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Kensi Z Zhai, Tongji University, China

Cheryl S.F. Chi, Disney Lab in China, China

Yun Le, Tongji University, China

Proceedings Editors

Jessica Kaminsky, University of Washington and Vedran Zerjav, University College London



RELATIONAL GOVERNANCE IN MEGAPROJECTS: FROM THE OWNER'S VIEW

Kensi Z Zhai,¹ Cheryl S.F. Chi² and Yun Le³

ABSTRACT

This study addresses the question of how to understand relational governance mechanisms in context of megaprojects in China. Powerful political forces and growing market ties both affect behaviors in megaprojects organizations. Emerging from this society, relational governance establishes a foundation enabling project actors to deal with unanticipated events and problems collectively. By using longitudinal archival analysis and interview data of EXPO 2010 Shanghai, three propositions are offered. Results capture a more comprehensive understanding of how the political intervention and trust-based relationship work in the relational governance process.

KEYWORDS: relational governance; political intervention; trust; megaprojects; China

INTRODUCTION

Globalization provides great opportunities for foreign firms in China's construction industry. Increasing megaprojects are facing unique governance challenge, i.e., the fact that managers involve the necessity to interact with individuals, firms, and agencies from diversified professional disciplines and cultural backgrounds (Mahalingam et al., 2010). However, many foreign participants are unfamiliar with the complex institutional context in China, in which both hierarchy and market mechanism play key roles.

Morris and Geraldi (2011) called for creating the context to manage projects at institutional level and exploring the tractable governance approaches to improve effectiveness. There have been several investigations into the institutional environment affecting organizations (Greenwood et al., 2011) and organizational participants adjusting their governance approaches to the pressures (Chi and Levitt, 2011, Orr and Scott, 2008). Empirical studies also demonstrate that local institutions significantly influence project arrangement (Chi and Nicole Javernick - Will, 2011) and deviant organizational acts to institutional context lead to costly conflicts and delays (Mahalingam and Levitt, 2007).

It is pointed out that construction projects require relational governance (Henisz et al., 2012), which is an informal governance mechanism combining with complex contracts in repeated transactions, centering on the development of trust, reciprocity, and the social embeddedness of actions that prevent opportunism (Poppo and Zenger, 2002, Weber and Mayer, 2014). Trust is one important mechanism to execute relational governance in temporary organizations (Müller et al., 2014). Because of the huge size and high uncertainty and complexity, megaprojects require concerted efforts from major participant (Flyvbjerg, 2007) and face governance challenges such as high public attention (Yeo, 1995) and political

¹ Ph.D candidate, Research Institute of Complex Engineering & Management, Tongji University, Shanghai, China; kensizhai@gmail.com

² Dr., Disney Lab in China, Shanghai, China; cheryl.chi@disney.com

³ Professor, Research Institute of Complex Engineering & Management, Tongji University, Shanghai, China; leyun@tongji.edu.cn

pressures from politicians (Miller and Lessard, 2001). Megaprojects are usually loaded with political symbolism and political intervention takes a key position in governance process. While there has been an increasing focus on the social context that is important to project relational governance, there is limited attention to the influence of the powerful stakeholder – government. In our opinion, a deep understanding of both political power and trust-based relationship is a necessity to move the field of relational governance in the context of construction projects forward.

The article addresses the research question: *What are the consequences of applying relational governance under the political intervention and trust-based relationship?*

To answer the research question a literature study, as well as an in-depth longitudinal case study, were undertaken. The case study concerned the EXPO program in China, in which government, foreign companies, local contractors (state-owned and private) were involved. This paper first gives a brief overview of relational governance in construction projects and key constructs of it to build a conceptual framework, which is followed by the elaboration of research methodology. The next section covers a qualitative case study, empirical findings and discussion. Finally, limitations and conclusions are drawn.

CONCEPTUAL FRAMEWORK

Relational governance in megaprojects

The relational governance approach based on reciprocal exchanges which are embedded in social relationships has been designed to safeguard against opportunism in project management (Carson et al., 2006). Contracts should be more extensive to respond to uncertainty (Luo, 2002), while relational norms operate more effectively and less costly (Poppo and Zenger, 2002, Uzzi, 1997), thus highlighting mutual trust and commitment in the governance process (Puranam and Vanneste, 2009, Dyer and Singh, 1998). In Chinese culture, relational governance approaches based on trust create advantages by lowering costs, shortening duration and improving performance (Lu et al., 2014, Ling et al., 2014).

