Relational Governance Mechanisms and their effect on Contractual Completeness

A case study within a top European company in the Oil & Gas industry

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Alfonso Ma-Tay
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ABSTRACT

This document investigates the relationship between the usage of relational forms of governance and the completeness of contractual documents. It further examines how this relationship is presided by the development of social norms between contracting parties.

A case study was conducted within Company X, a top European company in the Energy Sector, where interviews to managers and contractual documents were inspected for a qualitative analysis of the aforementioned relationship.

The results indicate that the employment of relational governance mechanisms does affect contractual completeness on one of its two dimensions: contingency adaptability. This aspect is enhanced as relational norms are interwoven in the exchange agreement. A clear connection with the second dimension, term specificity, could not be identified, and is instead attributed to contextual idiosyncrasies such as industry type and governance structure design.

A theoretical model depicting this phenomenon was developed, including mediating effects by situational variables.

KEYWORDS: contract management; relational governance; trust; contractual completeness; contingency adaptability; term specificity
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Chapter 1- INTRODUCTION

Good people do not need laws to tell them to act responsibly, while bad people will find a way around the laws.
Plato

If you have ten thousand regulations you destroy all respect for the law.
Winston Churchill

A verbal contract isn't worth the paper it's printed on.
Sam Goldwyn

In the next twenty years, global energy demand is expected to double (Dorian et al., 2006; Berends, 2007). Consequently, experts predict that large-scale EPC projects in the energy sector are needed to satisfy an ever-growing and more globalized world (Berends, 2007). The Oil & Gas industry, as one of the industries belonging to the energy sector, is widely known as one of the best examples of project complexity (ibid) and hence, sets the benchmark for research in the Contract Management field. As the world continues to rely on fossil fuels as one of the main drivers of global economy (Longwell, 2002; Dorian et al., 2006), projects in this industry top the list of priorities of both governments around the world and global institutions that worry about the challenges the future might pose on the security of energy supply (Correljé & van der Linde, 2006). Thus, these projects are driven by a vast assortment of stakeholders due to funding and technical capability limitations – one single entity is no longer capable of carrying out such works (Pongsiri, 2004; Berends, 2007). Project financing bodies, banks and investment funds come together with main contractors, sub-contractors and other stakeholders from the global context to execute these complex endeavors (Humphries, 1995).

The ground where all these heterogeneous entities interact is the contract signed amongst the different parties, which according to Müller and Turner (2005) represents the tool used to transfer, share and allocate risks and responsibilities among them. In this regard, academics explain how risks should be allocated to the parties that are most prone to manage the risk adequately (Turner, 2003; Müller & Turner, 2005). Accordingly, responsibility sharing should also follow an appropriate and effective distribution, where the rights and liabilities of all parties are clearly stated. Therefore, contracts must be built in a way that they encourage the appropriate management of stakeholders without sacrificing project performance in any way. They should instead, become a vehicle for project successfulness.

However, contracts are neither infallible nor a stand-alone tool (Luo, 2002; Wang & Chen, 2006; Gil & Marion, 2009; Pinto et al., 2009). It is nearly impossible to foresee or predict every future contingency or unforeseen event; even more so, to define terms and clauses for them. Hence, contracts must be flexible and must allow strategic decision making on behalf of the parties’ project managers during the inevitable and tumultuous situations arising during the execution phase. These decisions complement the contract’s features to ultimately ensure a positive outcome of the project. In this regard, managers have typically relied on the use of discrete contracts for the clear definition of responsibilities, risk-sharing and benefits among stakeholders (Williamson, 1979; Gil, 2009). However, this strict allocation is only optimal with high degree of certainty of
future events (Williamson, 1979). The current project environments clearly evidence how this is utopian. Thus, projects in complex environments have challenged the existing contract management practices and questions have been posed by scholars on the real effectiveness of these traditional contractual documents. Formal contracts might no longer suffice in turbulent contexts, and additional aspects must come into play.

Accordingly, scholars have proposed that there is a necessity to study how the integration of relational norms and collaborative behaviors may provide the flexibility that contracts need for adapting to unanticipated contingencies (Luo, 2002; Poppo & Zenger, 2002; Wang & Chen, 2006; Gil, 2009; Beuve & Saussier, 2010; Gustafsson et al., 2010). Through the incorporation of social processes into the exchange agreement, it is argued, superior written contracts in terms of effectiveness, with more adaptive clauses and an improved allocation of risk will result (Zaghloul & Hartman, 2003). In view of this, there is a consequent need of inspecting the current contracting tendencies in the Oil & Gas industry, to verify if indeed relational governance is being adopted as a new contracting strategy. This will reveal if companies operating in this industry are moving away from the traditional discrete contracts to more collaborative alliances and partnering efforts, where relational governance stands centrally, and if there are any perceived benefits from their application.

1.1 RESEARCH QUESTIONS

Based on the discussion presented above, it may be inferred how organizations are on the outlook of new contractual forms that allow them to maintain their strategic position in such harsh environments. Hence, the emergence of relational governance mechanisms as the providers of new contracting approaches creates the base of this study by answering the following research questions:

- How does relational governance between the contracting parties affect the completeness of contracts in Company X?
- Do the current contractual trends within Company X lead to an inclusion of relational governance in contracts?

Complementary to the definition of our research question, the unit of analysis, or in other words, that major entity being analyzed in this study must be clarified. In this particular study, it is the relational governance mechanism employed by Company X in the negotiation and execution phases of the S-Project that represent the unit of analysis.

1.2 RESEARCH OBJECTIVES

By answering the research questions presented above, the study aims to fulfill the following research objectives:

a) Uncover the diverse contractual governance mechanisms and reach an understanding on the interplay of relational governance and formal contracting.
b) Explain the consequences that the incorporation of relational norms has on the completeness of contractual documents, with a special focus on trust.

c) Recognize current contractual trends within Company X, as an important player in the Oil & Gas industry.

d) Identify areas in need of further research, regarding contractual relationships.

1.3 ARCHITECTURE OF THE STUDY

In the current chapter, Chapter 1 - Introduction, the authors have presented the background to the study, explaining how complex projects ask for new governance mechanisms between the contracting parties. Based on this background, the research questions were established and the unit of analysis of the study was clarified.

In Chapter 2 – Literature Review a brief introduction of how projects operate in the Oil & Gas industry will be provided, in order to familiarize the reader with the context of our study. Formal contracting and all the different categorizations of contracts will be covered. Another thematic presented is relational governance, along with all the different academic perspectives on this issue. Additionally, a focus is given to trust, which plays a center role in this study. A last topic covered is partnering and joint ventures, as a clear example of the applications of relational governance. By reviewing all this literature, the knowledge gap will be identified as a justification to pursue this study and the authors’ propositions will be developed.

Chapter 3 – Methodology, discusses the authors’ underlying philosophical viewpoints along with the research approach, research strategy, type of data to gather, data collection instruments used, method of analysis and the issues surrounding the validity and reliability of the undertaken study. It presents the reasons behind the choices made, as well as acknowledges limitations of the chosen methods.

In Chapter 4 – Data Analysis, the chosen analytical method will be employed to inspect the sampled project and determine the effects that relational norms have on the architecture of contracts, and the consequences on the flexibility and specificity of its clauses.

Chapter 5 - Discussion, will explain more in depth any cause-and-effect relationships, patterns or trends identified in the previous chapter, while drawing comparison with previous studies to see in which way the findings align with other research that precedes it.

In the final section, Chapter 6 - Conclusions, a recapitulation of the findings will be provided, and will be linked back to the research questions and objectives of the study to guarantee that the results or findings have met the purpose of the research. A theory will be developed in order to explain the relationship between relational governance and contractual completeness. Moreover, the authors will highlight the implication of this study for both the academics and practitioners, state the limitations of the study and suggest potential areas of research where fellow researchers may embark.
Chapter 2 - LITERATURE REVIEW

In this inductive study, the conduction of a literature review is a key factor, as it creates a general theoretical framework for the research and a solid information base for the identification of issues to be later analyzed in the sources of data.

In order to have an array of literature as complete as possible, literature was searched in a variety of sources: (a) multiple electronic databases, including Emerald, EBSCOhost, JSTOR and Sciencedirect, (b) academic-oriented search engines such as Google Scholar, and (c) personal visits to the Umeå University Library. Since the topic of this research is multi-disciplinary, literature was drawn from diverse fields of study, including management, law, economics and behavioral-oriented fields. For the conduction of a more refined search, a selection of keywords was utilized, amongst which were: “contract management”, “governance mechanisms”, “contract types”, “contract risk management”, “relational governance”, “trust”, “partnering”, and “joint ventures”. All of the above keywords were coupled with a common denominator: “construction”, which aimed to limit the industries to which the texts referred to, stressing the industry under investigation and providing a more valid and applicable theoretical foundation.

Despite these constraints there was still a vast amount of literature on the topic, and consequently the authors limited it in further ways. Firstly, only peer-reviewed academic literature was considered, as well as hard-cover publications by the most influential authors in the area of contract management. Secondly, background subjects, such as contract management, project management, and theoretical contract theories like Transaction-Cost Economics and Agency Theory are not deeply discussed in this review as a way to stay focused on the more specific elements under investigation.

From this compilation of readings, three main categories of literature were identified. A first category involves readings on formal contracting mechanisms, which describe the nature and modalities of written contracts. A second category focuses on relational contracting mechanisms, where most of the papers study the interplay of formal and relational governance and the integration of both. A third category discusses partnering styles, as specific applications of integrated formal and relational forms of governance.

Following these categories as guidelines for the structure of this section, the literature review is organized as follows. A first section gives a brief overview of the Oil & Gas Industry to set a context for the reader. A second section analyzes the broad spectrum of formal governance mechanisms, identifying different types of categorizations for these contractual methods. The third section analyzes informal relational mechanisms, their origins and how they interact with formal contracts, emphasizing the role played by trust. A fourth and final section discusses partnering and joint ventures as an application of relational governance in the industry. Closing remarks, including a standpoint of the authors are presented at the end of the document.
2.1 OIL & GAS INDUSTRY OVERVIEW

2.1.1 Brief industry update

Experts state that over the next two decades, the world’s energy consumption is projected to grow by 40%. In other words, the capacity that has to be built in the next twenty years in order to satisfy this new demand is above twice what was realized during the last few decades. This growth in demand will mainly take place in developing countries and to a minor extent in industrialized countries. In these last countries, it is the gas demand that will rise, as it remains a popular source of fuel in the electricity generation sector (Correljé & van der Linde, 2006).

However, despite the increasing environmental and security concerns and their stimulation of worldwide interest in renewable energies, hydrogen power and fuel-efficient transportation innovation, it is reported that there won’t be a significant parting from an oil and carbon-based world economy in the foreseeable future (Dorian et al., 2006). This is all an indication of an intensification of projects in the Oil & Gas sector, where projects will likely grow in difficulty and size while their completion times will contract.

2.1.2 Sectors and Types of Projects

According to the American Petroleum Institute (2009), the Oil & Gas Industry encompasses the following sectors: (a) oil and natural gas production, (b) oil refining, (c) pipeline operations, (d) natural gas distribution and (e) oil marketing. In all sectors except the last one, major construction projects take place, presenting specific variations between the oil and gas projects.

On one hand, Berends (2007) explains that the typology of oil-related projects varies geographically. In Western Europe, projects under execution are predominantly in the development of facilities for conversion and treating of crude oil rather than for increasing distillation capacity. The opposite happens in North America and the Asia Pacific region. Demographic factors and economic growth are the main drivers for the development of projects, thus focusing on the provision of additional refinery capacity needed to meet the rising consumption.

On the other hand, the author informs that gas-related projects concentrate on processing facilities. However, he reports that there will be a shift from projects aiming to increase capacity of supply via pipeline to projects increasing the production of Liquid Natural Gas (LNG). Economic and infrastructure factors have led to a drop of LNG carrier prices, causing a tendency to favor LNG-related projects. In parallel, the construction of regasification terminals is predicted to increase accordingly.

A general characteristic of projects in this industry is their high level of risk (Berends, 2007). This is due to multiple reasons:

a) no revenues are yielded by the large investments until after implementation;
b) the facilities are indivisible with limited possibilities to reduce risk exposure through decomposition of the scope of work;
c) relocation of the facility is generally not feasible with limited options for redevelopment of equipment; and

d) development and execution times are long, usually 2–3 years and 3–5 years, respectively.

2.1.3 Main Stakeholders in the Industry

According to Berends (2007), due to the magnitude of importance of projects related to Oil & Gas, the development of such endeavors typically involves a large number of organizations and stakeholders. In fact, the author explains how the success of said projects relies on the proper setup of systemic organizational frameworks that promote cooperation amongst the institutions involved. He cites the following entities as the main stakeholders involved in the execution of Oil & Gas projects:

a) the owner of the facility (and its shareholders), lenders, export credit agencies, insurers, etc.;

b) contractors (licensors, engineering contractors, construction contractors, suppliers of equipment and materials, etc.);

c) authorities (governmental as well as local), local communities, non-governmental organizations, etc.;

d) customers and feedstock suppliers.

In this list, the term ‘contractors’ no longer refers to a single entity (international or national oil company) possessing all the necessary engineering and project management capabilities. Construction projects in the Oil & Gas sector are so sophisticated, that firms are unable to undertake them alone (Ngowi, 2007). Therefore, contractors (engineering and construction companies) must work together in the form of joint ventures or other kinds of partnering modalities to share risks, responsibilities and capabilities (Berends, 2007).

2.2 FORMAL CONTRACTS

2.2.1 Definitions and Main Perspectives

The literature provides a wide number of definitions of contract. This diversity of terminologies can be clustered in two main streams: nature-oriented definitions (definitions that answer the question “what is it?”) and objective/function-oriented definitions (aimed to answer to “what is it for?”).

Nature-oriented

According to Gil (2009), contracts are future performance obligations that concern buyer-supplier relationships. A major contributor to the study of contracts through his Transaction Cost theory, Williamson (1998:53), defines contracts as “interdisciplinary undertakings that joint economics with organization theories and law”. An additional nature-related definition comes from Müller and Turner (2005), who connote a contract as a set of promises enforced by law. Finally, according to Al-Harbi and Kamal (1998:73) “a project contract is a legal form that binds the parties involved in a project”. According to these renowned authors’ statements, it can be inferred that the nature of
contracts is linked to relationships between parties, legal constraints and interdisciplinary fields.

**Objective/Function-oriented**
The debate surrounding the definitions of a contract through its objectives and applications is unsurprisingly complex and articulated in the literature. Williamson (1998), introducing and explaining his transaction-cost perspective, defines contracts as a necessary tool used to facilitate buyer-supplier exchanges. Later on, in 2002, he expanded this concept by defining contracts as governance frameworks. In the same period, Turner and Simister (2001) define contracts as objective-sharing platforms that allow the governance of client-contractor relationships; in addition, they state that contracting brings to an effective project organization fundamental to a win-win risk-benefit sharing. In the same line, Gil (2009) looks at contracts as essential artifacts mediating the governance systems between distinct firms. An even more original the perspective is given by Cannon et al. (2000:91) who introduce in this debate the concept of flexibility: “contractual agreements provide the formal structure within which adaptations can be made in response to unforeseen contingencies”. After all, unforeseen contingencies are risks: contracts are instruments for optimizing the risk sharing balance between different parties (Müller & Turner, 2005). Summing up, all these functional definitions are interconnected and aligned in looking at contracts as effective tools, instruments and frameworks for facilitating the management of governance, risk, business relationships and objectives.

Despite these different yet complementary perspectives and definitions, it is important to underline some common characteristics that emerge from the literature:

a) **Uniqueness** – Every contract, like projects, is different from one another and is tailored for the specific unique business environment.

b) **Multidisciplinary** – Contracts are a matter of many different disciplines, making it unrealistic to close defined application boundaries.

c) **Problem solving aim** – Contracts are necessary and exist in order to solve problems and facilitate relationships. Nonetheless, at the same time, they can be problem sources.

d) **Incompleteness** – All the key authors (Williamson, 1998; 2002; Turner & Simister, 2001) agree on the inherent incompleteness belonging to every kind of contract. A contract can be tailored according to the specific needs and priorities of the situation, but it will always leave room for unexpected events to turn a success into a failure or an agreement into a disagreement.

These are only some of the main complexity attributes that contract management deals with. Therefore, in a transaction-cost perspective, resources have to be invested in order to properly manage this critical success tool.
2.2.2 Contract Types

Once the nature and function of contracts have been introduced through their definitions, the next step is focused on providing a comprehensive review of the different contract categorizations. Unsurprisingly, there is a wide span of criteria and views that authors have followed, in order to categorize contracts. Some of them approached the topic broadly and generally; others followed a payment strategy perspective and other papers present a categorization according to specific industries. In order to provide a clear but complete overview, the main contributions will be described following a top-down approach, from the most general to the most specific.

2.2.2.1 General Differentiation: Discrete vs. Relational Contracts

Gil (2009) provides a first contract categorization, introducing discrete contracts and relational contracts.

