sha 2016). Characterized by long-term incomplete contracts, construction projects belong to the hybrid category between the market and the firm and have many relational elements.

Based on the analyses in the preceding subsections, it can be safely said that almost all contracting practice in construction can be treated as RC in the sense of relational contract theory and/or in the sense of new institutional economics. However, what is discussed in the literature on RC in construction is mainly concerned with collaborative working arrangements rather than traditional procurement strategies. Thus, we have two types of RC in construction project settings: quasi RC such as design-bid-build (DBB) and design-build (DB) procurement strategies, and “true” RC such as project partnering and framework agreements (hereafter, “true” RC is called RC for short). As illustrated in Figure 1, quasi RC and RC are at different levels of the “relational ladder”: They are corresponding to contractual governance and relational governance respectively. The former is part of the contract of cooperation that represents the perfunctory relationship bounded by legal arrangements. The latter belongs to the spirit of cooperation that has no legal obligation but is a consummate relationship (Tennant and Fernie 2012).

In both of the cases, the contracts are incomplete,
however, the incompleteness in the former one is mainly caused by the uncertainty in transaction and the bounded rationality of contracting parties, and thus is unavoidable in nature, while in the latter the collaborative working arrangements are intentionally incomplete, so that the contracting parties have room for maneuver (Macneil 1978; Jeffries and Reed 2000). More importantly, quasi RC is, to a great extent, legally enforceable and may be upheld in a court of law if a breach is constituted, while RC is largely self-enforcing - although some elements can be enforced by a third party, it contains substantive elements that third parties “are unable to verify whether contractual obligations have been met” (Brown et al. 2004). Under the assumption of bounded rationality, self-interest, and opportunistic behavior, RC in construction can be conceptualized as an intentionally incomplete, largely self-enforcing arrangement that places emphasis on ex post 3Rs: renegotiation, realignment of the interests of contracting parties and restoration of the efficiency of the project.

Distinguishing RC from quasi RC is important both in better understanding relational governance in construction and in making the analysis clearer and simpler. For example, in line with Macneil (1978), trust, mutual benefits and common goals are taken as the major influential factors for RC in construction (Chan et al. 2010; Hartmann and Bresnen 2011). However, as the necessary conditions for quasi RC, or traditional project procurement strategies, the last two factors have already been scrutinized in the domain of contractual governance due to the fact that the construction project is in essence the firm-like organization in the market (Sha 2016), or quasi-firm as Eccles (1981) called, and the purpose of construction project governance is precisely to make legally independent participants work together towards shared goals (Sha 2016). Therefore, factors like mutual benefits and common goals do not have to be analyzed repeatedly, and should not be taken as the major contents in the following analysis. Instead, main attention should be focused on the elements peculiar to RC in construction.

2.4 Determining Factors in Implementing RC in Construction

A construction project can be organized in any of several alternative ways. Quasi RC or RC and support apparatus are associated with each. Which way is more suitable? The answer is context dependent and is ultimately determined by the tradeoff between the costs and benefits of the selected approach. As shown in Table 1, theoretical and empirical work has demonstrated that the efficiency of RC in governing construction projects is a function of several factors in two dimensions - construction projects’ characteristics and enablers that can be described as “structural, cultural, technological, and human-resource practices” to be leveraged to support and sustain the implementation of strategic goals (Project Management Institute 2013).

From the viewpoint of new institutional economics, the enablers in Table 1 may largely fall into the four levels of the analytical framework developed by Williamson (2000): (1) social or cultural foundations, or embeddedness; (2) basic institutional environment; (3) institutions of governance; and (4) short-term resource allocation in which the invisible hand (markets), visible hand (governments) and the third hand (professionals and their institutions) play their respective roles. The free market may be viewed as a price-based strangers’ society in which there is no place for constraints of society morality. The government can be regarded as a regulation-based hierarchical governance structure. Professionalism in the built environment can be treated as a community-based governance structure, which has the following comparative advantages: a long-term expectation-based incentive mechanism, a reputation-based restraint mechanism, and an information feedback-based cooperation mechanism (Sha 2013). It is worth noting that the opinions listed in Table 1 are consistent in most aspects except for trust that is regarded as a core element of RC. The different opinions about the role of trust in RC may be attributed to the different research background, which provides a reminder that the issue of RC in construction must be examined on a case-by-case basis.

