

# Social Governance Mechanisms in Construction Projects

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## Abstract

Inter-organisational Relationships (IORs) governance literature is by now quite extensive and has been studied in different contexts (e.g. economics, strategy, organisation, and management). Due to the complex nature of IORs in construction projects in terms of inter-firm exchanges (e.g. engineering, procurement, finance, construction, and operation), many academics and practitioners have studied possible outcomes of applying different governance mechanisms in these projects to control the behavior of different project parties. One of the identified governance mechanisms is the social mechanism that has been broadly examined through conducting empirical studies. However, its definition and indicators are highly dispersed that may lead to contradictory results or misinterpretation of outcomes. This paper aims at making contribution to the IORs governance literature through explaining and clarifying the meaning of social governance and identifying, synthesising, and categorising different instruments that have been used for measuring the existence of different modes of social governance mechanism in previous studies. As a result, we will provide a useful framework to have a better understanding of social governance mechanism and its application in construction projects.

**Keywords: Clan Control, Input Control, Inter-organisational Socialisation, Inter-personal Socialisation, Social Governance Mechanisms.**

## 1. Introduction

Organisations are increasingly relying on each other for achieving their business objectives as work becomes more complex, non-routine, and knowledge intensive, which demands the expertise from multiple partners for problem solving and risk sharing. The construction industry is fragmented with many specialised trades (Chen & Chen 2007). Collaboration across various organisations is essential for undertaking complex civil infrastructure projects. Historically, the business relationships for collaborations in these projects are governed predominantly by formal contracts. Over time, the adverse effects from the adversarial nature of formal contracts have been recognised as contributing to a culture of dispute and non-cooperation, thus hampering

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the efficiency and effectiveness of the construction project delivery (Chan et al. 2006; Eriksson & Westerberg 2011). Subsequently, attention has shifted to examine the use of alternative governance mechanisms to contract-- social governance mechanisms (Tuuli et al. 2010).

Inter-organisational relationships (IORs) literature examines governance mechanisms for inter-organisational collaboration. IORs governance refers to the arrangements used to regulate the relationships among two or more cooperative parties with the main focus on mitigating opportunistic behavior and promoting cooperation. The governance mechanisms can be categorised into two types: formal and social governance mechanisms. Social governance mechanisms, also referred to as relational governance, relational control, social control, informal control, informal contracts, or social embeddedness, focus mostly on deploying informal means to regulate the IORs. Although there is an extensive literature on social governance mechanisms, the definition is varied, often vague and the instruments used for measuring this construct vary a great deal from study to study making it difficult to build knowledge based on past studies.

This paper attempts to clarify the meaning of social governance mechanism through literature review as well as identifying and synthesising different instruments that have been used for measuring the construct in previous studies. The contribution of this paper is to clarify of a key construct in the IORs literature and to synthesise diverse range of instruments used for measuring the construct, which facilitates the further development of a common language and building block for the advancement of IORs literature.

In the following sections, the concept of social governance mechanism is reviewed with focus on the underpinning theories, levels of socialisation and the whole spectrum of social control modes. Then, various social governance mechanisms are typologised through developing a two by two matrix. Finally, conclusions are drawn and implications are discussed.

## **2. The Concept of Social Governance**

For having more comprehensive understanding of social governance concept, we conceptualise it through three different viewpoints. At first, we recognise various theoretical foundations of social governance arrangement. Then, we identify two typological categorisations for social governance mechanism and try to describe each perspective.

### **2.1. Theoretical Background**

According to the IORs literature, inter-organisational exchanges are subject to two main problems: safeguarding and coordination (Hoetker & Mellewigt 2009; Jones et al. 1997). Safeguarding has to do with mitigating opportunistic behavior of engaged parties in a collaborative project whereas coordination is about integrating dispersed activities and resources which are critical to the value creation in the project (Hoetker & Mellewigt 2009).