*Discrete contracts* are those that emphasize completeness, planning schedules, performance measurement criteria and KPI. More specifically, Gil (2009) further divides discrete contracts in Classical and Neoclassical, involving definitions already given by Williamson (1979). Both authors describe Classical contracts as discrete, complete contracts that are based on formal documents, legal rules and self-liquidating transactions; they are based on low level of interdependence and they discourage third party participations in case of disputes. In addition, according to Williamson (1979), Classical contracts are related to market governance, implying their suitability for standardized transactions both occasional and recurrent.

An evolution, in terms of flexibility, is provided by the Neoclassical contracts. Gil (2009), states that these contracts introduce a higher degree of flexibility and the presence of a third mediator for dispute resolution and performance measurement. The prior explanation, given by Williamson (1979), combines Neoclassical contracts with trilateral governance models; moreover he added that they are more suitable for long-term and occasional contracts threatened by a higher uncertainty level. In this kind of environmental conditions the Classical contract cannot be a good choice, due to the prohibitive transaction costs necessary in order to have reliable information and lower level of risk. However, one of the critical success factors for Neoclassical contracts is the willingness and capability of both, the client and the contractor, to allow a certain flexibility in the contract (ibid).

According to Gil (2009), *relational contracts* emphasize client-contractor cooperative behaviors, reciprocity and mutual dependence. He concludes that cooperative behavior can exist only if properly supported by an aligned governance structure, social forces and reliability. If these three elements are not present, the cooperative behavior leads to opportunism that represents the mayor threat for the contracts that belong to this family. The author describes relational contracts as inter-firm alliance documents, where substantial asset-specific investments are involved. This level of risk and benefit sharing between the parties involved is justified by a high duration and degree of complexity (Williamson, 1979), needs of mutual cooperation and flexibility (Gil, 2009), and ongoing administration guaranteed by a transaction-specific governance (Williamson, 1979). Additionally, Williamson (1979) looks at relational contracts as useful tools in case of recurring and not standardized transactions. Moreover, Turner and Simister
(2001) argued that relational contracts are suitable for transactions in which both, the product that has to be delivered and the process to do it, are uncertain. Figure 1 summarizes the key aspects of both Discrete and Relational Contracts.

<table>
<thead>
<tr>
<th>DISCRETE CONTRACTS</th>
<th>RELATIONAL CONTRACTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classical</td>
<td>Neoclassical</td>
</tr>
<tr>
<td>Emphasize completeness and measurement criteria</td>
<td>More flexible</td>
</tr>
<tr>
<td>Based on formal documents and legal rules</td>
<td>Presence of a mediator in case of disputes (trilateral governance model)</td>
</tr>
<tr>
<td>Low level of interdependence</td>
<td>Capability for being flexible needed</td>
</tr>
<tr>
<td>Discourage third party participations in case of dispute</td>
<td>Suitable for long term and occasional relations</td>
</tr>
<tr>
<td>Suitable for standardized transactions</td>
<td></td>
</tr>
</tbody>
</table>

Figure 1  Key features of Discrete and Relational Contracts

2.2.2.2 Differentiation based on Contract Strategy

A different and additional categorization perspective has been introduced by Turner (2003). The author, referring to projects, categorizes contracts according to the level of service/product commissioned to a contractor, based on the client’s procurement strategy. Three main types are defined: Design & Build, Turnkey and Joint-venture/Partnering.

a) *Design and Build contracts* – It is the simplest contractual form that is present in construction projects. In this case the client just provides a design draft; the contractor will be responsible for delivering detailed design, engineering and construction. This solution sees a balanced responsibility between parties, but requires a higher level of knowledge and attention by the client; he must be able to distinguish and formalize where the limit between the parties’ responsibilities is.

b) *Turnkey contracts* – In this case the contractor is responsible for all the life cycle of the project. He is compensated for providing all that is necessary for Engineering, Procurement and Construction (EPC). These contracts require high investments in the client side ex ante, in the pre-bidding phase. In this period of time, the client must ask exactly what he wants and must set achievable challenges for the contractor. However, this type of contract requires fewer resources during the execution phase.
c) **Joint-Venture & Partnering** – This last contract category is one of the latest project contract strategies to emerge (Turner, 2003). In this type of contract, the client and the contractor share equally the risk and benefits connected to the project and everyone should be responsible for his expertise area. Both parties have to be skilled and professional. In addition, their culture has to be aligned with this ‘not easy to manage’ way of contracting projects.

The differentiation based on the contracting strategies perspective is not alternative to Discrete and Relational contracts. As stated by the authors, Design and Build and Turnkey contracts can be part of the Discrete Contracts, while Joint-Venture & Partnering are common Relational contract strategies.

### 2.2.2.3 Differentiation based on Payment Strategies

The most common contract categorization perspective identified in the literature is based on the different payment strategies that can be involved in transactions. These refer to Fixed-Price, Remeasurement or Unit-Price, Cost-Plus and Alliance contract.

a) **Fixed-Price** – This payment strategy implies that the contractor is recompensed by the client with a pre-fixed amount of money (Lump Sum). According to Turner and Simister (2001), fixed-price contracts should generally be used when the risk and the product uncertainty is low thanks to clearly defined project deliverables; it is also recommended for inexperienced clients, in the case where there is a high process uncertainty. In fixed-price contracts, the project manager controls the risk and the owner (client) cannot give any problem-solving solution (Müller & Turner, 2005). However, according to William and Ashley (1987), fixed-price contracts have their downside, this kind of contracts have been responsible for many severe disputes.

b) **Remeasurement/Unit-Price** – Remeasurement payment strategy can be based on a schedule of rates, a bill of quantities and a bill of materials (Turner & Simister, 2001). For all of them, the contractor is refunded according to agreed unit rates that can be related to time, to quantities, etc. According to Turner and Simister (2001), this alternative is convenient when uncertainty of both process and product is relatively low. However, the complexity of the project has to be low because the client is responsible for most of the risk (Müller & Turner, 2005). Consequently, as stated by Yeh and Charoenngam (1999), unit-price contracts imply many detailed and extensive data and they have to be based on a strict Gantt schedule for each of the phases of the project. Despite these risky issues for the client, a remeasurement (or reimbursable) contract allows more flexibility during the project.

c) **Cost Plus** – Here the contractor is repaid for all his expenses, plus an agreed margin. This solution, according to Turner and Simister (2001), is convenient when there is a very high degree of uncertainty and it allows a proper flexibility for the contractor. In these risky projects there is little effort put by the parties in specifying ex-ante the product and the process. However, these savings at the initial stages of the project are balanced by the necessity of implementing an effective cost-monitoring system during the other project stages (Turner & Simister, 2001). This type of contract gives rise to the debate about contractor performances. Cost-Plus contracts, as argued by Turner and Simister (2001), have a negative effect on the contractor performances.
Consequently all the contract types should be evaluated also according to the contractor low-performance risk.

d) **Alliance** – This last payment strategy matches with the Relational contracts. It is not a proper real payment, but a risk-benefit sharing between the parties. This type is used when there is a high level of risk and uncertainty and both the contractor and the client have the capability to manage at the best only a part of the project (Turner & Simister, 2001). The critical success factors for an alliance are related to the suitability of the parties’ culture, the availability of a capable partner and project with big dimensions (ibid). According to Müller and Turner (2005), alliance contracts have to be well managed taking care that all the parties involved are always aligned, informed and that they are aware of every single decision taken.

### 2.2.3 Contracts in the Oil & Gas Industry

After a brief overview of how contracts are categorized in the literature, more specific issues regarding contracts types in the Oil & Gas industry will be reported. As stated above, in this industry projects are huge, fragmented, complex, and involve many different players. Consequently, according to Olsen et al. (2005), in Oil & Gas projects the transaction and governance costs are very high and it is very difficult to coordinate so many different players. Before the nineties, the most common contracts were Discrete, but lately, due to the increased complexity, the trend moved to Alliance and Relational contracts, in order to smooth coordination, reduce costs and conflicts (ibid). Nowadays, the most common contractual forms in the Oil & Gas industry are:

a) **Individual Contracts** – The client holds close contracts with each of the different suppliers. Consequently he is responsible for coordinating all of them and to manage every eventual conflict or disagreement. This type of contracts is very rare and requires a high expertise of the client in many different technical and technological knowledge areas. Nevertheless, the client has the full control of the project.

b) **EPCI Contracts** – Generally they are LSTK (explained in detail below); these contracts are signed between the client and a main contractor. The main contractor is responsible for managing all the relationships with the sub-contractors and suppliers. He has the total control of the project and he is totally responsible for the project performances. The client, on the other side, is in a less risky situation, but has to be very careful on deciding which kind of payment term it is selecting, and on determining ex ante all the requirements and deliverables.

c) **Project Alliances** – In this case the main players share mutually the risk involved in the project and everyone is supposed to manage his area of expertise. However in this contract type, when there is an unexpected problem, it is difficult to agree on the responsibility.

According to Von Brancaconi and Loch (2004), LSTK (Lump Sum Turn-Key) contracts are the most used type in Oil & Gas construction projects. A LSTK contract can clearly address all the responsibilities and is effective on minimizing interfaces between players. The common critique to this contract type is its lack of flexibility in projects where the degree of uncertainty is high. However, these authors argued that LSTK can also provide flexibility for managing unforeseen contingencies, within specific limits
related to size and complexity. If these limits are overtaken, they agree that a cost reimbursable or an alliance contract may be more suitable.

An overview of the discrete mechanisms for economic exchanges has been provided. Despite the proven advantages, both clients and contractors involved in the Oil & Gas industry agree on certain of their shortcomings and are on the outlook of forms of governance with a higher degree of flexibility and equal risk sharing between parties. According to the literature, relational governance may be an appropriate approach in order to have a better contracting tool for contemporary project environments. Thus,

*Proposition 1:*
*There is a tendency to move from discrete contracts to more relational contracts, where trust and cooperative and collaborative behaviors are fomented.*

In the following section, the literature on relational mechanisms will be reviewed, in order to define them, highlight their importance and explain how they interact with the formal contracts discussed in the previous section.
2.3 RELATIONAL GOVERNANCE

In recent years, companies increasingly rely on the formation of strategic alliances to execute projects of ever-growing complexity. This trend has led to an increasing interest in the study of mechanisms to support formal contracts in the proper guidance of such collaborations. Relational governance has therefore, become one of the most significant current discussions in contract management. As explained by Gil (2009), relational governance refers to that kind of governance in which the parties’ personal relations become heavily intertwined with the economic exchange. These personal relations refer to social norms such as trust, cooperation and solidarity, amongst others. Far from being an isolated affair, relational contract theorists advocate it is present in every contract, as “all economic exchanges happen in a relational context” (Gil, 2009:145). In these relationally-governed exchanges, obligations, pledges and expectations are enforced through the promotion of noneconomic, sociological norms such as flexibility, solidarity and information exchange (Poppo & Zenger, 2002).

2.3.1 Reasons for Relational Governance

There is a considerable amount of literature on the emergence of relational governance. A first reason identified, and where scholars reach a major consensus, is the introduction of relational governance as a consequence of contractual incompleteness. According to Pinto et al. (2009), it is impossible to include provisions for every single future contingency in formal contracts; in fact, there is no logical way of forecasting all the situations that might unfold as the project is under execution. Therefore, relational governance arises as a response to this incompleteness (Wang & Chen, 2006).

Nonetheless, relational governance plays a double role with the handling of incomplete contracts. As stated before, it may come to fill the gap always existent in contractual documents, but it may also help in the fine-tuning of said documents. Through the sustainment and development of a relationship, lessons are learned from the previous exchange, which is therefore reflected in the refinement of the contract’s revisions (Poppo & Zenger, 2002).

In addition, a second reason derives from this inevitable incompleteness of contracts. Since they can’t forecast upcoming situations, there is an inherent inability of formal contracts to specify how the parties should behave in the presence of uncertainty or unforeseen events. Formal contracts do not set any guidelines for adaptive responses of the contracting parties. Hence, as disturbances arise, formal contracts are unable to accommodate expectations and obligations in a way that suits both parties. It is in these cases, that relational mechanisms dictate how to maintain the continuity of the relationship and how to reach a mutually acceptable resolution that overcomes the contractual deficiencies (Luo, 2002).

Moreover, a third motive is that the costliness of formal contracting pushes organizations to seek for alternative, less-costly mechanisms. Transaction-Cost Economics grounds itself on the assumption that opportunism is latent in every exchange and that there is a natural inclination of parties to behave opportunistically (Williamson, 1979). Consequently, as a way to mitigate exchange hazards deriving from opportunism, managers tend to craft meticulous and complex contracts that aim to define all possible terms and conditions in anticipation of how the exchange will unfurl.
(Poppo & Zenger, 2002). However, as suggested by Gil & Marion (2009), trying to specify in advance contingencies for all foreseeable events may become an undertaking prohibitively expensive to craft and enforce, making way for relational contracting. Relational norms, and more specifically, the formation of trust, not only reduces the high costs of drafting complex documents but also the transaction costs of monitoring and controlling (Pinto et al. 2009), as self-monitoring mechanisms replace costly traditional progress inspection procedures such as external or third-party monitoring. Furthermore, the existence of trust amongst the contracting parties at the negotiation stage can bring down overall costs of contracts. As evidenced by Zaghloul and Hartman (2003), when high levels of trust are present, contractors perceive low level of risk stemming from the inclusion of disclaimer clauses in the contract. As a result, contractors tend to lower their risk premiums, bringing down the total cost of the contract.

Additional cost savings might derive from engaging in relational contracting. As Williamson (1979) argues, transaction-specific savings can be reached as contracts are progressively adapted to unfolding events. As the exchange progresses, both institutional and personal trust evolves such that the individuals responsible for adapting the interface feel personally and institutionally committed to the venture and refuse to engage in any opportunistic efforts. In the words of Poppo and Zenger (2002:711), transaction costs are reduced by “replacing contracts with handshakes”.

A fourth reason why relational governance is incorporated into exchange agreements is that formal documents and stringent clauses signal distrust (Olsen et al., 2005). In fact, both Pinto et al. (2009) and Poppo and Zenger (2002) report that the over-emphasis placed on the specification of economic incentives and the penalties for undesirable behavior make the parties feel vulnerable in relation to the other, impeding the spontaneous formation of cooperative behavior, undermining trust and encouraging, rather than discouraging, opportunistic conduct. As described by Beuve and Saussier (2010:15), “by its simple existence, a formal contract sows the seeds of mutual suspicion, causing a decline in mutual trust and making the development of cooperative behavior impossible”. Wang and Chen (2006) further describe this negative effect, describing the ultimate engagement of the parties in unwanted and detrimental cycles of suspicion and retaliation, further discouraging the use of formal contracts. Once the perceived effects of relational governance have been discussed, the authors propose:

**Proposition 2:**
The presence of relational norms stimulates the writing of more flexible and adaptable contractual clauses.

**Proposition 3:**
The presence of relational norms fosters term specificity; the contracting parties become less hostile and encourage the explicit definition of clauses.

The evidence regarding the positive effect of relational governance has led academics to engage in a debate regarding whether relational governance should be viewed as a substitute or as a complement for formal contracts. Both views are discussed more in detail.
2.3.2 Relational Governance as a Substitute for Formal Contracting

Scholars supporting the ‘substitute’ view claim that contracts undermine the development of relational governance, dooming their coexistence. In fact, Hartmann & Caerteling (2010) deem them mutually exclusive and hold contracts responsible for adversarial relationships and mistrust during the exchange.

A major supporter of such a discriminative view is Sako (1992), who in her ACR-OCR framework views ‘arms-length contractual relations’ (ACR) and ‘obligational contractual relations’ (OCR) as two opposite poles of the continuum of buyer-supplier contractual relations. In ACR, there is no commitment amongst the parties and a notorious absence of goodwill and trust. These arrangements are typically short-term and defined by explicit contracts. On the other side of the spectrum are OCR, which are characterized by reciprocity, trust and interdependence, evoking the relational agreements under discussion. In agreements of this type, after a sustained relation, collaboration reaches a maximum point at which a contract is no longer needed. This continuum presented by Sako evidences the inability of both explicit and formal contracts to coexist with informal and implicit ones. She presents both typologies as different alternatives, in which the selection of one eradicates the other.

Other scholars refine this view by stating that the incorporation of relational norms does not necessarily lead to the abolition of the entire contract, but only the elimination of certain clauses. Ngowi (2007) stresses that certain contractual clauses may be substituted by trust, under the assumption that the exchange partner won’t behave opportunistically, but not to the extent that the entire contract is dismissed.

2.3.3 Relational Governance as a Complement of Formal Contracting

Many important studies that have been pursued to disconfirm the ‘substitute’ view and support the hypothesis of complementarity between contracts and relational norms. In his study of International Joint Ventures, Luo (2002:1) proposes that the “contract provides an institutional framework guiding the course of cooperation, while cooperation overcomes the adaptive limits of contracts”. He argues that the parties cannot rely exclusively on trust and that explicitly defining terms and conditions provides a clear framework that states each party’s rights and obligations, as well as the guidelines for cooperation. Further, a well specified contract reduces the exposure of a contract to risk, increases the level of confidence among the parties and therefore encourages cooperation.