3 A SWOT ANALYSIS

As a structured planning tool, the SWOT method has been widely used in strategy building (Weihrich 1982; Osita et al. 2014), and can be taken as a reference for the present research. Steps to carry out SWOT analysis normally involve: identification of internal (strengths and weaknesses) and external (opportunities and threats) factors, selection and evaluation of the most important factors, and identification of relations existing between internal and external features. The SWOT matrix is usually divided into four quadrants that corresponds to the following strategies respectively. (1) SO (strengths-opportunities) strategy that uses internal strengths to capitalize on external opportunities. (2) WO (weaknesses-opportunities) strategy to improve internal weaknesses by using external opportunities. (3) ST (strengths-threats) strategy that uses internal strengths to avoid external threats. (4) WT (weaknesses-threats) strategy to avoid threats and minimize weaknesses. The advantages and limitations of RC in construction as well as the opportunities and difficulties in applying RC in China’s building sector are identified and listed in Figure 2.

The first step is to analyze the relation between the internal factors, or the relation between strengths and weaknesses of RC in construction. It should be noted that in the construction project settings, this relation is context dependent and thus is a relative concept. In other words, it is a function of the institutional environment of construction projects. In order to evaluate the relation between strengths and weaknesses of RC in China’s building sector, the industry’s development environment should be examined in the first place.

It is well known that China’s state-directed, investment-
Table 1. Determining factors in implementing RC in construction

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<th>Dimension</th>
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| Construction projects’ characteristics | Duration  
Owing to the difficulty of forecasting, the longer the period of the contract is for the supply of the commodity or service, the less possible, and indeed, the less desirable it is for the person purchasing to specify what the other contracting party is expected to do (Coase 1937).  
Relational contracts happen most in contracts that are of long duration and high level of uncertainty (Macneil 1978). |
| Complexity              | The level of project complicatedness has a positive correlation with the preservation of relationships, cooperation between contracting parties and procedural flexibility (Ning and Ling 2015). |
| Public vs. private projects | Public projects usually face more constraints in adopting RC, as close relationships may lead to allegations of corruption (Ling et al. 2014).  
Opportunities for negotiation and the freedom to choose partners are more restricted in a public setting than in a private one (Dewulf and Kadefors 2012). |
| Enablers                | Cultural background  
The utility of collaborative working practices are severely limited to the context where its institutional assumptions are rooted (Tennant and Fernie 2012).  
The socio-economic and cultural prerequisites that empower Asian business credentials to function highly efficiently (such as partnering, networking and corporate interdependency) simply do not resonate with individualism, instrumentalism and equilibrium (Biggart and Hamilton 1998).  
The development of partnering is generally considered to be based on practices originating from Japan (Lahdenperä 2012).  
In Japan’s construction sector, the ethic among contractors for cooperation and coexistence is partly rooted in the history of the traditional nakama (associate) guild system established in the feudal period during the 18th century (Reeves 2002).  
Economic paradigms and local market conditions  
It may be more appropriate to approach partnering as a locally emergent and socially constructed practice (Hartmann and Bresnen 2011).  
The incidence of relational contracting in the presence of displaced agency will be higher in coordinated market economies than in liberal market economies (Henisz et al. 2012).  
In the UK, the dramatic economic downturn of 2008 has caused many construction clients to re-evaluate their corporate procurement strategies, making the construction industry “revert to type” (Tennant and Fernie 2012).  
Institutional context  
Partnering has as much to do with changes in government policy and legal frameworks. Core effects of partnering have been a destabilization of the established regulative institutional context constituting the terrain of project governance activities (Gottlieb and Jensen 2012).  
Professionalism in the building sector  
Through local interaction professionals and their associations establish a specialist community, in which reputation, trust, exchange of information/knowledge and creation of acceptable practices are absolutely necessary (Sha 2013).  
Trust  
Trust and its underlying normative behaviors operate as a self-enforcing safeguard that is a more effective and less costly alternative to both contracts and vertical integration (Poppo and Zenger 2002).  
Trust should broadly be at the core of RC and team-building (Rahman et al. 2007).  
Relational mechanisms such as trust and cognitive alignment are needed to complement contractual governance mechanisms such as control and monitoring systems (Hartmann et al. 2010).  
Trust permits greater flexibility in the selection of governance structures when asset specificity is present (Jeffries and Reed 2000).  
Relational governance is associated with trust that can improve the performance of inter-organizational exchanges (Poppo and Zenger 2002).  
Too much trust is as bad as too little. Low organizational trust and RC are simpatico (Jeffries and Reed 2000).  
Commercial incentives to collaborate, such as framework agreements, cast in a shadow of future workload support “cooperation based on reciprocity”, not necessarily because organizations trust one another (Tennant and Fernie 2012).  
Trust and confidence have little or no effect on project success (Doloi 2009).  
Communication  
Communication is the single critical factor to the relational partnering success (Doloi 2009).  
The internalized and cultivated way of working of both parties become manifest in the regular meetings of the operational staff (Hartmann and Bresnen 2011). |
driven paradigm of development is largely underpinned by infrastructure investment. A typical example is the 4 trillion Yuan ($602 billion) stimulus package proposed by the central government in 2008 which constitutes 13 percent of the country’s GDP. Of the total amount, 1.5 trillion Yuan (38 percent) went to public infrastructure projects like roads, railways, airports, and improvements in the electricity network in urban areas. The 13th Five-Year Plan of national economy and social development has set the target for average annual economic growth of above 6.5 percent from 2016 to 2020, which implies an increasing number of construction and infrastructure projects in the foreseeable future (Xinhua 2016). Furthermore, in addition to traditional infrastructure projects such as airports, high-speed rail links and expressways, the central government has launched new initiatives to spur economic growth and save the industries with severe overcapacity such as cement, steel and other construction materials. It is estimated that the total investment needed for the initiative of urban underground pipeline gallery could reach 400 billion Yuan ($64.4 billion) to 500 billion Yuan ($80.5 billion), which will be open to private funds through franchising mode (China Daily 2015a). Another initiative is so-called “sponge city” program, which seeks to make cities better absorb rain to prevent them from flooding during torrential rains— Heavy rain often results in floods in cities with outdated sewer systems. In one case, 79 people died in Beijing after a rainstorm on July 21, 2012. It is planned that by 2020, 20 percent of cities in China will need to have modern sewer systems and infrastructure that allows for efficient
absorption of water, with the number rising to 80 percent by 2030. The government encourages private investors to participate in the program and asks financial institutions to provide support (China Daily 2015c). At the local level, governments have shown even greater enthusiasm about large infrastructure projects because these projects can rapidly demonstrate their performance and help them win the competition with their counterparts - the political rivalry between local officials has been proven a zero-sum game in which one participant’s gain is exactly another one’s loss and has created a deep-rooted mind-set favoring short- over long-term interests (Zhou 2004). Exhibit 1 below presents the situation where massive construction is going hand in hand with massive destruction.