As stand-alone mechanisms, contractual and relational governance actually represent distinct but inseparable parts of a governance system (Roehrich and Lewis, 2010). Relational governance involves a strong informal socialization process in terms of social norms (Weber and Mayer, 2014) and enables stakeholders to deal with unanticipated events and problems collectively (Henisz et al., 2012), thus shaping the common goals (Woolthuis et al., 2005) and affecting the whole organization and project performance (Bourne and Walker, 2005). To reduce transaction costs, stakeholders transform their contractual relationships into trust-based relationships by actively establishing cooperative ties through organizational agreements (Dyer and Singh, 1998). Especially in the Chinese context, the relationship based on trust is stressed as a central mechanism (Song et al., 2012).

In sum, the relational governance mechanism can significantly influence organizational behaviors and performance (Morris and Geraldi, 2011). Both formal mechanisms (e.g., processes, standards, and guides) and informal mechanisms (e.g., social contracts, culture, and shared-value) as institutional acts are required to make a substantial impact on organizational performance.

Institutional context

The influence of the institutional context in construction projects has been the focus of numerous studies, especially in terms of their social and political complexity (Orr et al., 2011). Ruuska et al. (2011) argue that a large multi-organization project operating in complex international contexts should be governed based on an open system view. Embedded in a complex network of stakeholders connected by various kinds of relationships, different organizational responses to the institutional context would lead to different outcomes. For example, strategic misinterpretations (Flyvbjerg, 2011) and conflicts (Mahalingam et al., 2010) lead to over costs and delays, while adopting an integrated formal system within multi-national teams helps to reduce perceived differences in values and practices (Chi and Levitt, 2011).

Scott (2008) attempted to link projects to organizational fields, assuming that institutions are “composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life” (p. 48). His work provides an analytical framework that comprehensively deals with institutional and policy systems as well as their underlying mechanisms affecting multiple participants. *Regulatory element* is the most explicit and formal aspect of institutions. In addition to control and constraint, it also restructures relational patterns by empower certain actors, such as state or authority which has power and plays key role in policy and enforcement systems. *Normative institution* includes social expectations and norms that designate appropriate ways of pursuing desirable goals. It confers “rights as well as responsibilities; privileges as well as duties; licenses as well as mandates” (Scott, 2008a: 55) and leads to self-regulation and certification movement (Bartley, 2007). *Cultural-cognitive element*, rooted in culture and beliefs, dictates the meaning and interpretations of objective conditions and determines how organizations interpret external pressures and how to respond. In practice, all three institutional elements rarely occur in isolation (Scott, 2012).

In conclusion, the institutional context consists of factors external to the project influencing various aspects of project organization, including the role of the governmental stakeholder (Sallinen et al., 2011) and coordination mechanism within multi-team projects (Dietrich et al., 2013). Thus, based on the above discussion, we expect that institutional context will influence the relational governance. However, the different arguments advanced so far in the literature do not show a clear causal relationship between the types of institutional environments and relational governance.

Political intervention

There is no consensus on the definition of “political intervention”. As most megaprojects are invested by the state, the government becomes a high-level actor adopting “top-down” approaches to set specific organizational arrangements, such as particular governance paradigms (Muller et al., 2013). As the owner, government is responsible for establishing governance structure (Aubry et al., 2011) and enhancing its capacity of self-regulation (Miller and Lessard, 2001). Thus, to meet the goal of project, the government intervenes in the construction process through political pressure. A positive correlation was found between political backing and project success (Cheah et al., 2007). Also, the political

risk exits, which means that the political decisions, political events, or societal events in a country impact the construction climate and lead to investors or contractors not making as much money as they had expected when the investment was made.

Trust-based relationship

In addition, “bottom-up” relational governance takes *trust* as both a powerful alternative to formal governance mechanisms (Puranam and Vanneste, 2009) and a key component of relational governance (Roehrich and Lewis, 2010). It has been suggested that at the start of a relationship, a level of trust may already exist (McKnight 1998) based on how much project partners know each other (Krishnan et al., 2006). The trust-based relationship will create more opportunities for cooperative parties to learn knowledge and contracting skills (Lumineau and Henderson, 2012), thus complementing contractual governance by making it more complete and effective (Müller et al., 2014).

METHODOLOGY AND DATA

This study reports a case study to build constructs and propositions (Eisenhardt and Graebner, 2007) based on archival analysis studying the relational governance mechanisms among multiple organizations in the construction phase. Documents are created by project organizations to record the events and strategies during construction process. The longitudinal archival analysis reveals the organizational life cycle and how it operates and cooperates with others in a credible way (Ventresca and Mohr, 2002). And project document itself is a formal communication tool and as well as a carrier of institutional elements (Scott, 2008).