Following the same line of thought, Wang and Chen (2006) discuss that informal mechanisms are not flawless and enclose certain limitations. Since they are not explicitly formalized, informal contracts may lead to ambiguity of expectations and misunderstandings, ultimately allowing for opportunistic behavior and increase of coordination costs. Von Branconi and Loch (2004) support this idea by explaining that informal mutual commitment faces limitations when one of the parties suffers sufficiently; goodwill is long forgotten and the parties turn to self-interested behavior. This is where the formal contract enters and reminds each party what is expected from them.
Hartmann and Caerteling (2010) analyzed this complementing feature from a procurement point of view, arguing that an interplay of both price-based and trust-based mechanisms is required, and that they are intertwined and not irreconcilable. In their discussion, Wang and Chen (2006) provide a situational guideline for this interplay of informal governance mechanisms; in situations where the degree of uncertainty is higher, there is more demand for interplay between formal and informal governance mechanisms. Conversely, with a lower degree of uncertainty, the interplay of said mechanisms is limited. Olsen et al. (2005) expand on the topic and not only acknowledge the complementary relationship of governing mechanisms such as incentives, authority and trust, but explain that the proper usage of one mechanism may increase the efficiency of the others, an interaction that they have coined as ‘multiplier effect’.

2.3.4 Trust: Relational Governance’s core Mechanism

Jeffries and Reed (2000:873) define trust as “a state involving confident positive expectations about another's motives with respect to one's self in situations entailing risk and, thus, is an orientation toward others that is beyond rationality because it increases one's vulnerability to opportunistic behavior”. Trust is a recurrent theme in contract management literature, as it represents a critical social norm for the success of both formal and informal inter-organizational arrangements (ibid).

Trust is of particular concern in the construction industry, where according to Zaghloul and Hartman (2003) trust levels among contracting parties are generally low (2.3 out of 5). This is an industry where adversarial culture is traditionally deep-rooted, standard form contracts and traditional contracting methods are still followed and it is characterized by a fragmented and divisive structure (Cox & Thompson, 1997). However, as the forces of globalization force contractors to seek for further management approaches such as alliances and strategic partnerships, academics have directed their attention to the study of trust and providing guidelines for said relationships (Ngowi, 2007).

2.3.4.1 The role of Trust

Trust acts as the first stone in the engagement of contractual relationships. According to Wang and Chen (2006:712), “firms will only risk entering into a contractual relationship when they trust their trading partners who will adapt to any unexpected situation in a manner that respects a fair division of economic returns”, which explains how trust serves as the foundation for the establishment of inter-organizational exchanges.

In consonance with many other scholars, Pinto et al. (2009) explain how trust’s major role is acting as a facilitator for positive relationships and the creator of synergies in cooperative relationships (Eriksson & Laan, 2007). This is central to high performance in projects, since according to Müller and Turner (2005), collaboration is a key issue for enhanced performance. Amongst the aspects cited as strengthened or enhanced by trust in inter-organizational relationships are: project team dynamics, top management support, coordination across functional departments (Pinto et al., 2009; Scherling & Wang, 1993) and managing relationships (Gustafsson et al., 2010).
Apart from acting as an economic lubricant by reducing transaction costs as other relational norms do, further relevant elements that are reported as being improved are learning (Ngowi, 2007) and information exchange (Hartmann & Caerteling, 2010), both of which are central to cooperative relationships.

2.3.4.2 Sources of Trust

Special attention has been given by academics to the origins of trust, this is, those antecedents or factors that foster it. Opposing views by sociologists and psychologists have been identified in the literature when it comes to determining the basis for the emergence of trust.

Previous cooperation

According to Poppo and Zenger (2002), sociologists support the idea that trust derives from direct past interaction amongst the contracting parties. Ryall and Sampson (2003) cite previous cooperation as a basis for the development of trust and as a signal of need for formal governance. Hartmann and Caerteling (2010) explain that after repeated interactions, the parties learn from each other, and judge each other better when determining who to trust and who not to trust. This learning is further discussed by Luo (2002) who in detail explains the consequences of these repeated interactions. In his study, he observed the development of specialized skills and routines that are adapted to the exchange, the increased transparency and efficiency of interparty information, the reciprocity of cooperation and the lowered level of contractual specificity. The level of trust in the party is such that, as evidenced by Zaghloul and Hartman (2003), the risk allocation strategy is changed to one that is more beneficial for both parties.

Reputation

Reputation provides an indirect source of trust. As indicated by Beuve and Saussier (2010), upon the unavailability of past direct contact between the contracting parties, their cumulative past behavior serves as a proxy to how the other party might behave in the future and therefore giving a basis on which to base trust upon. Reputation, coupled with certifications and references, provide valuable information about the other party’s ability, integrity and previous performance, which help determine potential future levels of reliability, capability and goodwill. Jones et al. (1997) view it as a filtering agent, indicating that reputation safeguards exchanges, as it identifies and purges partners whose behavior might be detrimental to the exchange.

Future expected exchanges

Poppo and Zenger (2002:710) argue that economists take a completely different standpoint when determining the source of trust, in saying that “for economists, the trustworthy status is conditional upon the benefits that accrue from trustworthy status over time (e.g., repeated exchange) contrasted with the benefits that accrue from self-interested moves that break from the trustworthy status”. In essence, they believe that the expectation of benefits deriving from a series of future exchanges discourages the pursuit of short-term gains that might weaken the long-lastingness of the relationship. Consequently, the value of present activities is enhanced by the chances of future interactions (Gil & Marion, 2009). As a result of this appropriate behavior, trust is born.
2.3.4.3 The Nature of Trust

Trust, unlike other social constructs, has a unique nature. For instance, it is not automatic. Two main reasons have been identified in the literature for trust not being a basic condition in inter-organizational exchanges: (a) it is not in the interest of the contracting parties to behave cooperatively if there is no indication that the other party will reciprocate (Luo, 2002) and (b) it needs to build up over time as it is the result of a history of interactions and personal links (Dyer & Singh, 1998). Further, as put by Gil and Marion (2009) trust is self-enforcing, it cannot be enforced by third parties. This characteristic completely sets it apart from other sociological variables such as cooperation and collaboration, which can be induced by the application of certain measures. Cooperation, for example, can be induced by the fear of sanctions or other coercive actions. Likewise, it may simply be contractual in nature as parties enter a relation based on shared economic incentives (Pinto et al., 2009). Another example of controlled social elements is collaboration, which according to Cox and Thompson (2007) can be forced through the usage unequal power relationships or it may be fostered by incentivizing the supplier.

Additionally, Gill and Butler (1996) explain how trust is fundamental at the formation stages of contractual relationships. It is in this moment when matters of payment and other liabilities must be deeply discussed, and where a combination of distrust and a dominant legalistic approach might end in future disappointment and litigation. This initial condition of trust is strongly affected by the parties’ past experiences. As showcased by Gustafsson et al. (2010:424), the parties “bring their past experiences into relationships in the form of disposition and attitude, which affects the basis on which any new relationship will commence”. Hence, past experiences become a critical factor in determining the starting depth of the foundation of the relationship. Thus, the authors propose:

Proposition 4:
Relational governance brings contractual success only under background conditions that allow the inclusion of critical success drivers like trust and solidarity in the relationship between parties.
2.4 PARTNERING AND JOINT VENTURES: Relational Governance Applications

Partnering and Joint Ventures (JV) are well known and established practices in every project environment, including the Oil & Gas industry. The literature is rich on debates around these relational governance applications.

A first debated issue regards the need or not of a written formal document in relational governance relationships. Matthews et al. (1995) define partnering as the involvement in projects of attributes like trust, integrity, openness and commitment. In the same paper, partnering is defined as a long term commitment between two or more firms for achieving objectives successfully. According to these authors, partnering initiatives require a shared culture between the two or more parties, based on a mutual understanding and trust. Coherently with the relational governance theories, these authors remark that in certain partnering relationships there is no need of a written contract. Commonly, a charter is sufficient, where objectives and expected outcomes are written and signed. Further, according to Bresnen and Marshall, (2000:230):

“Central to partnering is a determination to move away from adversarialism and litigation to resolve problems jointly and informally through more effective forms of inter-firm collaborations”.

Despite these quotes, a more prudent Pongsiri (2004:440), referring to Oil & Gas projects, stated: “partnership for a business purpose obviously requires a contract, or at least an adequate commitment by all the parties involved”.

A second debate in the literature is related to the timeliness in partnering. Matthews et al. (1995), differentiated project partnering, where the relationship between two or more firms is limited to a specific project, and strategic partnering, based on a long term (and multi-projects) relationship between parties.

According to this differentiation, partnering exists and may be successful both in a short and long-term time horizons. This statement is debated by many scholars. According to Bresnen and Marshall (2000), partnering is related to long-term agreements and requires a long-term commitment by all the parties involved. Moreover, due to the fact that the cultural alignment is a critical success factor for partnering, it is unlikely that it can be done in a short period of time (ibid). To answer to this argument, it might be appropriate to relate the cultural alignment not to the partner’s culture itself, but to the partnering as a business practice. According to this, Matthews et al. (1995) say that partnering may be successful and long-term only if both the parties have already experienced in the past benefits from partnering. Accordingly, project partnering is feasible and might be successful, if both the parties have been already familiar with it in past projects. Another interesting argument against the ‘short-time partnering non-feasibility’ is given by Bresnen and Marshall (2000): partnering is suitable if parties have aligned behaviors; behaviors are not as deep and rooted as cultural paradigms, and they can be aligned in the short term. Nevertheless, they added that behaviors are often not easy to be forecasted and are often exposed to opportunistic approaches. These behavioral characteristics mine the level of trustfulness necessary in partnering initiatives.
A Joint Venture (JV) is a form of partnering. According to Norwood and Mansfield (1999:89), a JV is “a commercial agreement between two or more companies in order to allow greater ease of work and cooperation towards achieving a common aim, through the manipulation of the appropriate resources”. In addition, a JV “is often seen as a panacea for winning work and reducing risk” (Armit, 1984:51). However, despite these positive definitions, entering in a JV is an initiative with consequences on many firm’s procedures and practices; this has to be fully understood by each of the companies participating in the venture (Norwood & Mansfield, 1999). According to Armit (1984), JVs are not easy to manage and often bring to failures. For these reasons before entering in a JV many other choices should be already considered (Norwood & Mansfield, 1999).

“Joint ventures seem to offer a little more stability in what is often both a volatile and `short-term project' construction industry. They can be relatively straight-forward to set up and bring to a close, without the need to form a separate legally incorporated company. The authors are of the opinion that although joint venturing, and in particular integrated forms of partnership provide construction companies with strength in terms of achieving project goals, actual relationships with clients have not improved significantly” (Norwood & Mansfield, 1999:92)

Moreover, in accordance with Scherling and Wang (1993), JVs are appropriate in complex and risky projects, where both interpersonal and institutional relationships are involved; in these projects the critical success factor is the level of trust. However, despite the presence of interpersonal good relationships and trustiness, in JV the opportunism is the major threat (Scherling & Wang, 1993).

JV and Partnering initiatives in general, “re-orient the attitude of contract participants from confrontational to cooperative. This requires the commitment of both the contracting parties” (Bayliss et al., 2004:261). According to Ng et al. (2002), the key success factors for partnering are commitment, trust, know-how, mutual goals, leadership, willingness to accept mistakes, reciprocal control, etc. This list makes clear how often partnering may not achieve the promised objectives (ibid). In addition, according to Bresnen and Marshall (2000), there is among scholars and professionals a general disagreement about which form of partnering is more suitable for which specific surrounding environmental conditions. Moreover, it is not simple to demonstrate direct cause-effect relationships between partnering initiative and successful projects (ibid).

The literature reviewed has shown how contracts are the synthesis of a multitude of critical disciplines that surround projects: law, economics, sociology, and psychology, among others. Large construction projects are a fitting example of complex surrounding environments, big amount of resources involved and unforeseen contingencies. In this scenario, the literature points out how traditional contractual forms do not overcome these challenges; a higher degree of flexibility is required in order to reduce transaction costs. Academics state how there is a conflict between the concurrent need of objective measurement of the performance, and the necessity of a certain degree of freedom due to the high degree of future uncertainty. The literature map provided below summarizes the fundamental logics and areas of study pertaining to the governance mechanisms in construction projects.
Figure 2 Literature Map for Governance Mechanisms in Construction Projects
2.5 PROPOSITIONS AND SIGNIFICANCE OF THE STUDY

This study provides an original approach to the chosen topic mostly related to the sources of data. The chosen sources of data provide two different perspectives on the topic: the main players’ point of view, through the conduction of structured interviews, and the authors’ findings through the analysis of the contractual documents. The existing literature lacks of case studies based on both of these perspectives, as the majority of them are based either on (a) interviewing or (b) large sample, multivariate statistical studies that focus on the ‘hard’ data sources and are unlikely to capture the ‘soft’ core concepts (Parkhe, 1993). The field of contract management shows a mixed progress, when it comes to theory development surrounding relational governance. It lacks theoretical structures and encompassing frameworks that integrate the core concepts, failing to provide a deeper understanding of these central concepts and the intricacy and dynamism of their relationships. Although relational governance has been studied under several lenses, the theory is still fragmented and a study providing this cohesiveness is essential. Hence, there is no previous study explaining the exact effects of relational governance on the individual contractual clauses; all of them provide a holistic view of the contract. Therefore the knowledge gap filled by this study is the provision of a detailed and explicit theory of how individual contractual clauses are affected by the incorporation of relational governance in economic exchanges. This will be accomplished by providing findings derived from the direct inspection of tangible contractual documentation. Moreover, an additional knowledge gap is covered: verifying if the evolution of Company X’s contractual practices is coherent with the evolution trends given by the literature (from rigid LSTK contracts to more relational governances, due to an adaptive trend, aimed to reduce conflicts).

The analysis in the following chapters will discuss the veracity behind relational contracts allowing a proper updating of the traditional discrete contracts. This will be achieved by referring to and staying within the limits of Company X’s practices. According to the literature, through relational forms of governance (e.g. JVs), it is more likely that the project will be successful according to the main stakeholders’ perspective, leading to win-win situations. However, the reality shows how LSTK contracts are still the most common practices (von Branconi & Loch, 2004). Accordingly, the authors have proposed:

*Proposition 1:* There is a tendency to move from discrete contracts to more relational contracts, where trust and cooperative and collaborative behaviors are fomented.

*Proposition 2:* The presence of relational norms stimulates the writing of more flexible and adaptable contractual clauses.

*Proposition 3:* The presence of relational norms fosters term specificity; the contracting parties become less hostile and encourage the explicit definition of clauses.
Proposition 4:
Relational governance brings contractual success only under background conditions that allow the inclusion of critical success drivers like trust and solidarity in the relationship between parties.

In this chapter, the literature review has created a theoretical framework both for the reader and the researchers. It covered the knowledge areas surrounding the research questions, allowing for the identification of the most important notional issues. The section has culminated with the development of the above four propositions, which are necessary in order to guide the subsequent steps in this research, and investigate and define the most complete and concrete answers to the research questions. The following chapter will therefore introduce the authors’ philosophical standpoints, as well as the chosen methods and strategies for the execution of this research.
Chapter 3 - METHODOLOGY

The current chapter will discuss the assumptions underlying the present study. Philosophical views, along with the chosen research strategy and data analysis method will be discussed. The chapter concludes with a discussion of validity and reliability matters connected to the study.

3.1 EPISTEMOLOGICAL CONSIDERATIONS

A basic starting point for the undertaking of a research is the definition of the philosophical views that the authors have adopted for the particular study. The research philosophy refers to how the authors believe knowledge is developed. According to Saunders et al. (2003), this step is critical, as it defines further aspects of how the research will be conducted and gives an insight of taken-for-granted assumptions. Both Saunders et al. (2003) and Bryman and Bell (2007) distinguish between three distinct research philosophies: positivism, realism and interpretivism.

Positivism, a philosophical position that advocates the application of natural science methods to the study of social phenomena, where strict methodologies and quantifiable observations lead to law-like generalizations (Saunders et al., 2003). When adopting this philosophical stance, researchers act as objective analysts, detaching themselves from the interpretation of the data that has been collected (Bryman & Bell, 2007).

Realism, another philosophical standpoint shares certain aspects of positivism. For example, it ascertains that there is an external reality distinct to that of our descriptions and to which researchers direct their attention (Bryman & Bell, 2007). However, it sets itself apart from positivism by admitting that people are not an object to be studied in the same way as the natural sciences (Saunders et al., 2003).

Interpretivism, fully detaches itself from positivism to create an entirely opposite view. Followers of this position agree that the object of study of the social sciences cannot be studied in the same way as that of the natural sciences, and therefore, the social scientist must understand the subjective reality of social action (Bryman & Bell, 2007). As stated by Miles & Huberman (1994), as opposed to positivism, researchers in this line of inquiry are not detached from their objects of study; they also belong to a certain culture, have their own convictions, understandings and conceptual orientations. The authors strongly agree with this epistemological view of the social world, as it is believed that the world of contracting and management is too complex to be theorized by definite laws. Hence, an interpretivist position has been adopted for the conduction of this study.

