

CONTROL INFLUENCE ON TRUST AND RELATIONAL GOVERNANCE IN THE CLIENT-CONTRACTOR DYAD

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The construction industry has in recent years witnessed a paradigm shift towards the use of more collaborative contracting relationships and integrated processes in an attempt to improve construction project delivery. Trust is central to the success of these contracting approaches and although efforts are usually aimed at improving trust relations in client-contractor relationships, there has so far been mixed findings on how trust is influenced by formal control mechanisms discharged via formal contracts. In construction contracting, there is therefore the need to investigate how different governance modes and control mechanisms deployed on construction projects are perceived by those being controlled and how this in turn influences trust. Through a critique of the extant literature on trust and control in construction, this study reveals that the trust-control relationship which can be both complimentary and supplementary has far reaching implications on the measurement/assessment of trust in the construction project context. The orientation of governance and control mechanisms selected by clients and the behavioural consequences of these from contractors can thus be used as a measure of the degree of trust that exists in the dyad.

Keywords: client-contractor relationship, control mechanisms, governance modes, trust.

INTRODUCTION

The use of control mechanisms on construction projects by clients and their representatives have increasingly become a social dynamically constructed process that largely depends on perceived degree of trust in client-contractor relationships. To therefore enforce a given mode of governance, project managers discharge a variety of control mechanisms, some of which are sometimes not specified in the contract documents. Although these control mechanisms are goal oriented, they can either enhance trust development in the client-contractor dyad or cause it to degenerate. It is argued that the trust-control nexus presents the potential for developing a method that can be used to assess trust in the client-contractor dyad based on the prevailing control mechanisms. In inter-organisational management and construction management research, studies conducted on trust relationships have often employed scales which investigate a range of conditions that activate and sustain trust (Smyth, 2008, Butler, 1991, Smyth, 2006). Given the potential correlation between trust in an exchange relationship, governance modes and the variety of control mechanisms that are

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discharged, this study examines literature to explore further the trust-control nexus in client-contractor relationships on construction.

The study begins with a critical examination of the constructs of trust and control, trust and inter-organisational governance modes. This is followed by a discussion on the implications of the trust, control and inter-organisational governance relationships for the assessment of trust in the construction project context.

AN EXAMINATION OF TRUST AND CONTROL

Formal contracts irrespective of their complexity are unable to provide solutions to all contractual problems that may arise on a construction project. The uncertainties that characterise construction which can range from changes in user needs, errors and omissions in design drawings and specifications to changes in weather and ground conditions have often been said to provide enough avenues for contractors to act opportunistically by pricing excessively for extra work. This thinking mostly makes clients and their representatives on projects feel vulnerable to contractors that they concentrate much more on safeguarding their investments should things go wrong instead of proactively promoting trust and cooperative relations in the client-contractor dyad (Kadefors, 2004). This usually results in an antagonistic relationship between clients and contractors that can degenerate into conflicts (Kadefors, 2004) and disputes. The potential problems which often arise after contract formalization have made it necessary for contractual provisions to be supported with the implementation of other informal and socially constructed control mechanisms. Trust is very instrumental to the effective functioning of both formal and informal control mechanisms (Costa and Bijlsma-Frankema, 2007). It plays a significant role on the choice of governance mode to be adopted in a given circumstance (Poppo and Zenger, 2002), the variety of control mechanisms selected to establish the chosen governance mode, and the effectiveness of control mechanisms in terms of performance resulting from the reaction/behaviour of party being controlled. Thus a variety of control mechanisms which also aim to build and maintain trust on construction projects are employed in the management of construction projects although some might not be contractually specified. The use of control mechanisms and managerial influence strategies on construction projects have therefore been referred to as a very complex and dynamic socially constructed process which demands further investigation using appropriate theories that accommodate social roles and statuses (Badenfelt, 2010).