Our empirical study focuses on A&B District in EXPO 2010 Shanghai within a clearly delimited geographical location. A&B District was viewed as a megaproject or program with over 30 national and regional pavilions from Asia and the Pacific Continent and nearly 20 international organization pavilions, encompassing various architectures, such as public housing with supporting facilities (including the housing with catering, shopping, assistance, functional facilities and supporting facilities) and municipal engineering. To oversee and direct the completion of EXPO, a temporary top-management organization named Construction Headquarter (CHQ) was developed to represent government as owner and monitor. It also involved in whole construction process of A&B District and had power to govern other stakeholders.

Our primary data set is composed of three categories of materials: meeting minutes of Construction Headquarter (CHQ) from 2008 to 2010; documents issued and received by CHQ; transcribed recordings of main events. We focus on the analysis of archival data because the documents are lengthy and carefully prepared to reflect a viewpoint for key actor - the government.

The minutes chronologically codified the issues that construction headquarter involved and documents which transferred between CHQ and other stakeholders. They contained information on file number, issuing authority/department, subject, date and pages as shown in table 1.

Table. 1 Summary of Document Data

No.	Types	Description
1	Minutes of routine meetings	Routine meetings are held during the construction phase
2	Documents issued	CHQ issued documents to others, mostly for the purpose of cooperating stakeholders
3	Record of main issues reminder	CHQ picked out some main issues influencing construction process and recorded their information.
4	Documents received	Documents received by CHQ, mostly from government authorities
5	Construction information	Basic construction information, some of which were submitted by contractors
6	Record of large conference and ceremonies	Large conference and ceremonies were accompanied with milestones
7	Work plan and summary	The plan were made by CHQ and its consultants

We obtained a usable set of file entries through two filtering steps. 1) Since the documents were all from view of CHQ, we only picked out direct files concerning A&B District and eliminated duplicated files (i.e., the same documents filed by different units). 2) Since our level of analysis is project organizations, we excluded the file of internal management routine reports of CHQ such as appointment and removal of personnel and focused on the focal projects-related records.

In addition, ten project management guidelines were picked out for support. For instance, *The Outlines of Shanghai Expo Construction* showed the responsibilities of main participants, and *Annual Reports of Shanghai Expo Construction Headquarter Office* reflected milestones of A&B District in every year. Besides, 10 interviews, a total of 12.3 hours, were conducted with the key managers in the owner and main contractor. These supplementary materials further validate and elaborate the decisions and processes underlying the project activities recorded in the project documents.

DATA ANALYSIS AND RESULTS

Governance structure and governmental intervention

EXPO used multilevel governance structures, embodied in two governmental committees and two project management offices in the organization, shown as Figure.1.

- *The Organizing Committee*, top management team to host EXPO. A 46 official Committee constitutes a top-management group at central government level. The Vice-Premier of the State Counsel is the chairman.
- *The Executive Committee*, second-level management team led by the Organizing Committee. The secretary of the Shanghai Municipal CPC Committee and mayor of Shanghai were chairman and executive chairman of it, with 41 authorities in local government departments.
- *The Construction Headquarter (CHQ)*, core management organization of EXPO. Sixteen members from the administrative departments of the municipal government and main investors, with deputy mayor (as the commander) and undersecretary (as the executive vice-commander) of Shanghai commanded it.

- *The Construction Headquarter Office (CHO)*, the actual executive unit in construction phase. CHO is a coordinating organization but not an investment unit and not a construction unit.
- *Bureau of EXPO Coordination (BEC)*, temporary governmental department composed of 29 divisions. It was established to take charge of the preparation, organization, operation and management of the EXPO.
- *EXPO Land, EXPO Facilities Management Center and EXPO Shanghai Group*, state-owned companies established specially for EXPO construction. Parts of employees of them were in CHO, whose responsibilities are now transferred to the issue of Post-Expo Utilization.