3.2 ONTOLOGICAL CONSIDERATIONS

Ontology refers to the nature of social entities (Bryman & Bell, 2007). It is another influence in the conduction of social research and follows two distinct streams of thought. On the one hand is objectivism, which implies that “social phenomena and their meanings have an existence that is independent of social actors” (Bryman & Bell, 2007:22). On the other hand is constructionism, which presents an antagonisti
standpoint on the nature of social phenomena. According to this ontological stance, social phenomena are socially constructed and people may conceptualize differently the situations in which they find themselves (Saunders et al., 2003). Individuals, it is thought, are in a constant search of understanding of their world and develop subjective meanings of what they experience (Creswell, 2009). The authors are supporters of the latter stance, constructionism, as it is believed that people interact with their environment, and construct social reality through this interaction, as opposed to it being a pre-existing notion. Further, the authors wish to rely on the participants’ views of the world in order to interpret these subjective meanings and generate theory.

3.3 RESEARCH APPROACH

Once the authors’ epistemological and ontological positions have been defined, an appropriate research approach must be decided on. There are two fundamental research approaches that may be followed: deductive and inductive (Bryman & Bell, 2007; Saunders et al., 2003; Walliman, 2006). According to Walliman (2006), when following a deductive approach, research is guided by the theory preceding it. In this approach, theories are developed based on the existing literature and are expressed in the form of hypotheses. These hypotheses are later subject of rigorous testing, leading to their confirmation or falsification. Saunders et al. (2003) highlight several important characteristics of the deductive approach. First is its goal of explaining cause and effect relationships between variables. Second, is the employment of controls to permit the testing of the hypothesis. Third, is the usage of a highly structured methodology. Fourth, concepts must be operationalized so that facts may be measured quantitatively. And finally is generalization; the selected sample must be numerous enough to be able to generalize about human behavior.

The alternative approach to deduction is conducting inductive research. This position implies the generation of theories from observation and findings in the data. As opposed to deduction, in induction, theory is the outcome of research and not the starting point (Bryman & Bell, 2007). Inductive reasoning, as argued by Walliman (2006), begins from observations and then conclusions are derived from them. Additionally, he argues that an inductive approach allows for alternative explanations within the limits set by the research design and that its main concern is the context in which events take place, deeming the usage of small samples appropriate.

After the above description of the existing research approaches, it is thought that the approach that is most fitting to the authors’ chosen epistemology and ontology is an inductive approach. An inductive approach allows for a more open explanation of those unique social phenomena resulting from the interaction of social actors. This congruency is further supported by Saunders et al. (2003), who report that inductive approaches are usually attached to interpretivist philosophies, while deductive approaches owe to positivism.
3.4 TYPE OF DATA COLLECTED

Two types of data may be collected for the conduction of research: qualitative or quantitative. According to Berg (2004), the main difference between both lies in the semantic origins of both words: quality refers to the nature of things, while quantity focuses on the amount of something. More in detail, he explains:

“Quality refers to the what, how, when, and where of a thing – its essence and ambience. Qualitative research thus, refers to the meanings, concepts, definitions, characteristics, metaphors, symbols, and descriptions of things. In contrast, quantitative research refers to counts and measures of things.” (Berg, 2004:2).

Quantitative data is favored by positivist researchers, since one of its main strengths is its objectiveness in reporting reality (Silverman, 2001). However, it has received several criticisms. Berg (2004) claims that quantitative data doesn’t convey the meanings behind social life. In a similar way, Silverman (2001) states that quantitative methods neglect the social and cultural backgrounds of the variables under study, and ignores other influences not explicitly expressed by the chosen variables.

Qualitative data, as expressed by Miles and Huberman (1994:9) is “data in the form of words – that is, language in the form of extended text” and “are based on observation, interviews, or documents”. Given the narrative nature of this type of data, certain issues are raised regarding its usage. According to Miles and Huberman (1994), critics ascertain that written descriptions are no more than conceptual substitutes for the researcher’s own feelings and perceptions. The influence of the researcher’s values rapidly ramifies out into the explanations given for the situation under study. Further, they raise the issue of impression management; researchers must be able to distinguish between what actions really portray and how people want others to see their actions. This all leads to a major concern of qualitative data masking a great degree of complexity. While further addressing the critiques of qualitative data, Silverman (2001:33) reports an additional problem with consistency: “consistency as shortage of space means that qualitative studies provide readers with little more than brief, persuasive data extracts”.

However, certain strengths of this non-quantified data have been highlighted. Miles and Huberman (1994) report that this data is naturally occurring and it describes ordinary events in natural settings, providing optimal interpretations of ‘real life’. Further, contrary to the critics, they state that its richness and holism gives it strong potential for revealing complexity rather than masking it. Overall, they argue that this type of data is well suited for identifying the meanings people place on events, processes and structures of their lives and for connecting these meanings to the social world. When conducting inductive research following a non-positivist, social constructivist philosophy, this is what the data should accomplish. Quantitative data may disregard the social interplay that is at the center of the study, turning it inappropriate. Hence, due to its thick descriptions of events and the fact that it is nested in a real context, the authors consider that qualitative data is the type of data that suits this study’s philosophical approaches and theoretical approach the best.

Thus, only primary qualitative data will be collected. Primary data will be collected firsthand from direct observation and interrogation of the participants from Company X.
Additionally, the data will be obtained in the form of existing reports, presentations and the contractual document that was provided to the authors for inspection and analysis.

3.5 RESEARCH STRATEGY

There are many strategies that a researcher can pursue when conducting research. One of them is a case study strategy. As technically defined by Yin (2003:13), a case study is “an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. The case study inquiry copes with the technical distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result benefits from the prior development of theoretical propositions to guide data collection and analysis”.

3.5.1 Motivations for Case Study Strategy

According to Hamel et al. (1993), one of the main strengths of case studies is that they strive for highlighting the attributes of social life. Through the descriptions they render, meanings of social actors are clarified, which is of high importance for non-positivist studies. Further, the in-depth study of a specific case or study will elicit one or more theories that could be validated by other objects or cases.

Adding to the usefulness of case studies as research strategies, Gummesson (1988) argues that the detailed observations involved in the case study method makes possible to study many different facets, scrutinize them in relation to each other, and observe the process within its total environment. In brief, it grants better opportunities than other available methods to attain a holistic view of a particular research project.

Yin (2003) further supports this idea by stating that case studies allow investigators to preserve the holistic and meaningful features of real-life situations. He also provides three conditions for the selection of a specific research method. Figure 3 shows these conditions and how they relate to the different research strategies:

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Form of Research Question</th>
<th>Requires Control of Behavioral Events?</th>
<th>Focuses on Contemporary Events?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td>how, why?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td>who, what, where, how many, how much?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Archival analysis</td>
<td>who, what, where, how many, how much?</td>
<td>No</td>
<td>Yes/No</td>
</tr>
<tr>
<td>History</td>
<td>how, why?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Case study</td>
<td>how, why?</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Figure 3 Relevant Situations for Different Research Strategies (after Yin 2003)
It can be observed how the study under consideration suits the conditions for which a case study is deemed a suitable strategy. The research questions posed for this study are congruently of the type “how?” and “why?”. Additionally, it meets the behavioral control condition: the behaviors of individuals in this study cannot be manipulated. And finally, it focuses on contemporary events, and not on historical narratives or archival inspection.

3.5.2 Limitations

Case studies, nonetheless, receive criticism from the research community. Hamel et al. (1993) synopsize the main criticisms in two grounds. First, those critical of this strategy highly criticize it for their lack of representativeness of the phenomenon constituting the object of study, making the study ‘anecdotal’ as Gummesson (1988) suggests. Additionally, they note that they receive criticism for their lack of rigor in the collection, construction, and analysis of the empirical data that give rise to this study. Opponents of the case study claim that bias is introduced by the subjectivity of the researcher, leading to a total absence of objectivity.

Another important criticism highlighted by Hamel et al. (1993) is the case study’s dependency on common sense stemming both from the observant and the observed. Critics claim that theory must distinguish itself from the meanings social actors attribute to their own personal experiences, or what he defines as common sense: “commonplace evidence, malformed mirrors of reality, a false awareness, or an awareness that is incorrect” (Hamel et al., 1993:30).

3.5.3 How to Overcome Limitations

The problem with generalization and lack of representativeness has been debated by the supporters of the case study. Gummesson (1988) argues that the possibility to generalize from one single case is based on the comprehensiveness of the measurements, which makes it possible to reach a fundamental understanding of the structure, process and driving forces rather than a superficial statement of correlation or cause-effect relationships.

Yin (2003) argues that the generalizability issue is connected to the erroneous extent to which researchers believe their findings may be applicable; the theory generated by case studies is generalizable to the preceding theoretical propositions, not to populations or universes. Hamel et al. (1993) believe that the generalizability of case study research is strictly related to the thoroughness of its conduction. They believe that general applicability derives from the set of methodological qualities in the selected case, and the rigor with which the study, or the analysis deriving from this case, is conducted.

Gummesson (1988) even goes on to state that some supporters believe that generalizability is not even desirable. They support the idea of particularization, which holds that social phenomena are part of a particular social situation and are far too prone to change to allow meaningful generalization. Others argue that a case study’s first priority is not to validate theories, it is to formulate them in such a fashion that they can be tested for falsification, contributing to the continuous process of theoretical development.
Finally, with regards to the claims on heavy reliance on common sense, Hamel et al. (1993) defend the case study by stating that all sets of empirical data from which all sociological studies proceed, include meanings that social actors give to their own experiences, explaining how this is not a condition unique to case studies.

Despite the presented criticisms and shortcomings, the authors find that a case study strategy is the best choice for the conduction of this research. It provides the vehicle for the detailed and rich portrayal of social actions that this study seeks to reveal and analyze. As expressed by Somekh and Lewin (2006:33), “it privileges in-depth inquiry over coverage: understanding ‘the case’ rather than generalizing a population at large.” This statement captures the essence and purpose of this research, as the authors’ main goal is to illuminate the readers’ understanding of an issue rather than generalize over the boundaries of the presented propositions.

3.5.4 Type of Case Study

Gummesson (1988) distinguishes between three types of uses of case study research: exploratory, descriptive and explanatory. Given the self-explanatory nature of the three terms, the authors will not enter in the description of each one. However, the type of case study pursued will be acknowledged: an explanatory case study. As previously explained, the purpose of this research is to explain how the employment of relational governance affects the way contracts are elaborated.

3.5.5 Case Study Design

Yin (2003) explains that there are two variants of case study research: single-case and multiple-case. As already elucidated above, case research seeks to obtain a holistic view of a specific social phenomenon or series of events. According to Gummesson (1988) this is a time-consuming job and it is normally not possible to carry out more than one or very limited number of appropriately in-depth case studies in a research project, reason for which the authors have decided to pursue a single-case study, rather than a multiple-case project.

This choice, however, must be grounded on more solid argumentation. Hence, Yin (2003) suggests that the selection of single-case studies is motivated by one or more of the following rationales: (a) the case is extreme or unique, (b) it is representative or typical or (c) it was previously inaccessible. The authors agree that the case in question follows the first and the third rationales; it was previously inaccessible as the data is highly confidential and rarely companies are willing to disclose information of this nature, and it is unique, as the project studied captures complex, non business-as-usual situations and experiences of the institution under analysis.

A further decision that Yin (2003) suggests must be made in the design of the case study strategy, is the usage of a holistic analysis or embedded units of analysis. In this particular case, a holistic design will be pursued, as the global nature of Company X is what the authors attempt to study and portray. Further, no logical subunits can be identified, and as exemplified in the Literature Review chapter, the theory underlying this case is of a holistic nature itself. Figure 4 summarizes the chosen case study design.
3.6 RESEARCH PROCESS

With a chosen research strategy and having already defined the sources of data utilized, the authors will now proceed to briefly describe the research process followed.

The literature review has remarked the current relevance of the relational governance approach in contract management, especially in complex environments. The research process starts from this solid theoretical base. Subsequently, following a case study strategy, a contract from Company X will be analyzed. This practical document, related to the contracting of an expired project, will provide evidences to validate the propositions. Moreover, in order to corroborate this documentary proof, a set of five interviews will be held with senior managers. These will also supply useful feedback towards the verification of the evolution of Company X in managing contracts. This conclusive step of the research process should provide information about the efficacy of relational governance practices compared to more static and dated contracting forms. All these objectives will be pursued through the application of the research process shown in Figure 5.
3.7 OPERATIONALIZATION OF CONCEPTS

A fundamental step in the conduction of research is the operationalization of concepts, which Crano and Brewer (2002:8) define as “the translation of abstract theoretical constructs into concrete procedures and indicators that can be observed, recorded and replicated”. According to the latter, this translation of conceptual variables to scientifically researchable ones usually takes place in two steps. The first step entails the redefinition of the abstraction in empirical terms; that is, the variable is specified in such a way that it can be potentially observed or manipulated. If independent researchers with comparable training and accessible technical aids can agree on its evaluation and assessment, then an observation is considered to be sufficiently objective.

The second step of concept operationalization involves a specification of a set of items and instructions required to make the actual measures, in enough detail so that other researchers can duplicate the measurements for purposes of replication and validation. They argue that it is essential that a very precise demarcation of the phenomena of interest be provided.

Bottom line, as explained by Berg (2004), this process will concretize the intended meaning of a concept in relation to the specific study and provide certain criteria for the measurement of the empirical existence of that concept. Through this direct communication of the meaning, it is guaranteed that everyone is working with the same definition. Hence, in order to enhance the explanatory power and applicability of our study, the concepts in our research questions
• How does relational governance between the contracting parties affect the completeness of contracts in Company X?

• Do the current contractual trends within Company X lead to an inclusion of relational governance in contracts?

will be defined as follows:

3.7.1 Relational Governance

For the purposes of this study, relational governance will be defined as the usage of social norms, such as trust, cooperation, collaboration and solidarity which becomes heavily intertwined in the economic exchange.

Given its direct relation with the employment of the aforementioned social norms, this concept of relational governance inherently carries a high level of abstraction. An operational definition has been provided, but its measurement still depends strictly on the respondents’ personal and internal views of the social situation.

Following suggestions by Crano and Brewer (2002), an ordinal rule will be employed for the measurement of relational governance levels. They state that this way of measuring is typically employed to rate social situations, such as the one previously presented. Hence, an ordinal scale of low, medium, high will be used to rate this social construct.

3.7.2 Contractual Completeness

Taking cues from Luo (2002), contractual completeness is defined as a multidimensional concept, including not only term specificity but also contingency adaptability. Instead of providing a general definition of contract completeness, a more in-detail, operational definition of both of the dimensions it comprises will be provided.

Contingency adaptability

This term refers to the contract’s ability to specify and provide principles, guidelines, and solutions for handling and responding to unanticipated contingencies as they arise. For the measurement of this element, a nominal rule will be followed (flexible/effective or rigid/ineffective). According to Crano and Brewer (2002) this allows the assignment of different numbers to observations that differentiate on a certain dimension. Given the known contingencies that emerged ex-post during the project execution, a comparison will be carried out to determine if any clauses forecasted these events ex-ante.
Term specificity

This term describes the degree to which a contract specifies terms and clauses concerning the set-up, operation, management, conflict resolution and termination of the economic exchange. For its measurement, a nominal rule (yes or no) will be followed as well, determining the presence or omission of the abovementioned clauses.

3.8 DATA COLLECTION INSTRUMENTS

There is a wide variety of instruments that may be used to collect qualitative data, including amongst them observations, interviews, documents and audio-visual materials. A complete list of all the possible instruments and sources of data is quite extensive and it is not in the purpose of the authors to list them all. Out of the available collection instruments, the authors have chosen two: documentation and interviews. The usage of multiple sources of evidence was motivated by Yin (2003), who states that the usage of more than one source of evidence substantially increases the quality of studies. Further, he argues that following this approach, a process of triangulation may be carried out, engaging in a search of converging lines of inquiry. This process would make any finding or conclusion resulting from the study more convincing and accurate. In fact, he highlights this feature as a major strength of case study research, as the usage of many different sources of evidence exceeds that in other research strategies. Both data collection instruments are described more in detail.

3.8.1 Documentation

One of the main characteristics of this study in particular is the unusual accessibility to very confidential documentation of the host company. Since the purpose of the study is to determine the effects of relational governance on contractual completeness, purposefully selected documentation such as the contract for the execution of the project, reports and company presentations represent the main source of information. Direct inspection of clauses within the contract and thorough analysis of reports and others will provide the necessary evidence of this impact. More specifically the documents available for use were:

- Turnkey Construction Contract
- Construction Contract Direct Agreement
- Loan Letter
- S-Project Presentation of Claims to Client

This expired contract is the formal document signed between the contracting parties (with Company X as leader of the main contracting entity) for the execution of a construction project that will be described in the following chapter. This contract was written in the English language and has a length of 143 (one hundred and forty-three) pages.

The usage of documents is well received by scholars. Creswell (2009) cites among its main advantages the fact that the information is retrievable at any time; it can be accessed at times suitable for the researcher. He also cites the opportunity it gives to the researcher of obtaining language and words of the participants, as well as very
thoughtful information from these. Finally, it saves time and expenses for the researcher, as the data is already written and there is no need of transcribing. Certain limitations such as authenticity problems, incompleteness and inaccessibility are not the case here; the expired contract, as the main source of evidence, is of legal nature and thus guaranteeing completeness and authenticity.

3.8.2 Interviews

Being relational governance an abstract, non-tangible social feature that cannot be readily identifiable from the inspection of documentation, interviews were chosen as the instrument to have an insight of those social elements that led to the formation and utilization of relational governance. Further, the interviews provide the basis for carrying out the aforementioned triangulation process – findings from the conduction of the interviews will be confirmed by the findings in the contract.