Part of the IORs governance literature mostly focuses on safeguarding role of social governance mechanism seeing it as an arrangement for controlling the behavior of exchange parties and arguing how this informal apparatus safeguards the exchange parties against risks of opportunistic behavior as well as reducing the environmental uncertainty by utilising trust and fostering embedded relationships in the project network (Li et al. 2010; Mellewigt et al. 2007; Smyth & Edkins 2007; Yang et al. 2011; Yu et al. 2006; Zhao & G. Wang 2011). However, there are several studies addressing both safeguarding and cooperation remedies in form of social governance mechanism in inter-organisational exchanges (Aulakh & Gencturk 2000; Boulay 2010; Carson et al. 2006; Chen et al. 2009; Claro et al. 2003; Deeds & Hill 1998; Dekker 2004; Dong et al. 2008; Ferguson et al. 2005; Fryxell et al. 2002; Hoetker & Mellewigt 2009; Kohtamäki et al. 2006; Luo et al. 2011; Patzelt & Shepherd 2008; Poppo & Zenger 2002; Poppo et al. 2008; Sengun & Wasti 2009; Wang & Wei 2007). Theory of trust, relational contracting, and social exchange theory are underpinning theories for describing the advantages of social governance mechanism in regulating the behavior of exchange parties (Macneil 1980; Das & Teng 2002; Das & Teng 1998; Dyer & Singh 1998).

According to the trust perspective, the literature categorises trust into two general types of calculative trust and benevolent trust (Doney & Cannon 1997) whereas the former is much affected by reputation of exchange parties as well as the chance of future inter-relationships among partners and the latter is more related to the history of relationships among parties (Carson et al. 2006). Calculative trust is more rational-based and can remove incentives for opportunistic behavior by ensuring parties about their capabilities and introducing sanctions in the form of the loss of future business (Heide & Miner 1992; Carson et al. 2006). On the other hand, benevolent trust refers to the degree to which one party is confident of the other party's goodwill and reliability in an uncertain exchange situation (Smith & Van De Ven 1994; Nootboom et al. 1997; Yang et al. 2011; Das & Teng 1998) and consequently the longer the duration of successful relationships among parties, the greater and deeper the benevolent trust (Dyer & Chu 2000; Yu et al. 2006).

Relational contracting, in the same way, argues that working together through long term interactions along with deploying different social means may help partners to create shared culture and shared norms and subsequently, to reduce goal and preference incongruence while increasing commitment, mutuality, solidarity and flexibility (Carson et al. 2006; Kohtamäki et al. 2006; Patzelt & Shepherd 2008; Poppo et al. 2008; Wang & Wei 2007). Development of these relational norms may provide the parties with a degree of confidence enhancing the cooperative atmosphere in the project (Hatten et al. 2012; Macneil 1974; Macneil 1978).

Originating from sociology, social exchange theory views people's behavior in terms of exchanges of resources and claims that the lack of resources encourages parties to engage each other for obtaining valuable inputs (Levine & White 1961; Das & Teng 2002). Researchers argue that this dependency may promote commitment among exchange parties, thereby increasing the probability of future collaboration (Young-Ybarra & Wiersema 1999; Parkhe 1993).

## **2.2. Different Levels of Socialisation**

Despite the importance of understanding the nature of socialisation in IORs, there is noticeable ambiguity in the literature about the role of social mechanism as it operates at different levels of analysis (Dekker 2004; Gulati 1995; Ring & Van de Ven 1992; Zaheer et al. 1998). The main challenge in conceptualising the role of social arrangements in economic exchange is extending an inherently individual-level phenomenon to the organisational level of analysis, because socialisation is taking place among members of organizations, rather than the organisations themselves (Zaheer et al. 1998). Zaheer et al. (1998) argue that theories of IORs are committing a “cross-level fallacy” by viewing the social exchanges as inter-organisational properties without differentiating micro (individual) and macro (organizational) levels of exchanges. In other words, these theories do not state the mechanisms by which individual-level action affects organisational-level outcomes. They argue that in an actual exchange relationship, individual boundary spanners that are representatives of their organisations in inter-firm relationships, have an important role in exchange performance. On the other hand, institutionalised practices and routines at the organizational level for governing IORs, provide a stable environment within which inter-organisational and inter-personal norms develop. That is, these two micro and macro levels of analysis, have a reciprocal relationship among each other. Hence, neither alone is enough for realising the performance of exchange relationships. Similarly, Luo et al. (2011) categorise social mechanisms into relational norms (macro-level) and inter-personal socialization (micro-level). They point out that relational norms reflect the shared expectations about behavior among engaged organisations whereas inter-personal socialisation refers to personal ties between senior executives of exchange partners. Supporting Zaheer et al. argument about reciprocity among these two levels, they assert that inter-personal socialisation may strengthen the bonds among people leading to group norms that increases the commitment of the parties to a cooperative relationship (Luo et al. 2011).