Although co-operation can be achieved through coercion (Kadefors, 2004) where contractors would only exhibit compliance, cooperation achieved through trust has a far reaching positive influence on project performance (cf. Cheung *et al.*, 2011) since such forms of cooperation result in more constructive interactions that add overall value to projects. Thus trust, which has always been a research focus in organisational and inter-organisational management, has consistently been receiving growing attention in construction management research. Although trust definitions have originated from economics, psychology, sociology, and philosophy perspectives, a common theme is that trust is an underlying psychological state that informs behaviour. This psychological state comprises the intention of a party to accept vulnerability based on the positive expectations of the intentions or behaviours of other parties (Costa and Bijlsma-Frankema, 2007; Weibel, 2007; Dekker, 2004; Das and Teng, 2001). In project settings, trust has been described as a disposition or attitude that informs the willingness of a party to rely on or be vulnerable to actions of another party under circumstances of contractual and social obligations and with

opportunities for collaboration (Smyth *et al.*, 2010). Trust, although being a psychological state is therefore very important to relationships because it directly influences actions and behaviours of parties in an exchange relationship.

Control on the other hand has been described as all systems and devices employed to ensure that acts, behaviours, outcome and devices of individuals, teams and organisations are consistent with meeting organisational or project goals, objectives and strategies (Tuuli *et al.*, 2010a). These controls are either formal (outcome or behaviour control) or in-formal/social controls which are more implicit (Tuuli *et al.*, 2010a, Tuuli *et al.*, 2010b). The use of controls on construction projects are also geared towards specific performance goals (Tuuli *et al.*, 2010b). Also, decisions that inform the appropriate governance mode to adopt and corresponding control mechanisms to implement depend on perceived exchange hazards (Das and Teng, 2001). Research has revealed that increases in these exchange hazards encourage the use of more complex contracts and control mechanisms (Poppo and Zenger, 2002). These exchange hazards which include increases in asset specificity, uncertainty, frequency of transactions, task complexity, and difficulty in performance measurement are however influenced by trust or can influence trust in an exchange relationship (Poppo and Zenger, 2002). This iterative inter-dependence therefore provides the vital link between the choice of governance mode, the variety of control mechanisms implemented and trust between exchange parties.

Although most researchers (Das and Teng, 1998; Möllering, 2005; Badenfelt, 2010) have theoretically viewed trust and control as parallel concepts which always assume each others existence - the duality perspective - trust has sometimes been viewed as a form of control mechanism in itself (Bradach and Eccles, 1989; Bachmann, 2001). However, in this study, the duality perspective of control is adopted as in reality, control mechanisms affect trust levels and the degree of trust existent in a relationship both moderates and influences the level of control (Das and Teng, 1998). This perspective is also consistent with arguments that support a complimentary rather than supplementary relationship between trust and control (cf. Poppo and Zenger, 2002).

GOVERNANCE MODES, CONTROL MECHANISMS AND TRUST

Transaction processes have traditionally been based on arms-length agreements where inter-organisational exchange relationships are mainly governed by market, hierarchical or hybrid (a combination of market and hierarchical) governance modes. Transaction cost economic (TCE) theory has often been used to understand how governance arrangements are crafted in inter-organisational relationships in relation to perceived exchange hazards. It has often been advocated by TCE researchers that the governance mode which provides the most optimum cost i.e. cost of setting up governance, cost of evaluation, and cost of control (Nooteboom, 1996) is selected to match the perceived exchange hazards such as asset specificity, difficulty in performance measurement, uncertainty (Poppo and Zenger, 2002) and frequency of transaction (Kumaraswamy *et al.*, 2008). Thus, in the presence of high asset specificity, high uncertainty, and high frequency of transaction, hierarchical governance through authority and power differentials and market governance through price have been suggested as the most efficient (Poppo and Zenger, 2002). Market governance is however most suitable for occasional, standardized and simple transactions (Eriksson, 2010).

The TCE framework is however more supportive of traditional approaches to construction procurement where lump-sum contracts are often used. This is because TCE theory emphasises even in relation to trust and cooperation, that economic self-interest is the main motivator of positive human behaviour (Kadefors, 2004). Researchers have often criticised TCE theory's approach to inter-organisational governance as being too pessimistic in nature as there is the tendency for economic self-interest behaviours to be overestimated whilst ignoring the reality of cooperative behaviours that result purely from social recognition, roles, norms and status (Kadefors, 2004). Another governance mode which has also been recognised somewhat by TCE researchers is relational governance. Since inter-organisational exchanges are embedded in social relationships (Poppo and Zenger, 2002), relational governance emerges from agreed upon processes, values and norms that the exchange relationship is embedded in. Relational governance also functions through trust (Poppo and Zenger, 2002) just as market and hierarchal governance functions through price and authority respectively. The transaction cost in relational governance is therefore the cost of trust building (Kumaraswamy *et al.*, 2008).