Creswell (2009) praises interviews for their usefulness when social actors cannot be directly observed or when they can provide historical information. These are features that are of high importance in this study, as the project under analysis has already expired and no direct observation is possible, relying on narratives of past events.

Regarding the type of interview to employ, Berg (2004) distinguishes among three types: standardized, semistandardized and unstandardized. They differ in their degree of rigidity with regard to the presentational structure. Hence, these may be called unstructured, semi-structured and unstructured in other literature (e.g. Bryman & Bell, 2007). The interviews for this study will be of the standardized kind, where a set of predetermined and unchangeable set of question will be presented to each interviewee. With this, the authors attempt to elicit specific information relevant to the study’s topic. Further, by giving all of them the same stimulus, the responses can be comparable and support or oppose each other. Given that the respondents are spread in different physical locations, the interview was distributed via e-mail. The interview guide is presented in Appendix 1.

Figure 6  Process for testing of Interview Guide
Figure 6 outlines how the data collection instrument was previously tested with the conduction of a pilot interview. The authors elaborated a first draft of the interview guide which was personally and orally tested with our sponsor within Company X. Six (6) questions about the project and three (3) about the interview guide itself were asked. Following the respondent’s suggestions, the interview guide was refined, and the resulting interview guide is the one that was distributed to the rest of the interviewees.

3.9 SAMPLING APPROACH

According to Berg (2004), researchers may follow two distinct logics when sampling cases or groups of participants. One of them is probability sampling, which is based on the notion that the selected sample mathematically represents a larger population. The other logic is the usage of nonprobability sampling. The latter is more popular in the social sciences since these examine situations in which one cannot use the probability samples used in large-scale surveys or large number of cases that seek statistical significance. Further, as argued by Miles and Huberman (1994), qualitative samples are usually purposive rather than random; random sampling may turn those coherent and logic processes of social reality into ‘uninterpretable sawdust’. Hence, the authors chose to follow a nonprobability sampling approach: a specific case was selected to accomplish certain purposes rather than randomly choosing from a pool of cases.

Miles and Huberman (1994) present a list of typologies of sampling strategies in qualitative inquiry, which can be observed in Figure 7. Out of this wide range of sampling strategies, the authors chose to pursue an extreme or deviant case, which seeks to learn from unusual manifestations of the social phenomenon of interest. Thus, the selected case, S-Project, was judged as extreme by the authors, exhibiting certain attributes and characteristics that cannot be typically found in projects executed by Company X.

<table>
<thead>
<tr>
<th>Type of sampling</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum variation</td>
<td>Documents diverse variations and identifies important common patterns</td>
</tr>
<tr>
<td>Homogeneous</td>
<td>Focuses, reduces, simplifies, facilitates group interviewing</td>
</tr>
<tr>
<td>Critical case</td>
<td>Permits logical generalization and maximum application of information to other cases</td>
</tr>
<tr>
<td>Theory based</td>
<td>Finding examples of a theoretical construct and thereby elaborate and examine it</td>
</tr>
<tr>
<td>Confirming and disconfirming cases</td>
<td>Elaborating initial analysis, seeking exceptions, looking for variation</td>
</tr>
<tr>
<td>Snowball or chain</td>
<td>Identifies cases of interest from people who know people who know what cases are information-rich</td>
</tr>
<tr>
<td>Extreme or deviant case</td>
<td>Learning from highly unusual manifestations of the phenomenon of interest</td>
</tr>
<tr>
<td>Typical case</td>
<td>Highlights what is normal or average</td>
</tr>
<tr>
<td>Intensity</td>
<td>Information-rich cases that manifest the phenomenon intensely, but not extremely</td>
</tr>
<tr>
<td>Politically important cases</td>
<td>Attracts desired attention or avoids attracting undesired attention</td>
</tr>
<tr>
<td>Random purposeful</td>
<td>Adds credibility to sample when potential purposeful sample is too large</td>
</tr>
<tr>
<td>Stratified purposeful</td>
<td>Illustrates subgroups; facilitates comparisons</td>
</tr>
<tr>
<td>Criterion</td>
<td>All cases that meet some criterion; useful for quality assurance</td>
</tr>
<tr>
<td>Opportunistic</td>
<td>Following new leads; taking advantage of the unexpected</td>
</tr>
<tr>
<td>Combination or mixed</td>
<td>Triangulation, flexibility, meets multiple interests and needs</td>
</tr>
<tr>
<td>Convenience</td>
<td>Saves time, money and effort, but at the expense of information and credibility</td>
</tr>
</tbody>
</table>

Figure 7  Typology of Sampling Strategies in Qualitative Inquiry  
(after Miles & Huberman 1994)
3.10 METHOD OF ANALYSIS

For the analysis of the data collected, the authors used a Template Analysis. As explained by Saunders et al. (2003), this template is basically a list of the themes or codes collected in the data. This analytic strategy is not merely an inductive strategy. It combines both deductive and inductive approaches in the sense that categories or codes will be modified or added to iteratively as the data is gathered and analyzed.

This method, they argue, is useful at showing hierarchical orders among the codes and categories, which indicate which of these codes or categories deserve a greater depth of analysis. Further, the fact that the template may be revised allows for exploration of key themes and the identification of emergent issues that arise in the process of data collection and analysis that the researchers might have not intended to focus on. The template developed for the inspection of the data is introduced in the next chapter.

3.11 VALIDITY AND RELIABILITY

Yin (2003) suggests that instead of analyzing validity and reliability in the simplicity of both terms, a more complex list should be elaborated. He suggests the usage of four tests to evaluate the quality of the research: construct validity, internal validity, external validity and reliability.

3.11.1 Validity

Validity represents a recurrent problem with case study research. According to Silverman (2001), this criticism stems from the fact that the research community worries about the impact the researcher might have on the setting, the inclusion of his own values and the truth status of respondents. Hence, the following practices will be followed in order to improve the validity of the research.

*Construct validity:* refers to the development of sufficiently operational set of measures for the concepts under investigation (Yin, 2003). The problem with construct validity has been curbed by the proper operationalization of the concepts included in our research questions.

*Internal validity:* refers to the proper establishment of causal relationships, as distinguished from spurious relationships (Yin, 2003). As suggested by Silverman (2001), the usage of multiple sources of evidence for triangulation of the data serves the purpose of comparing different kinds of data, to see whether they corroborate each other. This will reduce the possibilities of inferring from a single source of data.

*External validity:* Yin (2003:34) defines it as “the domain to which a study’s findings can be generalized”. As discussed previously in this chapter, the study’s findings are only generalizable to its propositions and to the theory preceding it.
3.11.2 Reliability

Reliability is concerned with the fact that two or more researchers studying the same phenomenon with comparable purposes should reach roughly the same results. A study with high reliability, thus, is easily replicated by others (Gummesson, 1988).

Silverman (2001) gives solutions for both sources of data used in this particular study. In the case of text, he claims that the data is readily available and therefore the unfiltered data is highly reliable. The problem may arise when the data is coded and categorized; hence, the authors have attempted the definition of standardized categories, which any researcher would categorize in the same way. When it comes to interviews, the authors have followed the suggestion regarding the pre-testing of the interview schedule, and as shown before, the usage of structured and ordered questions leading to fixed-choice answers.

Additionally, as proposed by Yin (2003), a case study protocol was used, to overcome any possible shortcomings related to poorly documented procedures.

In this chapter, the authors have presented their philosophical beliefs and their methodological choices for performing the current study. With the empirical data in hand, the authors may now apply the chosen analysis method to this data. The following chapter will describe said process and the findings emerging from the application of it.
Chapter 4 - DATA ANALYSIS

The methodology chapter demarcated the philosophical beliefs and assumptions behind the development of this research. Further, it illustrated how the researchers conducted this study: the type of data to collect and analyze, the research strategy selected, the chosen method of analysis and how the authors will ensure the validity and reliability of the study. This next chapter is organized as follows. The initial sections will introduce Company X, the provider of the empirical data and responsible for the execution of S-Project. Next, the S-Project, will be introduced, indicating the most salient specifications and providing a brief description of the most relevant events. The last sections will indicate the process that the authors have followed to analyze the data in the most effective way and the main empirical findings deriving from this procedure.

4.1 INTRODUCTION TO COMPANY X

Company X is one of the largest and most experienced European contractors in the Oil & Gas industry. Established in the 1950’s, it is now specialized in providing engineering, procurement, project management and construction services for three main areas: drilling, offshore and onshore oil extraction systems. Company X operates in very challenging, complex, global and large projects often located in remote land areas or offshore. In 2009, Company X had more than 10 billion euro in revenues and more than 30 thousand employees all around the world. However, despite the expertise and know-how that Company X has gained in years of contracting for huge projects or programs, contracts remain a complex critical success factor.

4.2 S-PROJECT OVERVIEW

The case study is centered on a LSTK construction contract related to a project in which Company X was involved as main contractor. The project, whose total value was circa 0.8 billion euro, expired since more than 10 years ago. The project’s scope was the delivery of the design, supply, construction, commissioning and testing of an integrated gasification and combined cycle plant in Italy. The target was the achievement of the ‘Minimum Performance Standards’, within the ‘time for completion’ (about 30 months), as specified in the contract. However, according to Company X, the project was unsuccessful, especially due to the generation of a number of conflicts due in part by a non problem-solving contract.

<table>
<thead>
<tr>
<th>S-PROJECT SPECIFICATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope</strong></td>
</tr>
<tr>
<td><strong>Size (€)</strong></td>
</tr>
<tr>
<td><strong>Time for Completion</strong></td>
</tr>
<tr>
<td><strong>Contract form</strong></td>
</tr>
<tr>
<td><strong>Organization form</strong></td>
</tr>
<tr>
<td><strong>Number of key-players</strong></td>
</tr>
<tr>
<td><strong>End Result</strong></td>
</tr>
</tbody>
</table>

Figure 8  S-Project Specifications
4.2.1 Contractual Governance: main stakeholders

Referring to Figure 9, presented below, it may be observed how the S-Project had a complex governance. It is clearly not a one-to-one relationship. According to the *Turnkey Construction Contract*, on the Contractor’s side three parties are sharing the risk: Company X’s stake is 60% of the Project value. It is responsible for the majority of the works, except for some specific technological installations. For this reason it is also the Contractor Leader and the coordinator. Contractor 2 is a large American company, partly involved in this project (30%). This player was responsible for the supply and installation of gas turbines. Contractor 3 is a small and specialized European company, and despite being involved for only 10% of the project’s value, its expertise area was critical (responsible for energy recovery heat exchangers, filters and other critical components). Consequently, the Contractor’s side is the result of a partnering between three companies that share the risk according to their expertise area. On the other end, on the Client side, there is apparently one entity, one company. However, from careful reading of the contract, more specifically the *Construction Contract Direct Agreement*, it is understandable that the Client, in order to finance the project, has involved two different banks that lent to the Client roughly 90% of the project’s value. Therefore, these players, in order to reduce the risk of insolvency, were likely to impose specific clauses that might have had consequences on the contract structure and contexts. Moreover, the two banks, despite the fact that they represent the main stakeholders in terms of money invested, are not officially the Client-side leaders, due to their inexperience in the Oil & Gas industry. It is therefore arguable if in the Client side the governance was balanced and appropriate for a complex, technical and large construction project such as the S-Project.

Summing up, the S-Project, despite the apparent one-to-one relationship, involved many parties with specific targets, needs and expectations. This governance structure requires an appropriate governance tool, embodied in the contract. According to the literature (Gil, 2009 and Williamson, 1979), in complex and large projects, flexibility is a critical success factor. However when many different players are involved without having a clear and certain common objective, it is unlikely to involve in the deal drivers like trust, flexibility and other relational features.
4.2.2 S-Project Successfulness: a briefing

As already stated before, the S-Project is an example of project unsuccessfulness from a contractual point of view. It is of course difficult to define a straight division between operational project management critical success factors and contractual critical success factors. The literature is crowded with definitions of project success factors and this is not the main issue in this section. However, it is important to recall that the contract is the tool for managing unforeseen operational critical issues. This management tool is not for solving the unforeseen contingencies from a technical perspective, but for allocating clear responsibilities and commitment. Consequently, a project can be unsuccessful from an operative point of view, due to unforeseen threats that mine the project Iron Triangle (Time-Cost-Quality), but can still be successful from a contractual point of view (Belassi & Tukel, 1996; Wideman, 2004). This might be possible if there are win-win agreements and professional players with goodwill attitudes. The S-Project is not this case. The project was successful from a technological point of view, but had many unforeseen contingencies that the contract was not able to manage effectively. These issues led to conflict between parties. According to the documental presentation provided by Company X, the main conflicts’ causes can be summarized in these main areas:

a) *Procurement Restrictions* – these concern the continuous interferences by the Client in the Contractor’s operations. More specifically, the Client imposed mandatory limitations on the selection of local sub-contractors rather than letting the contractors select from their own vendor lists. This was a major cause of delays due to the inexperience and low performance of local companies. Therefore, it was claimed that the responsibility of those delays should have been allocated to the Client and not to the Contractor.

b) *Industrial Actions* – this conflict refers to strikes and picketing from third party companies. Unions promoted strikes for issues unrelated to the specific jobsite working conditions, but on a national basis. Consequently, the project schedule was penalized without any direct responsibility of the Contractors.

c) *Prolonged Client Approval Periods* – during the execution of the project, the approval periods were too long (sometimes as long as 3 months), impacting heavily on the project’s critical path.

d) *Lack of Access to the Site* – once the project starts, the Contractor and Sub-Contractors should have full access to the site in order to respect the schedule. However, on several occasions, the Client did not grant access to the jobsite to some of the sub-contractors employed by Company X.

e) *Utilities Interruption* – The interruption of utilities was caused by third parties external to the project, such as municipalities, facilities providers, etc. In the S-Project, the electricity provider interrupted the service in the jobsite for a total of 6 days. In this project the relationships between project and utilities providers was held by the Client.

f) *Failures to provide Feedstock* – The feedstock supplied under the responsibility of the Owner was provided with delay and caused an impact on the scheduled Gantt.
The occurrence of these conflicts determined the unsuccessfulness of the project on contractual grounds. The following sections will provide additional details on them and evidence regarding how the contract provided guidelines and procedures for coping with these events.

4.3 THE INTERVIEWS

Once the company and the project in question have been presented, a brief description of the interviews and the interviewees is appropriate. The interviewees were selected based on two criteria: (a) their prominent role or position during both the negotiation and execution phases of the project and (b) their continued presence within Company X. The latter is a major restriction, since it limits the possibilities of gaining insights from people who had a salient role when the project was executed but are nowadays external figures to the company under analysis.

Also, the composition of the group of interviewees tried to capture the diverse project areas: commercial and technical/operational. Some of the respondents were working in situ, carrying out field work, while others were executing their tasks from the main offices. This might help evaluate another dimension in the perception of trust: the type of contact with the contracting party. The authors believe that the perception of the respondents regarding the development of collaborative social relationships will vary according to their position and how closely they were in touch with the contracting parties in their daily endeavors. Additionally, the number of interviews fulfills the concept of saturation: the content is satisfactory enough and most likely there is low value added from additional interviews (Gummesson, 1988).

The interviewee sheet presented in Figure 10 summarizes the individuals approached for the conduction of this research, with roles/positions provided and no names to guarantee anonymity:

<table>
<thead>
<tr>
<th>No.</th>
<th>Role/Position</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewee 1</td>
<td>Civil Leader</td>
<td>Company X</td>
</tr>
<tr>
<td>Interviewee 2</td>
<td>Insurance Responsible</td>
<td>Company X</td>
</tr>
<tr>
<td>Interviewee 3</td>
<td>Project Manager</td>
<td>Company X</td>
</tr>
<tr>
<td>Interviewee 4</td>
<td>Contract Advisor</td>
<td>Company X</td>
</tr>
<tr>
<td>Interviewee 5</td>
<td>Electromechanical Leader</td>
<td>Company X</td>
</tr>
</tbody>
</table>

Figure 10  Interviewee Sheet

A brief description of each of the managers interviewed will be provided. These portrayals are necessary in order to deliver a more complete image to the reader. Obviously, due to confidentiality limitations it is not possible to give more details, other than some details about past and current positions and number of years operating with Company X.
Interviewee 1: He/she possesses a technical academic background. He/she is working with Company X since 20 years ago, and after a number of projects as Civil Works Responsible, he/she is working today as Best Practices Office responsible.

Interviewee 2: He/she has a legal background. He/she is working in the Insurance Office of Company X since 18 years ago. As of the today, he/she is Responsible of the Insurance Office.

Interviewee 3: He/she holds a technical academic background. He/she based most of his/her career in Company X as Project Manager and Process Specialist. Nowadays, he/she holds the position of Contract Administration Onshore Manager.

Interviewee 4: He/she possesses a technical academic background. He/she is working in Company X since more than 20 years ago. He/she currently works as Senior Contract Manager, with many years of field experience.

Interviewee 5: He/she has a technical academic background. He/she has worked in Technical Management positions within Company X for 15 years. Currently, he/she is responsible of the Boilerplate section.