## **2.3. Different Modes of Social Governance**

Generally, in terms of the target of control mechanisms for regulating the inter-firm relationships, the IORs governance literature has identified four types of control modes, namely, output control, behavior control, clan control, and input control (Kirsch et al. 2010; Tuuli et al. 2010; Cardinal 2001). Typically, the former two control modes are categorised as formal control modes while the latter two are referred to as informal or social control modes. Since the focus of this paper is on the social governance mechanisms, the discussions below concentrate on social control modes.

Under ambiguous and uncertain conditions, reliability and accuracy of measurement declines and consequently formal control mechanisms are not dependable individually (Ouchi 1979). In these situations, clan control via social interactions and shared norms and values, provides a supportive environment for partner firms to have a better understanding of the process and objective of their collaboration (Das & Teng 1998). Having established norms of performance, any violent behavior would be rejected by the other members through subtle reminders like

humor, kidding or hinting to modify the faults, and if the violent member continues to ignore the common norms, the collective sanction may be imposed (Jaworski 1988; Kirsch et al. 2002). That is, clan control only encourages desirable behavior through soft measures and there is no formal constraint on member's behavior (Cardinal et al. 2004; Das & Teng 1998). As a result, this type of control is manifested in a certain level of trust among firms (Das & Teng 1998). However, repeated ties between partners may lead to overembedded relationship in a way that impedes innovation, leaves out new links, and impairs the organizational structure (Lin et al. 2012).

**Table 1- Social Governance Definition**

Perspective	Definition	Representative research
<b>Theoretical background</b>	<b>Control:</b> Utilizes trust to encourage desirable behavior, mitigate opportunism, lower monitoring cost, and facilitate dispute resolution	Carson et al. (2006); Li et al. (2010); Kohtamäki et al. (2006); Mellewig et al. (2007); Patzelt & Shepherd (2008); Poppo et al. (2008); Smyth & Edkins (2007); Wang & Wei (2007); Yang et al. (2011); Yu et al. (2006); Zhao & Wang (2011)
	<b>Cooperation:</b> Employs joint actions and information sharing and creates shared culture and shared values, norms, beliefs and goals to reduce goal and preference incongruence and increase parties' cooperation, commitment, mutuality, solidarity and flexibility	Aulakh & Gencturk (2000); Badenfelt (2010); Boulay (2010); Carson et al. (2006); Chen et al. (2009); Claro et al. (2003); Deeds & Hill (1998); Dekker (2004); Dong et al. (2008); Ferguson et al. (2005); Ferguson et al. (2005); Fryxell et al. (2002); Hatten et al. (2012); Hoetker & Mellewig (2009); Kohtamäki et al. (2006); Luo et al. (2011); Patzelt & Shepherd (2008); Poppo & Zenger (2002); Poppo et al. (2008); Sengun & Wasti (2009); Wang & Wei (2007);
<b>Level of Socialisation</b>	<b>Inter-organisational:</b> Refers to the extent of inter-organisational ties among parties in the project network	Luo et al. (2011); Zaheer et al. (1998)
	<b>Inter-personal:</b> Refers to the personal ties among boundary spanners and project team members in different parties' organisations	Luo et al. (2011); Zaheer et al. (1998)
<b>Type of control</b>	<b>Input control:</b> Focuses on providing the desired environment in the project by manipulating the degree and variety of knowledge, skills, experiences, and attitudes displayed on the job	Cardinal (2001); Khodyakov (2007); Snell (1992)
	<b>Clan control:</b> Focuses on shared values and shared norms and common vision	Kirsch et al. (2010); Ouchi (1979); Tuuli et al. (2010)

Input control, also referred to as "skill standardisation" (Mintzberg 1979) or "ex-ante control" (Flamholtz 1979), can be considered a form of resource allocation referring to the selection and training processes that can be deployed by the exchange parties to regulate the antecedent conditions of exchange performance i.e. the required knowledge, skills, abilities, values, and motives of partners and their personnel (Snell 1992; Cardinal 2001). Through wise partner

selection as well as careful staffing and training practices, Input control may mitigate deficiencies that might be unfeasible to remedy later (Snell 1992; Kirsch et al. 2010).

