

The impact of inter-organizational relationships on contractors' success in winning public procurement projects: The case of the construction industry in the Veneto region



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Abstract

Our work aims to analyze the inter-organizational relationships of contractors in public procurement projects. We investigate how a contractor's network position affects his success in winning public procurement projects, measured as the average value of projects won. To accomplish this objective, we adopt a social network analysis approach. Our evidence comes from an empirical analysis of the network positions of general contractors involved in public procurement projects in the construction industry in the Veneto region from 2008 to 2012. We explore through social network measures how partnering ability influences organizational success in winning public procurement projects. We identify three components of partnering ability: breadth; reach; brokerage. Only the first is crucial in determining the success of firms in public procurement practices. Managers involved in public procurement projects in the construction industry should invest in nurturing their partnering abilities by connecting to many partners to be involved in future projects.

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1. Introduction

In line with project-based organizational literature, we study public procurement projects as temporary coalitions of project-based firms that come together to achieve a certain aim (Pryke, 2004). In particular, in this work, we refer to public procurement projects that involve project-based organizations in the construction industry. The main characteristics that describe project-based firms in the construction industry, according to Gann and Salter (2000), are: a) the organization of design and production processes by project; b) the one-off, or at least highly customized, character of products and services; and c) the tendency of firms to operate in diffuse coalitions of

companies along a value chain. The project-based nature of construction work implies that firms are required to manage complex networks. Performance and competitiveness depend, not solely on a single firm, but on the efficient functioning of the entire network (Gann and Salter, 2000). Thus, it is important to consider the social dimension of project organizing, as has been suggested by Ekstedt et al. (1999) and Beck (2000), which is key to understanding the economic behaviors of firms involved in projects.

Previous studies have demonstrated the relevant role of the firm network strategy in managing construction projects. Loosemore (1998) used social network analysis (SNA) to investigate interpersonal relationships in the context of construction projects under crisis conditions. His study argued that the analysis of construction project governance at the interpersonal level sacrifices an opportunity to understand the impact of performance incentives and contractual relationships between the firms that comprise a project coalition.

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Chinowsky et al. (2008) analyzed the social network model of construction integrating classic project management concepts with social science variables, in order to focus on knowledge sharing as the foundation for achieving high performance teams and project results. In a similar vein, Chinowsky et al. (2010) illustrated how to improve team effectiveness by building and expanding inter-organizational knowledge exchange networks. Ei-Sheikh and Pryke (2010) combined gap analysis and social network analysis to study project network gaps and project success. The combined use of both was found to be a powerful tool to examine inter- and intra-network projects for effective project governance. Park et al. (2011) studied the relational structure of inter-firm collaboration networks and their effects on organizational performance in the construction industry. Most recently Wambeke et al. (2012) used SNA to identify key subcontractors in project processes, Ruan et al. (2012) showed how knowledge is integrated among project participants according to their social network patterns and Ling and Li (2012) studied the social network strategy of Chinese firms and foreign firms in managing construction projects in China.

Our work aims to analyze the inter-organizational relationships of contractors in public procurement projects. We extend the use of SNA as a potential mean to interpret the successful engagement of firms in projects. Our work differs from previous studies in that it uses SNA techniques to investigate how the network position of a single organization affects the success of that organization in terms of the probability of winning public procurement projects (measured as the average value of the projects awarded to the firm). Explorative in nature, our work analyzes inter-organizational relationships among organizations involved in traditional public procurement and public-private partnership (PPP) practices in the construction industry in the Veneto region during the period 2008–2012.

These inter-organizational relationships characterize project networks whose members combine their diverse capabilities into latent modalities, as has been shown in various studies (e.g., Bechky, 2006; Haunschild, 2003; Sedita, 2008). The latency of project networks is due to the survival of actor relations after the completion of specific temporary collaboration projects that involve temporary coalitions of actors. The survival of the relationship gives rise to repeated collaboration practices among coalition members that are likely to share the same objectives, working methods and values. Over time, these members are able to build a collaborative community, eventually reinforced by co-location and collaborative intensity. As argued by Grabher (2001, p.1334), the proliferation of projects is dependent on a social context. In this social context, differently qualified actors interact on a regular basis for both formal and informal knowledge exchange. As a result, a system of cooperation (Becker, 1982) based on common interests serves as a fertile soil for future projects. It is, therefore, worthwhile to investigate the relationship between the role of firms in this social context and their success in project practices.

The paper is structured as follows. Section 2 illustrates the main features of project organizing, referring to the literature on project-based organizations (PBOs). Section 3 illustrates our

approach, which examines project organizing in the construction industry through a social network analysis lens, and proposes our research questions. Section 4 describes our empirical analysis, and Section 5 presents the main results. Finally, Section 6 offers concluding remarks.

2. Partnering ability and public procurement practices in the construction industry

In the literature, partnering in construction has been presented as a potentially important way of improving construction project performance through direct benefits for clients and contractors (Bresnen and Marshall, 2000; Gadde and Dubois, 2010). Research has suggested that performance, in terms of costs, time, quality, buildability, fitness-for-purpose, and a wide range of other criteria, can be dramatically improved if participants adopt more collaborative working procedures (Bennet and Jayes, 1998).

There is not a unique definition of partnering; instead, much of the literature refers to the Construction Industry Institute's (CII) definition:

A long-term commitment by two or more organizations for the purpose of achieving specific business objectives by maximizing the effectiveness of each participant's resources. This requires changing traditional relationships to a shared culture without regard to organization boundaries. The relationship is based up on trust, dedication to common goals, and an understanding of each other's individual expectations and values. Expected benefits include improved efficiency and cost-effectiveness, increased opportunity for innovation, and the continuous improvement of quality products and services.

[CII, 1991]

The partnering procurement method aims to eliminate adversarial relationships between clients and contractors by encouraging the parties to work together towards shared objectives and the achievement of a win/win outcome (Griffiths, 1992; Watson, 1994). Partnering seeks to develop closer relationships among the parties in a project (Black et al., 2000), and it is more successful when it involves a high level of commitment to shared goals, preferably including those of the client (Fellows, 1977). Partnering encourages parties to work together on construction projects within an environment of trust and openness, which ultimately leads to efficient project development and avoids conflicts.

It is important to distinguish between project partnering and strategic partnering. Project partnering refers to partnering for the purposes of a specific project and focuses on short-term benefits, while strategic partnering represents a more long-term commitment that spans several projects (Beach et al., 2005; Cheng et al., 2001; Winch, 2000). Some researchers see project partnering as the first step towards long-term strategic partnering (Cheng et al., 2001; Kubal, 1996; Thompson and Sanders, 1998), considering the latter to be a more mature form of collaboration (Ellison and Miller, 1995).

Alongside these perspectives, it is possible to consider public project partnerships as particular PBOs, in which the

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