4.4 PREPARATIONS FOR THE ANALYSIS OF THE DATA

As a consequence of the interviews being sent and received via e-mail, these can be preserved in their original form, without any further need of editing or transcribing. This provides a good basis for reliability, as they offer a complete account of the empirical material employed (Gummesson, 1998).

With all the empirical material in hand, the data analysis process followed will now be described more in detail.

4.5 DATA ANALYSIS PROCESS

In order to add value to the development and acknowledgment of the topic, this study must be replicable in other contexts, by analyzing other case studies. According to Berg (2004), one fundamental prerequisite for the replicability of a study approach is the way in which the data are collected, stored, analyzed and generally managed. The data collected in this study came from either contractual documents/presentations or interviews. These two are completely different data sources. The first tends to be more complete, but it is difficult to be read and includes so much information that sometimes it is critical to extrapolate useful data for the study. The second source, the interviews, is more straightforward, but is often incomplete and requires some type of complement. For these reasons the effectiveness of these two complementary data sources can be maximized only if a reasonable process of qualitative data analysis is applied.
Figure 11 Data Analysis Process

Figure 11 depicts the process that the authors think is apt for fulfilling the objectives of this research. It is an adaptation based on Creswell’s (2009) and Berg’s (2004) coding models.

As a first step, an initial template has been designed, with themes deriving from the authors’ assumptions, the literature review and the content of the presentations provided by Company X. An initial template, according to Cassell and Symon (2004), is a hierarchical organization of codes. Accordingly, the template employed is hierarchical and intends to group the data in the following three main themes: (a) Relational Governance in S-Project, (b) Effects on Contractual Completeness, and (c) Governance Tendencies in Company X. Each of these three main topics has sub-levels of data aggregations. Once the topics have been listed in the initial template, an abbreviate code was decided for each cluster. The abbreviate codification is useful for conducting the research through a unique and standardized process. In this way, the authors will not face misunderstandings when carrying out the analysis. Figure 12 reports the initial template, complete with codes.
## DATA AGGREGATIONS

<table>
<thead>
<tr>
<th>1. Relational Governance in S-Project</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1. Presence of Trust</td>
<td>REL.GOV</td>
</tr>
<tr>
<td>1.1.1. Uncertainty of work conditions</td>
<td>TRUST</td>
</tr>
<tr>
<td>1.1.2. Delaying events</td>
<td>UNCERT</td>
</tr>
<tr>
<td>1.1.3. Indemnifications</td>
<td>DELAY</td>
</tr>
<tr>
<td>1.1.4. Liquidated damages</td>
<td>INDEM</td>
</tr>
<tr>
<td>1.1.5. Sufficiency of contractual documents</td>
<td>LIQ.DAM</td>
</tr>
<tr>
<td>1.2. Presence of Cooperation</td>
<td>CONT.DOC</td>
</tr>
<tr>
<td>1.3. Nature</td>
<td>COOP</td>
</tr>
<tr>
<td>1.4. Reasons</td>
<td>NAT</td>
</tr>
<tr>
<td></td>
<td>REAS</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Effects on Contractual Completeness</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1. Contingency Adaptability</td>
<td>CONT.COM</td>
</tr>
<tr>
<td>2.1.1. Procurement Restrictions</td>
<td>CONT.ADAP</td>
</tr>
<tr>
<td>2.1.2. Industrial Actions</td>
<td>PROC.RES</td>
</tr>
<tr>
<td>2.1.3. Prolonged Client Approval Periods</td>
<td>IND.ACT</td>
</tr>
<tr>
<td>2.1.4. Lack of Access to the Site</td>
<td>APPR.PER</td>
</tr>
<tr>
<td>2.1.5. Utilities Interruptions</td>
<td>ACC.SITE</td>
</tr>
<tr>
<td>2.1.6. Failure to provide feedstock</td>
<td>UT.INT</td>
</tr>
<tr>
<td>2.2. Term Specificity</td>
<td>FAIL.FEEDS</td>
</tr>
<tr>
<td>2.2.1. Set-up</td>
<td>TERM.SPEC</td>
</tr>
<tr>
<td>2.2.2. Operation and Management</td>
<td>SET-UP</td>
</tr>
<tr>
<td>2.2.3. Conflict Resolution</td>
<td>OP.MGMT</td>
</tr>
<tr>
<td>2.2.4. Termination</td>
<td>CONF.RES</td>
</tr>
<tr>
<td></td>
<td>TERM</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Governance tendencies in Company X</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1 Usage of Relational Governance</td>
<td>GOV.TEND</td>
</tr>
<tr>
<td>3.2 Current Contractual Trends</td>
<td>USAGE.RELGOV</td>
</tr>
<tr>
<td></td>
<td>CONT.TRENDS</td>
</tr>
</tbody>
</table>

### Figure 12  Initial Template

After having defined the initial template, the authors proceeded to analyze the main sources of data: the contract and the interviews. The initial template was effective as a tool to select and screen which data was relevant for the research and which were not. Consequently, the second step of the analysis process consisted of a proof-reading of the contract and the interviews using as the initial template as a guide, in order to code, collect and organize all the most interesting evidences.

The authors are convinced that, as suggested by Seidel and Kelle (1995), a coding process is fundamental for linking the original data to the researchers’ theoretical preliminary assumptions. Moreover, according to Rossman and Rallis (1998:171) “coding is the process of organizing the material into chunks or segments of text before bringing meaning to information”. Hence, as stated by Coffey and Atkinson (1996), the authors will employ coding for “identifying and reordering data, allowing the data to be thought of in new and different ways”. A focus will be maintained on collecting examples of the phenomena, rather than merely counting instances. Applying quantitative strategies would, as stated by Silverman (2001), mine the interesting meanings and messages conveyed by the chosen data sources.
The authors pursued a coding strategy that according to Berg (2004) can be defined as manifest and latent content analysis. He states that content analysis is a good approach for qualitative data; moreover, it is effective in understanding better the perspectives given by the different sources. Manifest content analysis is related to the surface structure presented in the message and latent content analysis goes more in deep trying to capture the deep structural meaning given by the message (ibid). Given the nature of data that this research deals with, it is fundamental not to limit the analysis to the more explicit information, but also prudently try to read in between the lines in order to find implicit messages. This approach is especially valuable when analyzing the interviews. Therefore, the authors believe that it is suitable having both manifest and latent content analysis strategies.

An example of how this coding and clustering process was carried out is exemplified in an excerpt from Interview No. 4, question No. 4:

The contract establishes how to manage the unforeseen contingencies not according to the level of trust existent between the Client and the Contractor. The Owner had accepted, according to the financing banks, the responsibilities related to the risks related to unforeseen events. However, they decided to leave to the Contractor the obligation of always keeping the Client informed and to act pro-actively in order to apply the responses to unforeseen contingencies.”

While reading the contract and interviews in depth, and clustering data according to the template, it is likely that additional interesting findings may surface, that did not emerge beforehand. Hence, the third step consisted in defining an updated template that includes all the newly identified clusters of data (see new code in the example from above). The coding process here was identical to that of the initial template. The final updated template resulting from this process is presented in Figure 13.
<table>
<thead>
<tr>
<th>DATA AGGREGATIONS</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Relational Governance in S-Project</strong></td>
<td><strong>REL.GOV</strong></td>
</tr>
<tr>
<td>1. Presence of Trust</td>
<td><strong>TRUST</strong></td>
</tr>
<tr>
<td>1.1. Uncertainty of work conditions</td>
<td><strong>UNCERT</strong></td>
</tr>
<tr>
<td>1.1.2. Delaying events</td>
<td><strong>DELAY</strong></td>
</tr>
<tr>
<td>1.1.3. Indemnifications</td>
<td><strong>INDEM</strong></td>
</tr>
<tr>
<td>1.1.4. Liquidated damages</td>
<td><strong>LIQ.DAM</strong></td>
</tr>
<tr>
<td>1.1.5. Sufficiency of contractual documents</td>
<td><strong>CONT.DOC</strong></td>
</tr>
<tr>
<td>1.2. Presence of Cooperation</td>
<td><strong>COOP</strong></td>
</tr>
<tr>
<td>1.3. Nature</td>
<td><strong>NAT</strong></td>
</tr>
<tr>
<td>1.4. Reasons</td>
<td><strong>REAS</strong></td>
</tr>
<tr>
<td>1.5. Project Financing</td>
<td><strong>PROJ.FIN</strong></td>
</tr>
<tr>
<td><strong>2. Effects on Contractual Completeness</strong></td>
<td><strong>CONT.COM</strong></td>
</tr>
<tr>
<td>2.1. Contingency Adaptability</td>
<td><strong>CONT.ADAP</strong></td>
</tr>
<tr>
<td>2.1.1. Procurement Restrictions</td>
<td><strong>PROC.RES</strong></td>
</tr>
<tr>
<td>2.1.2. Industrial Actions</td>
<td><strong>IND.ACT</strong></td>
</tr>
<tr>
<td>2.1.3. Prolonged Client Approval Periods</td>
<td><strong>APPR.PER</strong></td>
</tr>
<tr>
<td>2.1.4. Lack of Access to the Site</td>
<td><strong>ACC.SITE</strong></td>
</tr>
<tr>
<td>2.1.5. Utilities Interruptions</td>
<td><strong>UT.INT</strong></td>
</tr>
<tr>
<td>2.1.6. Failure to provide feedstock</td>
<td><strong>FAIL.FEEDS</strong></td>
</tr>
<tr>
<td>2.2. Term Specificity</td>
<td><strong>TERM.SPEC</strong></td>
</tr>
<tr>
<td>2.2.1. Set-up</td>
<td><strong>SET-UP</strong></td>
</tr>
<tr>
<td>2.2.2. Operation and Management</td>
<td><strong>OP.MGMT</strong></td>
</tr>
<tr>
<td>2.2.3. Conflict Resolution</td>
<td><strong>CONF.RES</strong></td>
</tr>
<tr>
<td>2.2.4. Termination</td>
<td><strong>TERM</strong></td>
</tr>
<tr>
<td><strong>3. Governance tendencies in Company X</strong></td>
<td><strong>GOV.TEND</strong></td>
</tr>
<tr>
<td>3.1 Usage of Relational Governance</td>
<td><strong>USAGE.RELGOV</strong></td>
</tr>
<tr>
<td>3.2 Current Contractual Trends</td>
<td><strong>CONT.TRENDS</strong></td>
</tr>
</tbody>
</table>

**Figure 13  Final Template**

The end of the analysis is the display and description of the findings that emerged from the data. A final coherency check is fundamental in this step. The findings must be aligned with the research objectives and the research questions. This is important because often, after having analyzed all the data, certain issues may emerge that are not strictly related to and focused on the initial study propositions. In the following section, the authors will present the main findings under the most detailed level of the headings of the template. Each category is described and the rationale for the chosen form of display is provided.
4.6 FINDINGS: APPLICATION OF THE TEMPLATE ANALYSIS

As a way to give support to the case, the authors have decided to provide visual displays of the findings. Wengraf (2001) supports this decision, stating that the use of matrices and flow-charts is highly compatible with a written research report. The authors believe that visual displays render properly the relationships between the template employed for the analysis and the paragraphed words and phrases found in the data sources.

Out of all the display formats described by Miles and Huberman (2004), the authors have chosen a simple yet meaningful one: a checklist matrix. This tool is extremely helpful as it condenses and standardizes the evidence found. Further, it allows the comparison of the different data sources by looking across columns, looking for emerging trends, patterns and convergence between them. A mixture of direct quotes and inferential remarks of the authors will be used to provide evidence under each of the categories of the template.

4.6.1 Presence of Trust

According to Zaghloul and Hartman (2003), contracting parties attempt to transfer one party’s risk to another through the inclusion of provisions that exclude liability stemming from certain causes. The usage of these disclaimer (exculpatory) clauses, they argue, reflects the level of trust or mistrust between the contracting parties. They list as the most common clauses the following:

a) Uncertainty of work conditions
b) Delaying events
c) Indemnification
d) Liquidated damages
e) Sufficiency of contract documents

Consequently, in the analysis, the presence or not of these clauses, and their content, is documentary proof of the levels of trust between Client and Contractor. Through the usage of a checklist matrix, evidence from the contract is highlighted to determine the presence of trust in this document. In Figure 14, the column ‘Evidence from Contract’ presents direct quotes from the contract, which were judged by the authors as indicative of presence or not of trust. Additionally, the column ‘Evidence from Interviews’ reports direct quotes and inferences from the interviews, which are also presented as evidence of the emergence of this social element during the construction project. Any convergence amongst the evidence is pointed out in column ‘Convergence of Sources of Evidence’, to demonstrate how the different sources of evidence confirm or disconfirm each other. This depiction is laid out for each of the headings of the coded template. To facilitate the understanding of the reader, the code of the cluster under analysis is recalled via a code presented in the column ‘Code’.
### Presence of Trust

<table>
<thead>
<tr>
<th>Code</th>
<th>Convergence of Sources of Evidence (Yes/No)</th>
<th>Evidence from Contract</th>
<th>Evidence from Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNCERT</td>
<td>Yes</td>
<td>Mistrust</td>
<td>Mistrust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The contract doesn’t acknowledge any monetary or time adjustments for uncertain work conditions:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Clause 6.2 Site conditions</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>No additional payment or adjustment to the Contract Price or Extension of Time shall be made on account of any unforeseen or unforeseeable hydrological, climatic, geological or other physical conditions on Site whatsoever.</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Interview No. 4</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>“the level of trust was not the driver for sharing responsibilities on unforeseen contingencies and consequent delays among parties”</td>
<td></td>
</tr>
<tr>
<td>DELAY</td>
<td>No</td>
<td>Trust</td>
<td>Mistrust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The contract acknowledges the occurrence of events and special circumstances that may lead to delays and for which the Contractor is not responsible.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Clause 33.1 Extension of Time for Completion</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(i) any Variation ordered by the Owner pursuant to Clause 25 (Variations); or</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(ii) any event of Force Majeure or Third Party Default; or</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(iii) the opening up for inspection of any of the Contract Works in accordance with Clause 17.4 (Uncovering of Contract Works) in circumstances where the Cost of such opening up is to be borne by the Owner; or</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Interview No. 4</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>“the level of trust was not the driver for sharing responsibilities on unforeseen contingencies and consequent delays among parties”</td>
<td></td>
</tr>
<tr>
<td>INDEM</td>
<td>N/A</td>
<td>Mistrust</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td></td>
<td>There are very specific instances in which the Owner forces the Contractor to indemnify him on the basis of different accounts.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Clause 16.5 (b). Contamination and Pollution</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Contractor shall keep the Owner indemnified against any Losses or claims arising as result of a breach by the Contractor of any of its obligations under paragraphs (a), (b) and (c) above.</td>
<td></td>
</tr>
<tr>
<td>Code</td>
<td>Convergence of Sources of Evidence (Yes/No)</td>
<td>Evidence from Contract</td>
<td>Evidence from Interviews</td>
</tr>
<tr>
<td>-------</td>
<td>--------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>INDEM</td>
<td>N/A</td>
<td><em>Clause 37.1 (b). Ownership of Contract Plant</em></td>
<td>None</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Contractor shall indemnify and keep indemnified the Owner against any claims, losses or damage arising from any defect in title or encumbrance or charge upon any Contract Plant supplied pursuant to the Contract.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Clause 42.1 Indemnity Against Infringement [of Patent Rights, etc.]</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Contractor shall indemnify the Owner against all actions, claims, demands, costs, charges and expenses arising from or incurred by reason of any infringement in Italy or alleged infringement of letters patent, registered design, copyright, trade mark or trade name protected by the use or possession of any Contract Plant, but such indemnity shall not cover any use of the Contract Works otherwise than for the purpose indicated by or reasonably inferred from the Owner’s Requirements or any infringement which is due to the use of any Contract Plant in association or combination with any other plant not supplied under the Contract.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Clause 43.4. Injury to Persons and Property whilst Contractor has responsibility for Care of the Contract Works</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Except as hereinafter mentioned the Contractor shall be liable for and shall indemnify the Owner against all claims in respect of personal injury or death and in respect of loss of or damage to any property (other than property forming part of the Contract Works not yet taken over) which arises out of or in consequence of the execution of the Contract Works while the Contractor has responsibility for the care thereof and against all demands, costs, charges and expenses arising in connection therewith to the extent such claims arise from the actions or omissions of the Contractor or a Sub-Contractor, but in the case of loss of or damage to the property or refinery of Saras S.p.A. the indemnity shall be limited to the amount of the deductibles (for which the Contractor is responsible) for the particular loss or damage. The Contractor shall not be liable under this Clause for, and the Owner shall indemnify him from and against, any claims in relation to death or personal injury or loss of or damage to property to the extent that the same results from any act or neglect of the Owner, his agents, servants or other contractors (not being the Contractor’s servants, agents or Sub-Contractors) and in the case of damage to property to the further extent that the damage is an inevitable consequence of the execution of the Contract Works.</td>
<td></td>
</tr>
<tr>
<td>Code</td>
<td>Convergence (Yes/No)</td>
<td>Evidence from Contract</td>
<td>Evidence from Interviews</td>
</tr>
<tr>
<td>---------</td>
<td>----------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>LIQ.DAM</td>
<td>N/A</td>
<td><strong>Mistrust</strong>&lt;br&gt;The contract is very specific, including liquidated damages based on two dimensions: performance of the plant and availability of its outputs.</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Type 1: Performance Liquidated Damages</strong>&lt;br&gt;<strong>Performance Standard</strong>&lt;br&gt;Net Power Output @ 380 KV&lt;sup&gt;11&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Payment</strong>&lt;br&gt;540+551 MW: 4.4 bn LIT per MW&lt;sup&gt;23&lt;/sup&gt;&lt;br&gt;520+-540 MW: 5.1 bn LIT per MW&lt;sup&gt;23&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>CONT.DOC</td>
<td>N/A</td>
<td><strong>Mistrust</strong>&lt;br&gt;The Contract clearly states that any contractual insufficiency, ambiguity, discrepancy or conflict must be handled by the Contractor.</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>5.2 (b) Precedence of Documents</strong>&lt;br&gt;In the case of any ambiguity, inconsistency, discrepancy or conflict within any document or between documents given equal priority in Clause 5.2(a) (Precedence of Documents), the ambiguity, discrepancy or conflict shall be resolved by the expert appointed in accordance with Clause 5.1 (Contractual Determinations). The Contractor shall comply at his own cost with any determination by the expert in relation to any such ambiguities, inconsistencies, discrepancies or conflict as are referred to in this Clause.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>14.1 (a) Design Documentation</strong>&lt;br&gt;Where there is a discrepancy between the Contractor’s Specification and any Design Documentation, the Contractor shall inform the Owner’s Representative in writing of his proposed amendment to remove the discrepancy and the Owner’s Representative may in his discretion decide between the discrepant items or otherwise may accept the Contractor’s proposed amendment and the Contractor shall be obliged to comply with the decision of the Owner’s Representative without cost to the Owner and such decision shall not relieve the Contractor of any responsibility or liability in respect of any such matters.</td>
<td></td>
</tr>
</tbody>
</table>
4.6.2 Presence of Cooperation

Pieces of data under this grouping provide evidence on the existence and development of another social norm during the project: cooperation. Abstracts from the contract’s clauses and quotes from the interviewees’ responses are provided as proof. This evidence is presented in Figure 15, which follows the same logic described for the previous Figure 14 – Presence of Trust (pg. 48).