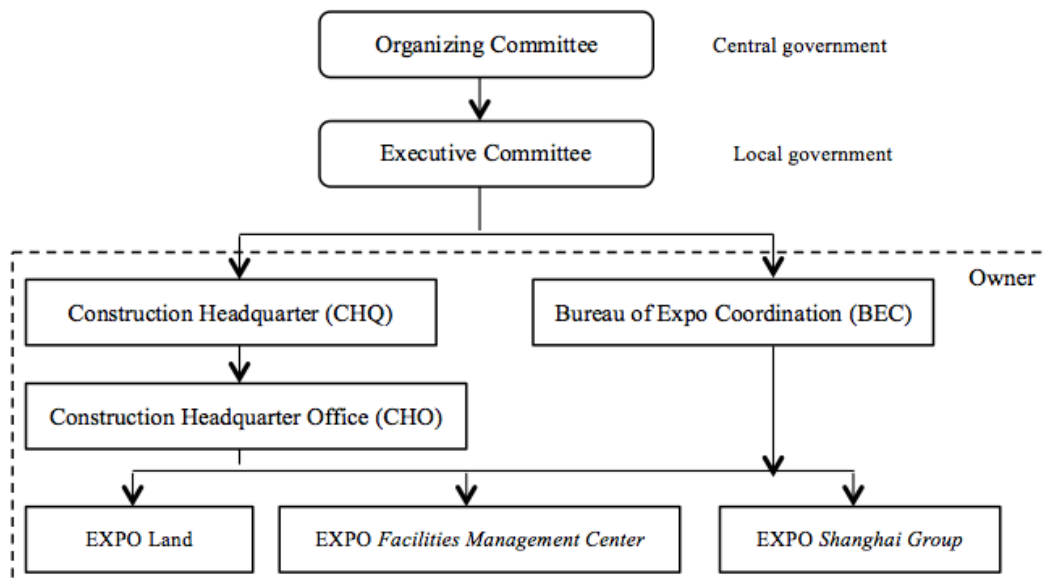


Figure. 1 Structure for governmental governance in EXPO

The data suggests that EXPO adopted a highly power-integrated governance structure. Why does it matter whether the government is in the central position? To understand the importance therein, the nature of China's state system must be considered. Since centrally planned economic system was replaced by socialist market economy, China's economy has been in growth for decades and the influence of market forces on the economy has increased rapidly. Although construction industry in China currently ranks among the largest in the world, from the point of view of Westerners, it is still a country that has a different culture, different management practices, and a different business environment. Policy makers in China still take markets primarily as a tool that serves national development(Sigley, 2006). Many infrastructure projects and megaprojects have been undertaken as part of the government's national development plans, with significant political meanings. The EXPO's construction phase was only about 1000 days due to delay in early phase. To accelerate the construction, the integrated top management organization as aforementioned with high power was established. In spite of their temporality, the formal and political powers show that governing other stakeholders in a project organization even without a contractual relationship is possible, which will be analyzed in the following sections. The observation here contrasts findings from earlier empirical studies on megaprojects carried out in Western countries in

which the role of the government has been discussed as relatively inactive (Ruuska et al., 2011, Sallinen et al., 2011). Besides, we cannot deny the importance of governmental authorities in megaproject. For example, to cope complexity of London Olympics, an integrated system in different levels with clearly-defined interfaces was built up (Davies and Mackenzie, 2014). Therefore, we postulate the following proposition in line with Chinese construction context.

Proposition 1: Government establishes a top management organization to provides convenience in governance approach in megaprojects, which leads to good outcome.

Three types of projects in A&B District and political intervention

Due to its wide coverage and many sub projects, A&B District was separated into A and B by the permanent building “one Axis and four Pavilions” so as to facilitate management and maintain the relative integrity and independence of each project. 4 main contractors, 8 subcontractors, 5 designers and 3 construction supervisors were in A&B District. It was the Project Department in CHQ responsible for the coordination and service of the foreign self-built pavilions. Therefore, the A&B District formed an organizational structure that took the Project Department as the core and fully depended on the main contractors and other participants.

In A&B District, there were three kinds of pavilions with different clients, investors and owners. The self-built pavilions were financed and constructed by foreign investment. The rental pavilions were designed and constructed by Chinese companies and after completion leased out to the participating countries which were charged for the decoration and exhibition arrangement. Meanwhile, the joint pavilions were designed and constructed by Chinese companies and after completion provided to the participating countries for their exhibition arrangement for free. The organizational modes of those pavilions were compared to analyze the relational governance approaches responded to institutional context.

Table 2 Different Types of Sub-projects in EXPO

	Investors	Contractors	Clients
Self-built pavilions	Foreign capital	Foreign companies	Foreign companies
Rental pavilions	Chinese capital	Chinese companies	Foreign companies/government
Joint pavilions	Foreign capital	Chinese companies	Foreign companies

The main Chinese contractors have extensive experience of working with governments. One of those is Shanghai Construction Group (SCG), which has strong political ties with the local government and is under the supervision of the Shanghai Government. It grew out of the Shanghai Construction Engineering Division and was established in 1953. Since then, especially after transforming into a state-owned enterprise in 1994, SCG has completed a large number of landmark projects. Based on the extensive experience of cooperation, the government gave SCG more power as decision maker, which was rarely seen in other projects. We argue that in the government intervention context, the increasing power of contractors arises from interests sharing and the empowerment of administrative intervention. The empowerment increases the contractors' dependence on dealing with routine to carry out the project, thus inducing the contracted companies to increase its own power to resist the owner's dominance of resources and benefits.