### 3. Operationalisation of Social Governance

The operationalisation of social governance in the empirical literature is rich but diverse which could lead to inconsistent interpretation or even misinterpretation of the research results. In the discussions below, we review the empirical literature and categorise extant instrument used to operationalise social governance into a 2 by 2 matrix (Figure 1). The matrix serves as a framework for identifying various social arrangements under different contexts.

	Inter-organisational	Inter-personal
Input control	Indicators for inter-organisational socialisation focusing on input control	Indicators for inter-personal socialisation focusing on input control
Clan control	Indicators for inter-organisational socialisation focusing on clan control	Indicators for inter-personal socialisation focusing on clan control

**Figure 1- Social governance matrix**

#### 3.1. Inter-organisational Socialisation for Input Control

As mentioned previously, the main purpose of utilizing input control is to prevent later performance problems through proper selection and appropriate training in the front-end stage of the project. Based on abovementioned literature, some scholars argued that individual level and organisational level of interaction among exchange partners should be distinguished. Consequently, those input control arrangements that are related to the selection of project partners or the collaboration approach and dependent skills can be classified as inter-organisational socialisation mechanisms (Table 2). Applying these mechanisms can foster the sense of trustworthiness in the project and facilitate cooperation among parties leading to better project performance.

#### 3.2. Inter-personal Socialization for Input Control

As shown in table 3, input control arrangements can be in the form of personal characteristics of project team members and the extent to which they have shared culture and values and are able to count on each other in terms of competence and reputation trust or benevolent trust. The partners should be careful about appointing right personnel as their organisation's representatives or team members, because even if the engaged parties have a good history of relationship with each other, the project team members may not be able to match their counterparts in other parties' project teams and consequently it may raise considerable problems in the project.

**Table 2- Indicators for inter-organisational socialisation focusing on input control**

	<b>Inter-organisational socialisation</b>	<b>Representative research</b>
<b>Input control</b>	<ul style="list-style-type: none"> <li>• Utilising partnering arrangements; Partnering training and seminars</li> <li>• Joint governance design;</li> <li>• Joint alliance board; Rotation of alliance board members</li> <li>• Good reputation of parties</li> <li>• To be able to rely on each other to keep promises</li> <li>• To be able to count on each other to be sincere in dealings</li> <li>• To be able to rely on each other when face with adversity</li> <li>• To be able to rely on each other when the specifications are vague</li> <li>• Feeling like part of one family</li> <li>• Having successful experience of collaboration in the past</li> <li>• Having shared history and culture</li> <li>• Having shared processes and procedures for doing the work</li> <li>• Having well established routines between partners</li> <li>• Having shared long- and short-term goals and plans</li> <li>• Having some attractive ideas or resources for each other</li> <li>• Expecting the relationship to last in the future</li> <li>• Preferring maintaining the relationship other than seeking individual benefits</li> </ul>	<p>Aulakh &amp; Gencturk (2000); Boulay (2010); Chen et al. (2009); Dekker (2004); Ferguson et al. (2005); Fryxell et al. (2002); Hatten et al. (2012); Jap &amp; Ganesan (2000); Li et al. (2010); Li et al. (2010); Lui (2009); Mellewigt et al. (2007); Patzelt &amp; Shepherd (2008); Poppo &amp; Zenger (2002); Poppo et al. (2008); Sengun &amp; Wasti (2009); Smyth &amp; Edkins (2007); Wang &amp; Wei (2007); Yang et al. (2011); Yu et al. (2006); Zaheer et al. (1998); Zhao &amp; Wang (2011).</p>

**Table 3- Indicators for inter-personal socialization focusing on input control**

	<b>Inter-personal socialization</b>	<b>Representative research</b>
<b>Input control</b>	<ul style="list-style-type: none"> <li>• People of both parties can work together properly and efficiently</li> <li>• People of both parties can count on each other to keep promises</li> <li>• People of both parties have fair perspective towards each other</li> <li>• People of both parties have faith in each other to look out for each other's interests even when it is costly to do so</li> <li>• Project team members have shared norms and values</li> <li>• Project team members have common vision of the project</li> </ul>	<p>Kirsch et al. (2010); Wang &amp; Wei (2007); Zaheer et al. (1998)</p>