Figure 15  Presence of Cooperation

<table>
<thead>
<tr>
<th>Code</th>
<th>Convergence of Sources of Evidence (Yes/No)</th>
<th>Evidence from Contract</th>
<th>Evidence from Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>COOP Yes</td>
<td>Cooperation</td>
<td>Clause 11.2 (a) Required Consents Subject to Clause 2.4 (Conditions Subsequent), the Owner undertakes to act in good faith for the purpose of obtaining the Owner’s Consents.</td>
<td>Cooperation Interview No. 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“during the negotiation phase was clear an intended spirit of cooperation from both contractual sides”</td>
<td></td>
</tr>
<tr>
<td>COOP Yes</td>
<td>Cooperation</td>
<td>Interview No. 2</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>“the collaborative behavior impacted on the definition of certain clauses leaving space for relational attitudes”</td>
<td></td>
</tr>
<tr>
<td>COOP No</td>
<td>Non-cooperation</td>
<td>Interview No. 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>“during the project there was not a cooperative behavior anymore”</td>
<td></td>
</tr>
<tr>
<td>COOP No</td>
<td>Non-cooperation</td>
<td>Interview No.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>“during the execution of the project I didn't see honestly any attitude for cooperating from the Client’s managers I was dealing with”</td>
<td></td>
</tr>
</tbody>
</table>
4.6.3 Nature of Trust

Under this category, evidence describing the level of trust, its reciprocity (unilateral or bilateral) and its timeliness (initial or developed during the project) will be presented. The evidence comes solely from the interviews as the contract doesn’t explicitly suggest anything related to these issues.

Accordingly, Figure 16 presents three columns. The first column, ‘Code’ recalls the abbreviation of the theme corresponding to the template. The second column, ‘Evidence from Interviews’ presents direct quotes from the interviews, which give indications of the characteristics or features revealed by this social norm in S-Project. The third and final column, ‘Comments’, contains the authors’ inferences regarding the contents of the previous column. As described above, these inferences are related to three aspects: (1) the level of trust, rated on a low-moderate-high scale, (2) the reciprocity of this norm, expressed as either unilateral or bilateral, and (3) the time period to which these past characteristics refer to – either the negotiation phase or the execution phase.

**Figure 16  Nature of Trust**

<table>
<thead>
<tr>
<th>Code</th>
<th>Evidence from Interviews</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAT</td>
<td><em>Interview No. 1</em></td>
<td></td>
</tr>
</tbody>
</table>
|      | “during the negotiation phase there was a moderate level of trust between the parties” | Level: Moderate  
Reciprocity: Bilateral  
Time Period: Negotiation |
| NAT  | *Interview No. 2*         |          |
|      | “open and collaborative level of trust”, and  
“however, as the first problems rose during the project, this trust was revealed inexistent: flexibility became rigidity” | Level: Low  
Reciprocity: Bilateral  
Time Period: Negotiation |
| NAT  | *Interview No. 3*         |          |
|      | “at the beginning there was a high level of trust between the parties”  
“as the project progressed, it was clear that the trust was only on one side, ours” | Level: High  
Reciprocity: Unilateral  
Time Period: Execution |
| NAT  | *Interview No. 4*         |          |
|      | “despite positive past experience, the negotiation took place in not such nice atmosphere with a not high level of trust” | Level: Low  
Reciprocity: Bilateral  
Time Period: Negotiation |
4.6.4 Reasons for Trust

Excerpts, quotes and inferences placed under this heading refer to the antecedents of trust. Motivations and causes for the formation of trust, such as previous cooperation, reputation and expectancy of future exchanges are presented. The evidence comes solely from the interviews as the contract doesn’t explicitly suggest anything related to these issues.

In accordance, Figure 17 is organized as follows. The first column, ‘Code’ recalls the abbreviation of the theme corresponding to the template. The second column, ‘Evidence from Interviews’ presents direct quotes from the interviews, which give indications of the characteristics or features revealed by this social norm in S-Project. The third and final column, ‘Reasons Identified’, specifies the correspondent source of trust, as alleged by the respondents.

**Figure 17  Reasons for Trust**

<table>
<thead>
<tr>
<th>Code</th>
<th>Evidence from Interviews</th>
<th>Reasons Identified</th>
</tr>
</thead>
<tbody>
<tr>
<td>REAS</td>
<td>Interview No. 1: “the main reasons behind the trustiness was given by the good reputation that both the parties gained in the market”</td>
<td>Reputation</td>
</tr>
<tr>
<td>REAS</td>
<td>Interview No. 2: “both the Client and Company X had very good international reputations. Moreover, Company X had already had successful business relations with them in the past”</td>
<td>Reputation, Previous Cooperation</td>
</tr>
<tr>
<td>REAS</td>
<td>Interview No. 3: “Essentially, the successfulness of previous experiences and future possible projects was fundamental”</td>
<td>Previous Cooperation, Expectancy of future collaborations</td>
</tr>
<tr>
<td>REAS</td>
<td>Interview No. 4: “the low-medium level of trust was given by the bilateral awareness about the uniqueness of S-Project. However the good reputation of all the parties was a good warranty for everyone”</td>
<td>Reputation</td>
</tr>
</tbody>
</table>
4.6.5 Project Financing

As a result of the initial inspection of the interviews, this new category emerged. Empirical evidence regarding the effects of project financing in the governance of the project and how this financial set-up affects the inclusion of relational norms are placed under this heading. This evidence is presented in Figure 18, which follows the same logic described for Figure 14 – Presence of Trust (pg. 48).

Figure 18  Project Financing

<table>
<thead>
<tr>
<th>Code</th>
<th>Convergence of Sources of Evidence (Yes/No)</th>
<th>Evidence from Contract</th>
<th>Evidence from Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROJ.FIN</td>
<td>Yes</td>
<td><em>Loan Letter - Premise C</em>&lt;br&gt;&quot;The Owner, Bank 1 and Bank 2 have subscribed in London, on date xx a financing agreement named 'S-Project Facility Agreement', based on which the banks are committed to concede the Owner with the right to borrow a total amount of 0.75 B€ destined to provide financial support for the development and the execution of the Project'*&lt;br&gt;&lt;br&gt;<em>Direct Agreement</em>&lt;br&gt;&lt;br&gt;<em>Pledge 1 (b)</em>&lt;br&gt;In addition notice is hereby given to the Contractor by each of the Owner, the Lenders and the Facilities Agent that the exercise by the Owner of rights and discretions expressed to be exercisable by it under or pursuant to the Construction Contract is subject to specific arrangements agreed with the Lenders under the Facility Agreement. These include (without limitation) provisions relating to the ability of the Owner to exercise certain rights and discretions under the Construction Contract as specified in Schedule 2 to this letter (the &quot;Scheduled Reserved Discretions&quot;). If the Lenders shall restrict the ability of the Owner to exercise any Scheduled Reserved Discretion pursuant to the relevant provisions of the Facility Agreement, the Lenders shall (as soon as is reasonably practicable) forward to the Owner (with a copy to the Contractor) through the Facilities Agent a notice certifying and specifying the details of such restriction, and the Owner shall (as soon as is reasonably practicable) forward the notice to the Contractor.</td>
<td><em>Interview No. 4:</em>&lt;br&gt;&quot;there were financing banks that directly shaped the governance&quot;&lt;br&gt;&quot;generally speaking, if the project involves project financing like in S-Project, the contract will be rigid and detailed&quot;</td>
</tr>
</tbody>
</table>
4.6.6 Contingency Adaptability

As described earlier in this section, the inspection of company reports and presentations state the occurrence of specific conflictive events during the execution of the project. In order to check for contingency adaptability, the contract was inspected to see to what degree the contract was flexible and adaptive enough to cope with these factual events and how it set guidelines ex-ante for the handling of said situations.

Figure 19 provides evidence from the contract to determine the adaptability of the aforementioned document. The column ‘Code’ reminds the reader of the source of conflict, as coded in the template. Next, ‘Level of Contingency Adaptability’, reports the comments of the authors, considering the clauses as flexible, rigid or not specified. Finally, the column ‘Evidence’ provides the direct quotes from the contract on which the authors have based their judgments.

**Figure 19  Evidence of Contingency Adaptability**

<table>
<thead>
<tr>
<th>Code</th>
<th>Event</th>
<th>Level of Contingency Adaptability (Flexible/Rigid/Not Specified)</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROC.RES</td>
<td>Procurement restrictions</td>
<td>Rigid</td>
<td>Clause 4.3 (a). Sub-contracting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Restriction for sub-contracting, limited to Owner’s Vendor List.</td>
<td>The Contractor shall not sub-contract any part of the Contract Works to a Sub-Contractor or supplier which is not named on the Vendor List (set out in Schedule 8 (Vendor List)) without the Owner’s prior written consent. The Contractor shall only sub-contract to any Sub-Contractor or supplier named on the Vendor List the item(s) or portion(s) of the Contract Works or Contract Plant referred to in the Vendor List.</td>
</tr>
</tbody>
</table>

Clause 4.3 (b). Sub-contracting

The Contractor shall be responsible for the acts, defaults, omissions and neglects of any Sub-Contractor or suppliers of any tier and their respective agents, servants or workmen as fully as if they were the acts, defaults, omissions or neglects of the Contractor, his agents, servants or workmen.
<table>
<thead>
<tr>
<th>Code</th>
<th>Event</th>
<th>Level of Contingency</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>IND.ACT</td>
<td>Industrial actions</td>
<td>Flexible</td>
<td>Delineation of economic compensation of the Contractor or even termination of the contract and subsequent payments upon the occurrence of such an event.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Definitions: “Force Majeure”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>labour disputes sanctioned by a national union and not originating at the Site or arising by reason of the Contract Works (or a part thereof) or the activities of the Contractor;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Clause 45.3. Additional Amounts payable to Contractor for Force Majeure or Third Party Default</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Where an event of Force Majeure or Third Party Default occurs, the Contractor shall not be entitled by reason of that event to claim more than the reasonable Cost of additional labour (including demobilisation and mobilisation) and site services incurred by him on the basis that he has complied with his obligations under Clauses 45.1 (Mitigation) and 45.2 (Notice of Force Majeure or Third Party Default).</td>
</tr>
<tr>
<td>APPR.PER</td>
<td>Prolonged client approval periods</td>
<td>Flexible</td>
<td>Clause 3.5 (v). Duties of the Owner’s Representative</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>give approvals, whenever necessary, in accordance with the Contract and without unreasonable delay.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Technical Specifications</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mechanical Completion Certificate</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Within 7 (seven) calendar days from the issue of the notice of ‘Mechanical Completion’ the Owner project Team may either accept in writing that the system is ‘Mechanically Completed’ or reject it in writing giving a list of unfinished works.</td>
</tr>
<tr>
<td>ACC.SITE</td>
<td>Lack of access to the site</td>
<td>Not specified</td>
<td>Clause 11.1 (a). Access to Site.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Owner shall give the Contractor access (but not exclusive access) to the Site on the Commencement Date.</td>
</tr>
<tr>
<td>Code</td>
<td>Event</td>
<td>Level of Contingency</td>
<td>Evidence</td>
</tr>
<tr>
<td>----------</td>
<td>---------------------------</td>
<td>----------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>UT.INT</td>
<td>Utilities interruption</td>
<td>Not specified</td>
<td>Clause 11.3. Utilities and Feedstocks</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Owner shall supply to the Site boundary electricity, water, oxygen, gas, distilled oil, demineralised water and other utilities, oil feedstocks and services in the quantities, at the times and to the specifications stated in Schedule 10 (Additional Owner's Requirements) subject to the maximum amounts stated in Part 2, Section 1 of Schedule 1 (The Contract Price, Performance Guarantees and Liquidated Damages). All other or any extra utilities and feedstocks required for the performance of the Contract will be supplied by the Owner and, if so, the Contractor shall pay the Owner the Cost of such supplies. No warranty is given by the Owner that the supplies requested by the Contractor will be sufficient for the Contractor to complete its obligations under the Contract.</td>
</tr>
<tr>
<td>FAIL.FEEDS</td>
<td>Failure to provide feedstock</td>
<td>Not specified</td>
<td>Clause 11.3. Utilities and Feedstocks</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Owner shall supply to the Site boundary electricity, water, oxygen, gas, distilled oil, demineralised water and other utilities, oil feedstocks and services in the quantities, at the times and to the specifications stated in Schedule 10 (Additional Owner's Requirements) subject to the maximum amounts stated in Part 2, Section 1 of Schedule 1 (The Contract Price, Performance Guarantees and Liquidated Damages). All other or any extra utilities and feedstocks required for the performance of the Contract will be supplied by the Owner and, if so, the Contractor shall pay the Owner the Cost of such supplies. No warranty is given by the Owner that the supplies requested by the Contractor will be sufficient for the Contractor to complete its obligations under the Contract.</td>
</tr>
</tbody>
</table>
4.6.7 Term Specificity

According to Luo (2002), term specificity may be assessed by the specification of relevant terms and clauses that concern how the exchange agreement is set-up, operated, its conflicts resolved and terminated.

Through the usage of a Checklist Matrix, presented in Figure 20, the authors showcase evidence from the contract determining the term specificity of this document. This evidence is presented in the form of direct quotes from both the contract and the interviews, placed under the headings ‘Evidence form Contract’ and ‘Evidence from Interviews’ respectively. These demonstrate the existence or inexistence of clauses treating such matters. Any convergence amongst the findings is pointed out in the column ‘Convergence of Sources of Evidence’, which demonstrates how the different sources of evidence confirm or disconfirm each other. A reminder of the template coding to which the specific terms refer to is stated in the column ‘Code’.