Relating the case findings to the research question shows that the political strategy is very relevant in a megaproject context. The foreign contractors attempted to find the best way to cooperate with local government. Regarding the self-built pavilions, foreign capital led relative difficulties in governance. The government did not interfere in their construction directly but acted as coordinator. However, most problems happened in self-built pavilions, as one of informants from the CHQ said:

“Most self-built pavilions started in 2009, which leads to much pressure on schedule. The foreign investors insisted on their own construction pace and requested a lot. We have to satisfy them as well as push them to accelerate.... And although they completed later than rental pavilions, we’re lucky that the opening day was not delayed.”

The EXPO for foreign companies is a regular oversea project as usual, while it undertakes important meanings for Chinese government. Therefore, conflicting interests and claims of different organizational stakeholders need to be balanced (Donaldson and Preston, 1995). The conflicts range from purely financial objectives to corporate social performance. Since social goals have the potential to constrain financial performance, the underlying relational governance mechanisms face the challenges that how to meet the interests of all participants. This leads us to propose:

Proposition 2: The more percentage the foreign investment takes, the less government’s intervention is, thus leading the project less controlled.

Public support for EXPO and trust-based relationship

To construct the project successfully, the government created the culture with Chinese characteristic—“Put the project’s interests above everything else”. In the guidance of this culture, it was a major issue to every construction participant of how to complete EXPO with high quality and efficiency. They sacrificed their vacations and worked around the clock. The media acclaimed that it was a strength that only existed in a socialist society. Vice versa, (Olander and Landin, 2005) find that the public often has no formal power to affect the upper lever’s decision for a project, but it has an informal power that can press powerful stakeholders to change their positions. In EXPO case, a shared view of the societal importance of the project was promoted both to ensure commitment of workers and to reduce public opposition towards the project. Earlier research has also shown how public opposition towards a megaproject can be very harmful for its progress (Aaltonen and Sivonen, 2009), highlighting the importance of activities directed at ensuring the support of all stakeholders affected by the project. In return, national culture is one determinant of the organizational choice of one system of governance over another (Toivonen and Toivonen, 2014). After political intervention from the central government, even the arrears could have been mostly liquidated. Thus we propose:

Proposition 3: Applying relational governance approaches based on trust increases the satisfaction of the stakeholders, especially the public.

CONCLUSIONS AND LIMITATIONS

Through the analysis of project routine documents, our attempt to capture the relational governance in megaprojects gains qualitative supports. The study is still ongoing so

the analysis part is incomplete. The institutional context in which construction project stakeholders operate is a function of the networks with which they are connected (Pryke and Smyth, 2012) (P.216). In general, scholars have come to agree that governance does not require the government to play a dominant and authoritarian role that was traditionally assigned. The government is assumed a stirring role that works together with a web of actors from the private and public sectors (Li, 2006). However, findings from the textual analysis indicate that relational governance runs at multi levels and among multi actors with government as the core. Relational governance is linked closely with social context, and operates at intra-organizational and inter-organizational levels. Projects operate under strict regulatory requirements, such as laws and policies, as well as comply with normative systems, such as market rules and specialization. External institutional context can compel social actors to form one type of ties rather than other types (Li, Yao et al. 2011). The social context of the relations determines that certain relational ties add surplus and symbolic value to the contractual value of an exchange (Chi et al., 2011). Institutional context impacts the whole governance process of projects. Especially, the role of government cannot be underestimated in the Chinese society.

All three propositions are, to a greater or lesser extent, supported by our data. The findings reinforce our understanding that the political intervention plays a key role even foreign capital exists. Our findings suggest that despite the various backgrounds project participants still see trust-based relationships as more important than contractual arrangements.

A number of limitations in our research can be identified. First and foremost, the analysis is based on a single program. Although the type varies within it and cross-case comparison has been done, the sub-projects operate under an integrated top management organization. Second, these findings cannot be extrapolated to all institutional contexts. Especially the first proposition is based on Chinese market especially. Therefore, a potential comparison between Chinese and western cases is welcomed.

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