A Theoretical Framework to Understand the Relationship between Stakeholders in Malaysian Construction Industry

Yee Cheong Yong and Nur Emma Mustaffa

1Faculty of Built Environment, Department of Quantity Surveying, Universiti Teknologi Malaysia, 81310 UTM Skudai, Johor, Malaysia

Email: ethanyongyc@gmail.com; b-nuremma@utm.my

Abstract:

A theoretical framework to understand the adversarial relationship between stakeholders in Malaysian construction industry is proposed. It applies the non-cooperative Game Theory (GT) and Transaction Cost Economic Theory (TCE) to traditional procurement. Both theories give insights into the heart of the industry’s problem – opportunism in the nature of the relationship among stakeholders especially between client and contractor. There can be a Prisoner’s Dilemma situation at the core of the client-contractor relationship, which may be the cause of project inefficiency. This is echoed by the assumption in TCE literature that there are limitations to stakeholder’s rationality – bounded rationality, due to the incapacity to process information without error. Such a situation gives rise to opportunism as they need to protect themselves from possible loss. The attitudes of the contracting parties and the cooperative relationships among the project stakeholders are important to alleviate opportunism for successful project delivery. GT that emphasises the importance of future relationship as pre-condition for cooperative behaviours and Relational Contracting (RC) principles found in TCE may serve as a useful strategy towards fostering cooperative relationship and better teamwork within the construction industry. Therefore, a relationship-based procurement arrangement such as strategic partnering will improve project performance. Since the data collection is still ongoing, the discussion and analysis reported were based on the literature review and pilot survey carried out. The findings should provide a strong foundation for further research towards the development of an effective relationship-based procurement model in Malaysia.

Keywords:

adversarial relationship, game theory, Malaysian construction industry, opportunism, transaction cost economics

1 Introduction

Since construction is inherently a project-based activity, in which time, quality and budget are associated with one-time individual project (Dubois and Gadde, 2002), relationships were often built upon on a short-term basis with construction stakeholders attempting to take advantage from one another from an existing project; such