TCE theory, being a rational theory however views trust from a self-interested economic perspective whilst ignoring social roles and status, social recognition and meaningful work (Kadefors, 2004). Badenfelt (2010) reiterated the need to search for more useful theories that best explain social roles and status in the management of projects whereas Kumaraswamy *et al.*, (2008) suggested that the TCE framework was an inadequate guiding theory for contracting. In search of other theories beyond traditional TCE theory, Macneil's relational contract theory which gives more recognition to the role of social norms in promoting positive behaviours in exchange relationships has emerged as a suitable theory that underpins contracting (Kumaraswamy *et al.*, 2008). Macneil's relational contract theory which is based on a social theory of human exchange views legally enforceable contracts as a continuum of discrete contracts i.e. contracts where all the terms have been explicitly and unambiguously expressed during contract formation, and implicit contracts which are guided by agreed set of norms and behavioural patterns that project exchanges into the future (Barnett, 1992). The root source of these implicit norms and behavioural patterns are the social relations within which human actions are constituted and from which they exist and evolve over a long period of time (Barnett, 1992). To project economic exchanges into the future, firms engaged in a transaction contract would therefore suppress their short-term self-interest in pursuit of long-term self-interests by adopting cooperative attitudes (Kumaraswamy *et al.*, 2008).

Governance modes i.e. market, hierarchical, hybrid or relational, are effected in transactions by implementing a range of control mechanisms. With market governance, the main focus of control is price and control mechanisms are therefore implemented to control output during exchange performance so as to ensure that price is kept within acceptable limits. With hierarchal governance, control mechanisms are initiated and discharged through authority and power differentials during exchange performance. Hybrid modes of governance are achieved by implementing a variety of control mechanisms that consist of output control through price and process control through authority so as to achieve pre-determined project objectives. These control mechanisms are however mostly formalised and often specified in contract documents to safeguard economic exchanges. Market, hierarchical or hybrid governance modes implemented through output and process control have traditionally been the principal modes of governance in construction contracting until more recently where relational

governance has also gained popularity. Relational governance has been suggested to be suitable for complex and repetitive transactions (Eriksson, 2010). Also, relational governance has consistently been linked to informal/social control modes as this governance mode depends to a larger extent on trust levels between exchange partners (Eriksson and Nilsson, 2008).

Trust has also been described as a shifting parameter between these governance modes (Gulati and Nickerson, 2008). Thus, since perceived trust in an exchange relationship influences the choice of governance mode to adopt for a given transaction, trust should in theory ensure that the most optimum choice of governance mode is adopted. Furthermore, cost of governance has significant impact on exchange performance, given that all things being equal, cost performance increases when governance costs are lower (Gulati and Nickerson, 2008). The choice of a less costly governance mode facilitated by pre-existing trust should therefore have the potential to improve cost performance. Trust can therefore play a significant role not only in facilitating relational governance but also on the choice of the most appropriate governance mode for an exchange relationship and the effectiveness of the variety of control mechanisms implemented to achieve such governance modes.

Table 1: Control types and governance mechanisms in client-contractor relationships (Adapted from Eriksson and Laan, 2007)

Buying stage	Control focus/orientation		
	Price focus through output control	Authority focus through process control	Trust focus through social control
Specification	Specification by client	Specification by client	Joint specification
Bid invitation	Open bid procedure	Limited bid invitation	Limited bid invitation
Bid evaluation	Focus on tender price	Focus on authority-based soft parameters	Focus on trust-based soft parameters
Project delivery			
•Contract formalization	Formal, comprehensive contracts	Formal, comprehensive contracts	Informal and incomplete contracts (Charters)
•Type of compensation	Fixed price	Reimbursements	Including incentives
•Collaborative tools	Low usage of collaborative tools	Low usage of collaborative tools	High usage of collaborative tools
•Performance evaluation	Output control by client	Process control by client	Self-control by contractor