Exhibit 1: The Chinese speed stunned the world again
In Nanchang, the capital city of Jiangxi province in south-central China, a 500-metre-long overpass was demolished in just a few hours on 26 August 2016. As illustrated in Figure 3, 68 diggers lined up side by side and knocked down the huge concrete structure at the same time. The overpass was built 24 years ago and was destroyed in one night to make way for the city’s second metro line. An amazing video has been circulating online showing the incredible moment. Chinese workers have stunned the world again with their eye-opening efficiency. A reader of daily mail said: “that would’ve taken 12 to 18 months in the UK” (Tracy You For Mailonline 2016).

Under the circumstance characterized by ambitious construction and infrastructure projects, urgent work schedule and the great demand for private sector involvement, the advantages of RC compared to quasi RC are manifest. So the result here is: strengths get above weaknesses. In fact, there are few successful cases of RC in China’s building sector (Liang 2013).

The next step is to analyze the relation between the external factors, or the relation between opportunities and threats of implementing RC in China’s building sector. In spite of the huge opportunities as mentioned above, adverse factors can substantially hamper the implementation of RC in construction. China’s “socialist market economy” is characterized by the overly dominant role of governments which has impeded the market from efficient operation and also hampered the development of professionalism in the building sector (Sha 2013). Governments at different levels not only regulate the market by means of legislation, administrative intervention, taxation, etc., but also directly participate in market competition as the largest construction clients. The combining of administrative function and business operation places some government officials in the position of being both judges and players in the construction market. In addition to frequently revealed scandals, repeated accidents and catastrophic failures of projects, a prominent problem is the debt chain caused by default between various parties, in which the biggest and original debtors are local governments. Exhibit 2 below presents a typical case that demonstrates the disordered situation in the domain of public projects caused by local governments.