### **3.3. Inter-organisational Socialisation for Clan Control**

Like input control, clan control mechanisms can be considered in both individual and organisational levels. Previous studies utilised different instruments for measuring the extent to which clan control arrangements are applied at inter-organisational level (Table 4). Proper use of clan control mechanisms may reduce the behavior uncertainty and the risk of opportunism in inter-firm relationships by providing a common understanding of the project objectives and sharing organisational norms and values so that alleviate potential disputes and deal with unexpected situations in a more cooperative environment.

### **3.4. Inter-personal Socialisation for Clan control**

Alongside those clan control mechanisms used at inter-organisational level, some studies identified other clan-type arrangements that are related to the individual level. As illustrated in table 5, these types of control arrangements are used to facilitate social interaction among

project team members in order that clarify the code of conduct for expected behavior and provide a collaborative environment leading to cooperation satisfaction.

**Table 4- Indicators for inter-organisational socialisation focusing on clan control**

	<b>Inter-organisational socialization</b>	<b>Representative research</b>
<b>Clan control</b>	<ul style="list-style-type: none"> <li>• Having participatory decision-making and/or Joint planning</li> <li>• Working together to resolve the problems caused by whichever party</li> <li>• Solving disagreements by cooperation and working together</li> <li>• Frequent fine-grained information exchange</li> <li>• Providing proprietary information if it can help the other party</li> <li>• Frequent interaction and informal socialization</li> <li>• Communicating with each other about events and changes that will affect collaboration</li> <li>• Welcoming each other's improving ideas</li> <li>• Committing to improvements that may benefit the relationship as a whole, and not only individual parties</li> <li>• Not using pressure tactics to influence each other</li> <li>• Having fair perspective towards the relationship</li> <li>• Trying to adapt themselves to other parties' needs</li> <li>• Accessing new networks and resources through each other</li> </ul>	Boulay (2010); Claro et al. (2003); Dekker (2004); Ferguson et al.(2005); Ferguson et al. (2005); Fryxell et al. (2002); Hatten et al. (2012); Jap & Ganesan (2000); Li et al. (2010); Li et al. (2010); Luo et al. (2011); Patzelt & Shepherd (2008); Poppo & Zenger (2002); Poppo et al. (2008); Sengun & Wasti (2009); Wang & Wei (2007); Yu et al. (2006); Zaheer et al. (1998); Zhang et al. (2009); Zhao & Wang (2011).

**Table 5- Indicators for inter-personal socialization focusing on clan control**

	<b>Inter-personal socialization</b>	<b>Representative research</b>
<b>Clan control</b>	<ul style="list-style-type: none"> <li>• Partners' top managers invite each other to attend important occasions and social activities</li> <li>• Partners' top managers often visit each other's company</li> <li>• Partners' top managers are very familiar with each other via frequent meetings and discussions</li> <li>• All project team members attempt to be "regular" members of the project team</li> <li>• Project team members have face-to-face contacts at the operational level</li> </ul>	Aulakh & Gencturk (2000); Chen et al. (2009); Deeds & Hill (1998); Ferguson et al. (2005); Fryxell et al. (2002); Hoetker & Mellewig (2009); Kirsch et al. (2010); Luo et al. (2011); Zaheer et al. (1998);

## 4. Conclusion

Large construction projects typically involve multiple partners and, as a result, effective governance of inter-organisational relationships (IORs) is essential to the successful delivery of these projects. The literature on IORs governance is relatively recent and there are overlapping and sometimes inconsistent definitions of similar constructs. One of such constructs is social governance mechanism. This paper develops a framework for classifying the various social governance mechanisms along two dimensions. Further, various instruments used for measuring social control mechanisms have been classified and synthesized.

The main contribution of this paper to the IORs governance literature is the typology framework for classifying various social control mechanisms and the synthesis of various instruments for



measuring the construct. The framework will facilitate the advancement of knowledge of IORs governance at clarifying the construct in various contexts and thus a common platform and language enabling the accumulation of knowledge.

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