Kumaraswamy *et al.*, (2008) however suggested that these governance modes and their operational derivatives i.e. price, authority and trust are not mutually exclusive in reality as they can be combined in a variety of ways to achieve project objectives. In the construction project context, control mechanisms which can be implemented at different stages of the buying process have been shown in Table 1. The problem which arises is how control mechanisms implemented via price and authority influences trust development and hence relational governance. This is in the perspective of trust being a product of control related actions. Secondly, in the capacity of trust being a shifting parameter that determines the choice of a governance mode (i.e. pre-existing trust being a cause of control action), the realistic selection of various control mechanisms - which in some instances are non-contractual and socially constructed - to ensure that not more than necessary control mechanisms are discharged requires more detailed

investigation. This is because some control mechanisms might not be value adding to the project and others might be harmful to the development and sustainability of trust.

IMPLICATIONS OF TRUST-CONTROL RELATIONSHIP FOR THE ASSESSMENT OF TRUST

It has been discussed in the above sections that based on the orientation of governance mode, a variety of control mechanisms are selected and operationalised through a focus on price, authority or trust. Trust also plays a crucial role in both the choice of governance mode and effectiveness of control mechanisms discharged and hence its strong correlation with control. For example, a shift in performance evaluation of projects from the traditional reliance on extensive end-inspections of finished work towards more reliance on contractor's self-control whiles executing limited random end inspections can be a testament to the degree of trust that the client has in the competence and integrity of a contractor (cf. Eriksson and Laan, 2007). It has also been reported that clients adopt several control mechanisms on projects which are predominantly associated with hybrid (hierarchical and market) governance modes through authority and price (Eriksson and Laan, 2007) without being able to fully exploit the maximum potential of relational governance approaches due to lack of trust. This situation can also result in a spiral of distrust as control mechanisms and established governance mode in the relationship may indicate from the onset, a lack of trust. The importance of trust therefore makes its effective measurement very useful to the management of projects as this would help monitor its development and sustainability.

Trust has mostly been assessed using scales which measure the presence of conditions upon which trust can be said to exist. As a result, researchers have developed and ranked different conditions of trust which are then used to infer the presence and degree of trust in key relationships (cf. Smyth, 2006). This has however not been without inconsistencies as findings on which particular conditions demonstrate the presence of trust have been ambivalent (Smyth, 2006). Seppanen et al (2007) also reported major inconsistencies in the operationalization and measurement of trust for which they called for more empirical research on trust measurement in inter-organisational relationships. In construction project contexts, the presence of these conditions may be acknowledged to signal the existence of trust in a given relationship whereas in reality, there may be no trust. Based on the duality perspective of trust and control as mentioned earlier, and the role of trust in influencing control and governance, a trust assessment tool can be developed. Thus, control mechanisms implemented on projects can become the major conduit for such an assessment. The link between orientations of governance, control mechanism, behaviour/actions of contractors and the degree of trust which has been illustrated in Figure 1 can therefore provide a theoretical basis for developing such a tool for trust assessment. To empirically investigate this link, the critical incident technique (cf. Flanagan, 1954) can be used to identify instances on previous projects where governance and control mechanisms beyond those needed for co-ordination of interrelated tasks, could be linked to the perceived degree of trust.

Tuuli *et al.*, (2010b) in their research echoed a preliminary link between informal/self-control mechanisms and behavioural consequences that resulted in project performance within the Hong Kong construction industry. They referred to self-control as an important driver in engendering positive outcomes for individuals, teams and organisations especially in complex and uncertain work settings that characterises