Exhibit 2: A lawsuit against local governments for debt arrears
As China’s largest privately held infrastructure company, China Pacific Construction Group (CPCG) ranked 166th on the Forbes 500 list of the world’s largest companies with $60 billion in annual revenue in 2014. China Daily reported on 29 January 2015 that Mr. Yan Jiehe, founder of CPCG had sued local governments in Hebei, Yunnan, Guizhou, Hunan and Shandong provinces, in a bid to force payment of 900 million Yuan ($144 million) his company is owed for infrastructure projects. The six
lawsuits cover 15 projects and the company is owed even more money from others. The unusual legal case exposed the hidden woes of a prevalent infrastructure financing model in China: build and transfer (BT) in which companies pay the money for building roads, bridges and industrial parks before local governments buy back the completed projects later. BT model is favored by local governments across China as it enables big-ticket projects that they cannot pay for at the moment. By mid-
2013 debt incurred by BT projects accounted for about 8 percent, or 1.5 trillion Yuan, of total local government debt, second only to bank loans. The ratio is much higher in less-developed areas. In southwest Guizhou for example, BT debt is the largest form of government debt, accounting for 39.5 percent. It is argued that the problem is not BT itself, but the execution of the contracts. Rights and responsibilities are not defined clearly in many cases and local officials did not consider repayment in the first place (China Daily 2015b).

In summary, it is difficult for RC to be successfully implemented in China’s building sector due to its immature market, undeveloped professional system and unfavorable institutional environment characterized by the predominance of government (central and local) in business activities and the prevailing practice of “rule of the individual” (opposite to “rule of law”) (Sha 2014). In such a situation in which some enablers are seriously disabled, the successful cases mentioned above do not have universal significance. They may, to a great extent, attributed to specific reasons in specific context. So the result here is: threats get above opportunities. In order to convert threats into opportunities, a radical reform of the construction industry is required. The key link is to make governments at all levels put themselves in a correct position and disentangle their relations with the market by establishing a check-and-balance mechanism.

4 CONCLUSIONS

RC in construction represents a new way of thinking about how construction projects are undertaken and governed. To a great extent, the emergence and development of RC in construction can be attributed to the inefficiency of quasi RC, or traditional project procurement strategies. Along with the changes both in the scale and complexity of construction projects, and their institutional environment, it has been widely accepted that collaborative exchange relationships between contracting parties can create economic opportunities that are difficult to be replicated via an open market, contractual agreement or vertical integration.

Characterized by long-term and highly customized contracts, the construction project per se is relational. When examining RC in construction project settings, it is essential to differentiate RC from quasi RC. Quasi RS belongs to contractual governance and pays more attention to ex ante mechanism design, while RC is largely governed by relational norms and focuses on ex post 3Rs: renegotiation, realignment of the interests of contracting parties and restoration of efficiency of the project.

Both RC and quasi RC have their advantages and limitations, and cannot be costlessly designed and enforced. The pros and cons of RC practice is dependent on its relative costs and competences, which in turn is determined by construction projects’ characteristics and several enablers that involves cultural background, basic institutional environment, project governance, project management, as well as inter-organizational and interpersonal relationships.

RC in construction can be best understood as a historically and contextually embedded practice. When considering the fitness of RC in construction, it is crucial to take full consideration of socio-economic and cultural background and institutional environment in which construction projects are undertaken. The SWOT analysis demonstrates that implementing RC in China’s building sector is faced with both potentialities and challenges; the challenges are so grave to the extent that the huge potentialities cannot be fully realized, the successful application of RC is dependent on the maturity of the construction market, the improvement of professionalism in the building sector, and ultimately, the change of attitude on the part of governments who are not only legislators and policy-makers, but also the largest construction clients.

RC embraces and underpins different forms of collaborative approaches, including partnering, alliancing, joint venture and other collaborative working arrangements and better risk sharing mechanisms. Because of the limited length, this paper does not examine these working arrangements in detail. Further research is required to analyze them one by one in the context of China’s building sector, and compare them with each other in terms of suitability, performance and determining factors.

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