construction projects. Badenfelt, (2010) also recently identified, from a longitudinal case-study of a high-technology laboratory construction in Sweden, how a number of more informal and subtle control mechanisms employed on the project helped in building and sustaining trust. In such instances, there is high trust between the client and contractor which translates into positive behaviour or actions. These can include correcting problems and deficiencies when they occur with less regard for who caused it or who will pay for it, suggesting value adding alternatives and cost saving options etc. This is not to ignore the fact that some of the governance modes and socially constructed control strategies which aim to establish and maintain trust can also be intuitively appealing but in reality present hidden drawbacks (Kadefors, 2004). On the other instance, when governance modes and control mechanisms are perceived as more stringent, this could initiate a perception in a contractor that the client does not trust in their integrity or competence (Smyth, 2003). This perception could then initiate certain behaviours and actions in reaction to the perceived lack of trust in them such as for example, not been too keen on proposing value addition and cost saving options like in the earlier instance (cf. Smyth *et al.*, 2010). Take for example, a relationship governed mainly by a hierarchal mode of governance which focuses mostly on establishing remedies and penalties for non-compliance, it becomes more difficult to achieve added value for the project as contractors act with more caution (Matthews and Howell, 2005). As put by Matthews and Howell (2005), “it is hard to have a wholesome relationship with another when you have a charge of dynamite around your neck and the other holds the detonator”.

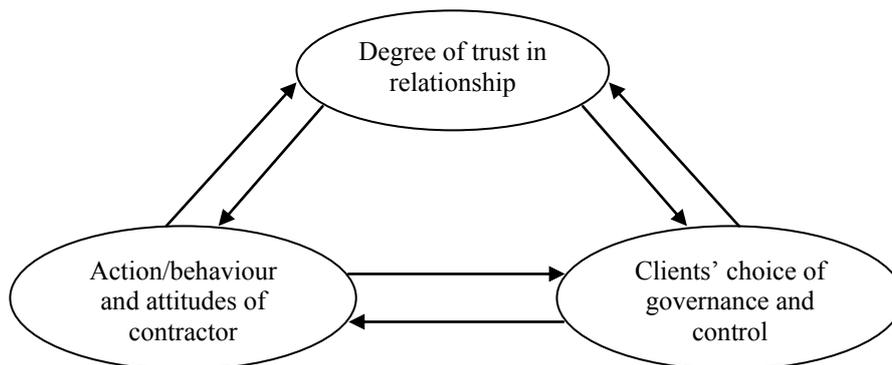


Figure 1: Interactions between trust, governance and control and contractor behaviour

Drawing on the above, the behavioural response of contractors to control mechanisms from theoretical perspectives, could be used as a measure of the extent to which they feel trusted and also how well they trust the client or their representatives. The orientation of governance and implemented control mechanisms could also be used as a measure of the degree to which a client trusts in the integrity and competence of a contractor. Indeed, this possibility of assessing trust through governance modes and control mechanisms presents a potential opportunity for improving trust in client-contractor relationships. This will however benefit from further studies to (1) establish empirically the reliability of the orientation of governance and control mechanisms as a measure/reflection of degree of trust, and then (2) to possibly map out how different governance modes and control mechanisms relate to different measures/degree of trust.

CONCLUSIONS

The duality perspective, where trust and control are viewed as parallel concepts which always assume each others existence, requires that to achieve best performance in exchange relationships, control and trust act complimentarily. Although this may present a major problem on how the best balance can be achieved to obtain an overall positive influence on project performance, this relationship can be instrumental in the study and understanding of trust in the construction project context. It has therefore been argued that the duality perspective of trust and control presents an opportunity for the development of an action based method of measuring trust in construction project contexts. This complimentary relationship in the construction project context is such that control mechanisms affect trust levels and the degree of trust existent in a relationship also influences the level of control. Project clients or their representatives therefore adopt governance modes which reflect the degree of trust they have in the contractor. They proceed to establish these governance modes by selecting a variety of control mechanisms, some of which emerge from the social interaction process and hence may not even be specified in contract documents. Contractors on the other hand, exhibit patterns of behaviour and actions which are based on their perceptions towards governance modes and control mechanisms imposed on them. Since these governance and control issues from both client and contractor's perspective are linked to their perceptions of trust, an investigation into behaviours and actions on projects that relate to governance and control can be undertaken using the critical incident technique. Findings from such studies can be very useful for the development of a tool to measure trust in the client-contractor dyad.

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