Figure 20  Evidence of Term Specificity

<table>
<thead>
<tr>
<th>Code</th>
<th>Convergence of Sources of Evidence (Yes/No)</th>
<th>Evidence from Contract</th>
<th>Evidence from Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>SET-UP</td>
<td>No</td>
<td>A variety of contractual documents</td>
<td>Interview No. 3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Agreement Letter</td>
<td>“inadequate definition, analysis, and evaluation of risks”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Form of Direct Agreement</td>
<td>“unreachable targets”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“not clear responsibilities”</td>
</tr>
<tr>
<td>OP.MGMT</td>
<td>Yes</td>
<td>There is no evidence of clauses obliging both parties to hold meetings for the review and discussion of the way the project and contract are being operated and handled.</td>
<td>Interview No. 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“the effect of trust on the definition of clauses in the contract was minimal”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Interview No. 3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“two Project Managers from the Contractor side”</td>
</tr>
<tr>
<td>Code</td>
<td>Convergence (Yes/No)</td>
<td>Evidence from Contract</td>
<td>Evidence from Interviews</td>
</tr>
<tr>
<td>----------</td>
<td>----------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>CONF.RES</td>
<td>Yes</td>
<td>The clause related only to technical disputes clearly specifies roles, venues and procedures for the resolution of disputes.</td>
<td>Interview No. 3</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Clause 51. Disputes and Contractual Determinations</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Any dispute of a technical nature between the parties arising out of or in connection with the Contract shall be finally settled by one arbitrator who shall be jointly nominated by Owner and the Contractor before the Commencement Date. The arbitrator shall render his determination “secondo diritto”. The determination of the arbitrator shall have the full force and effect of a judicial decision (“arbitrato rituale”). The venue of the arbitration shall be Milan, Italy. In the event of a failure of the parties to nominate the arbitrator before the Commencement Date or in the event the arbitrator is unable or ceases to carry out his duties then another arbitrator shall be nominated by the Chairman for the time being of the Association of Engineers at the request</td>
<td></td>
</tr>
<tr>
<td>TERM</td>
<td>N/A</td>
<td>There is a clear specification of the reasons for termination of the contract, deriving from either the Contractor or the Owner.</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Clause 48. Contractor’s Default</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(a) the Contractor shall in whole or in part assign the Contract, or sub-let the whole or a part of the Contract Works otherwise than under Clause 4 (Assignment and Sub-Contracting); or</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(b) the Owner is entitled to terminate the employment of the Contractor under Clause 34.2 (Prolonged Delay in achieving Minimum Performance Standards); or</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(c) the Contractor abandons the Contract; or</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Clause 50. Owner’s Default</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subject to Clauses 2.4 (Conditions Subsequent), 23.4 (Resumption of Work, Delivery or Erection), 40.4 (Termination for Force Majeure or Third Party Default) and 45.4 (Remedies on Failure to Certify or Make Payment), the Contractor shall have no other right to terminate the Contract or stop work (whether under Italian law or otherwise).</td>
<td></td>
</tr>
</tbody>
</table>
4.6.8 Usage of Relational Governance

This heading aggregates all the responses regarding the perception on the usefulness or not of the inclusion of relational governance in exchange agreements. The Figure 21 reports in the two columns the code given by the template (column “Code”) and the excerpts from the interviews (column “Evidence from Interviews”)

Figure 21  Usage of Relational Governance

<table>
<thead>
<tr>
<th>Code</th>
<th>Evidence from Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>USAGE.RELGOV</td>
<td>Interview No. 1: “generally speaking, it is always better to have a contract with a high level of definition of responsibilities, schedules, penalties, etc”</td>
</tr>
<tr>
<td>USAGE.RELGOV</td>
<td>Interview No. 2: “it is always better starting from a well defined, structured and complete contract; then, during the execution of the project, it has to be managed with flexibility”</td>
</tr>
<tr>
<td>USAGE.RELGOV</td>
<td>Interview No. 3: “a contract has to be precise. It does not have to leave room for interpretations, but just applications. Only occasionally flexibility can be a good practice”</td>
</tr>
<tr>
<td>USAGE.RELGOV</td>
<td>Interview No. 4: “the Anglo-Saxon way of writing contracts is usually better and more widespread among international contractors and clients; it is based on defining in a very detailed manner every aspect of the contract.”</td>
</tr>
<tr>
<td>USAGE.RELGOV</td>
<td>Interview No. 5: “according to my technical experience, it is always better having a contract very well defined in every part and without any white space left.”</td>
</tr>
</tbody>
</table>
4.6.9 Current Contractual Trends

Any indications of the most recent contractual trends in Company X are placed under this category. Given the recentness of the topic, evidence comes solely from the interviews (column “Evidence from Interviews”) as the contract can’t give any indications on this current state of affairs.

Figure 22  Contractual Trends

<table>
<thead>
<tr>
<th>Code</th>
<th>Evidence from Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONT.TRENDS</td>
<td>Interview No. 1: “year by year, contract after contract, I see an increase of rigidity of the contract with few rooms for relational governance”</td>
</tr>
<tr>
<td>CONT.TRENDS</td>
<td>Interview No. 2: “my impression is that rather than an evolution, there is a regression; the trend is based on highly competitive bids where the first driver is always a lower price. In this situation the rigidity of the contracts is higher and the level of trust is lower and lower”</td>
</tr>
<tr>
<td>CONT.TRENDS</td>
<td>Interview No. 3: “honestly, I don't see any evolution. However, the contracts are getting always more favorable for the Client and very challenging for Contractors”</td>
</tr>
<tr>
<td>CONT.TRENDS</td>
<td>Interview No. 4: “generally speaking, if the project involves forms of project financing the contract is going to be very rigid and detailed. On the other hand, if the contract is one-to-one, with only two main entities involved, and with a proper level of trust, more flexible relational governance is more suitable”</td>
</tr>
<tr>
<td>CONT.TRENDS</td>
<td>Interview No. 5: “every contract has its own story, but I don't see so many changes in practice, by comparing the S-Project with current ones. However, I'm convinced that the successfulness of a flexible project is always related to the quality of interpersonal relationships between top-managers of both parties”</td>
</tr>
</tbody>
</table>

In this chapter, all the data collected from the diverse sources as a result of the coding process has been reported and analyzed. The visual rendering of said results through matrices was effective for providing to the reader a complete representation of the main findings and their correspondent sources. Lines of convergence within these sources were outlined as well, leading to the identification of patterns and trends between the variables under study. These causal relations and convergence of sources is the base of the discussion presented in the next chapter.
Chapter 5 - DISCUSSION OF FINDINGS

In the previous chapter the authors conducted a data analysis process in order to extract significant evidence for the verification of the literature review propositions and to provide answers to the research questions. Findings, remarks, differences and similarities were outlined, after the coding of the data. The current chapter will discuss said findings in order to establish relationships among them, especially of the cause-and-effect type; this will then lead to the development of our theory in the following chapter.

5.1 RELATIONAL GOVERNANCE

According to the template defined in Chapter 4, the study analyzes relational governance within four main clusters: presence of trust, presence of cooperation, nature and reasons. The findings in each of the clusters will be discussed more in detail.

5.1.1 Presence of Trust

Trust is one of the main relational governance attributes (Scherling & Wang, 1993; Jeffries & Reed, 2000), and according to Pinto et al. (2009), its main objective is to facilitate relationships among parties. Regarding this important relational norm, the initial assumptions of the authors were partially confirmed from the data sources. The contract on one side and the interviews on the other, showed certain incongruence when looking for mutual confirmation.

Uncertainty of work conditions (UNCERT) is a good example for alignment between the contract and the interviews. Both sources evidenced the absence of trust in S-project. The evidence is only enough to allocate this mistrust to the Client side; the writing of this clause does not imply anything on the Contractor’s side. Nevertheless, considering delaying events (DELAY) the sources are not convergent; the contract provides evidences of presence of trust, while the fourth interviewee declared that trust was not a driver in managing delays during the execution phase. However, the evidence of trust presented by the contract is limited to a set of exempted events; if the delaying event does not fall within one of these categories, the situation is no longer controlled by the contract and is dealt only with social control mechanisms. It is in these situations that the presence of trust is evidenced, and as stated by the fourth interviewee, trust was not visible.

In general, the contract provides more evidences regarding the presence or not of trust deriving from the usage of disclaimer clauses. The interviews just give general information more related to the nature of this social construct, which is presented under the heading Nature. It is noticeable that only in one case, delaying events (DELAY), there is evidence of presence of trust among the parties, while all the others headings related to Presence of Trust (TRUST) are full with data confirming mistrust. Hence, it may be inferred that the usage of disclaimer clauses does signal mistrust, and that the inclusion of exceptions is not a significant signal of trust, as every event that falls outside these limits is then subject to the effects of mistrust evidenced by the mere existence of the exculpatory clause.
However, the usage of disclaimer clauses that exonerate the Client of any responsibility is only an indication of the levels of trust pertaining to the Client; and if not, they are at least proof of opportunistic behavior from his side. As explained in the following sections, the interviewees acknowledge the presence of trust on the Contractor side. Perhaps, this is the reason why such exculpatory clauses exist: the Contractor, depositing his trust on the Client, allowed for the inclusion of these clauses in the contract. The Client, cognizant of these conditions, demonstrated opportunistic behavior by taking advantage of the trust exhibited by the Contractor.

5.1.2 Presence of Cooperation

Gil (2009) remarked how cooperation is one of the critical success factors for driving complex projects nowadays. Luo (2002), states that the contract is the instrument for basing and guiding cooperative relationships and hence, on a first instance, findings stemming from the contract will be discussed. The contract does not encourage this relational norm, which unlike trust can be imposed on the parties by the introduction of sanctions and penalties (Gil & Marion, 2009). In only one case it was possible to read an explicit reference to cooperation. Moreover, this single reference is promoting cooperation only regarding the consents required from the Owner. Not surprisingly, the delays resulting from lengthened approvals from the Owner were one of the main Contractor’s claims.

On the matter of cooperation, there is a disagreement between the different data sources. The answers provided by the interviewees were more useful for understanding the level of cooperation in the S-Project. Four out of five interviews speak directly about cooperation. The fact that the interviewees participated in specific time periods of the project was extremely valuable at giving a clearer and richer insight of what occurred in the S-Project at different points in time. Two of them, Interviewees No. 1 and No. 2, were part of the team responsible for the negotiation of the contract. They state that indeed there was cooperation, but referring only to the negotiation phase. The other two managers, Interviewees No. 4 and No. 5, involved later on in the execution phase, answered by saying that during the implementation and execution of the project there was no cooperation between the parties at all. In conclusion, the presence of cooperation is slightly present in the contract, but was felt even more so by the managers during the negotiation phase. However, later on, in the subsequent phases of the project the cooperation faded away, completely vanishing by the time of the termination of the S-Project. In congruency with Scherling and Wang (2003), in the S-Project, trust was a critical success factor for the development of cooperative relationships. Being a project with a clear lack of trust during the execution phase, there was no starting point for the sustainment of good institutional relationships. The chances of creating a more cooperative project environment were further eclipsed by the lack of support of the contract, which does not promote cooperative behavior and lays the burden of this incubation process on social relationships alone.
5.1.3 Nature of Trust

The nature of trust (NAT) is of paramount importance for having a better understanding of the characteristics of the trustiness existent amongst parties in the S-Project. Specifically, the analysis of the nature of trust was based on the data provided by the interviews. The outcomes relate to three dimensions: the level of trust, the reciprocity and the time period. These three dimensions are fundamental for understanding how the trust was incorporated and developed in the project. According to the interviews, two different ‘pictures’ of trust can be deduced. As perceived by respondents in Company X, during the negotiation phase the trust was mutual and ranged from low to high. Later on, during the execution phase the trust was either perceived as: (a) having a high level, but unilateral (present only on the contractor side), or (b) mutual but at low levels. Regardless of the lack of consensus in the execution phase ‘picture’, a storyline of the nature of trust along the progression of the project may be drawn. There was an evolution from a reciprocal and arguably high level of trust to a state in which trust was either mutually low or just one sided. The data analysis, therefore, confirms how there was a bold change in the perception of trustiness among parties going from the negotiation to the execution phase in S-Project.

The fact that the nature of trust was not uniform among the contractor’s managers is easily explainable. During the negotiation phase, the lowest perceived levels of trust originate from Interviewee No. 4 – the Contract Advisor. This is the person who was in the closest contact with the other party and who could perceive trust in all its forms of expression: gestural patterns of the negotiation team, harshness of speech, and the writing and negotiation of terms in the contract. The highest perceived levels stem from the Interviewee No. 1, the Civil Leader, who in spite of being part of the negotiation board, did not play such a major role in this phase as he did in the execution phase.

The same occurs in the execution phase. Interviewee No. 2, the Insurance Responsible, perceives mutual trustiness at a low level. Opposed to that, Interviewee No. 3, the Project Manager, who was in direct contact with the Owner’s team throughout the entirety of the project, perceives a high level of trust deposited on the other party by the Contractor.

This trend gives us vital information on the perception of trust: acuity of this social element varies according to the level of proximity to the other party. This statement is supported by Williamson (1979), who believes that individuals at the interface of buyer and owner are more sensitive with the way personal and institutional relations evolve.

5.1.4 Reasons for Trust

Having discussed the presence and the nature of trust, the template introduces next the reasons (REAS) for the existence of trust in the S-Project. In this case, the data was also collected only from the interviews. All the interviewers gave information about the reasons for trust, referring specifically to the negotiation phase. The interviewees justified the trustiness existent between parties in the negotiation phase of S-Project primarily as a result of the solid and good reputation of all the companies involved and on a second instance, due to the existence of previous successful collaborations in projects between Company X and the Client.
Thus, it may be inferred that these two aspects are critical for the formation of trust at the early stages of the project. The fact that the companies integrating the JV on the Contractor’s side have leading profiles in the European market served as a basis for the establishment of trust. This, coupled with their longevity and opportunity to engage in economic exchanges in the past, set the ambient for the positive initial perception of trust. The interviews, however, do not specify the number of past collaborations, their duration or their outcome, making it very difficult for the researchers to find a clearer link between the effects of this aspect on the levels of trust.

The fourth interviewee introduces a third reason for the development of trust: the potential of having future deals. A minor motive, cited only by one of the interviewees, may convey that it is perhaps omitted by other respondents because of the outcomes of the project. At the initial stages of the project, prospect projects may be a driver for trust; but once the project unfurls with poor contractual results as this one, future collaborations are no longer in mind.

5.1.5 Project Financing

*Project Financing* (PROJ.FIN) is the category of data that emerged in the interactive process of analyzing with the initial template both the contractual documents and the interviews. Project financing may have different effects on trust. On the one hand, it may affect negatively on the trust levels of the project, due to the necessity of official guarantees that cannot be provided by relational norms (Daube et al., 2008). On the other hand, project financing is a form of partnering and consequently involves relational norms within the financing parties.

In the S-Project, the project financing theme emerges both from the interviews and the contract data analysis, and the outcomes ultimately converged. The central issue that emerged relates to the strong impact that the project financing entities had on the project governance. The S-Project contract involves the Contractor, the Client (Owner) and the financing banks (Facility Agents). Such an arrangement is likely to have consequences on the relationship between Company X and the Client. As presented in Figure 18, the Direct Agreement with the Lenders states that many of the Owner’s actions are subject to scrutiny and agreement with the Lenders. This interferes heavily in the creation of organizational relations between the contracting parties and restricts the Owner from making individual decisions, weakening or even annulling the possibilities of establishing a trustful atmosphere.

In fact, according to the fourth interviewee, “if the project involves project financing like in S-Project, the contract will be rigid and detailed”. This statement clearly depicts the influence that these financing entities had in the elaboration of the contract, and consequently, on the relationships between the Owner and the Contractor.

Overall, according to the data analysis conducted in the precedent chapter, the representation that can be drawn about trust in S-Project, can be summarized as follows. Trust was present during the negotiation phase in S-Project. Nonetheless, despite the highly regarded reputations and past experiences incurred between the two main players (the Client and Company X), during the execution phase the relationship relational norms were not employed anymore. According to Ngowi (2007), there is a very important assumption behind the successfullness of relational contracts: the certainty that
the counterpart will not behave opportunistically. The evidence provided by the data analysis suggests an opportunistic behavior from the Client side, as perceived by Company X, which lead to the discontinuity of usage of relational governance mechanisms.

The relational governance cluster provided another important element for the discussion: the Client financed the project involving two banks that asked for warranties on their investments. Therefore, it is arguable whether relational governance mechanisms can be successfully implemented in project financing contracts that limit the possibilities of the actors to behave independently.

5.2 EFFECT ON CONTRACTUAL COMPLETENESS

According to Luo (2002), contractual completeness is related to both term specificity and contingency adaptability. Contractual completeness is that characteristic that allows a contract to be both flexible in case of unforeseen contingencies, and detailed enough in describing responsibilities. The data analysis was conducted following this definition, and two main clusters were analyzed: Contingency Adaptability (CONT.ADAP) and Term Specificity (TERM.SPEC).

5.2.1 Contingency Adaptability

Contingency adaptability refers to the effectiveness of the contract to manage unforeseen contingencies. More specifically, those contingencies that were the source of the claims that arose during the execution phase of the S-Project were taken under consideration. Accordingly, the authors examined the contract to see if there were clauses prompt to dictate actions in case of the occurrence of an unexpected event.

The data analysis outlined interesting outcomes. A mix in the degree of adaptability of clauses was identified, but ultimately leading to a tendency of using relational governance for the handling of unanticipated contingencies. In the case of procurement restrictions (PROC.RES), the contract was rigid. The contract clearly specified procedures for the selection of sub-contractors, and left for no room for irrespective actions. On the contrary, the contract presented flexible clauses in case of industrial action (IND.ACT) and prolonged client approval periods (APPR.PER). The latter however, was indicative of adaptability favoring the Client-side and therefore against the Contractor’s position. Finally, the contract did not provide any indication for determining the adaptability in case of lack of access to the site (ACC.SITE), utilities interruption (UT.INT) and failure to provide feedstock (FAIL.FEEDS). The absence of contractual provisions in case of problems in these areas can be caused by one of two reasons: (a) lack of contingency-forecasting skills, which the authors do not support due to the expertise of the parties, or (b) the incorporation of relational norms like trust and solidarity during the negotiation phase. Although a mix of both might have led to the final disposition of the contract, the high commercial experience and caliber of the contracting parties lead the authors to believe that the second cause was of heavier weight. As already proven in the previous sections, the negotiation phase did include trust and cooperation from both parties, which might have led to clauses that left room for actions based on social processes. The reasons behind the rigidity of the sub-contractor selection clause are indeterminable from either the contract or Company X’s
respondents. Interviews with participants from the Owner side would be needed to determine if indeed lack of trust was the reason for the establishment of such an inflexible clause.

5.2.2 Term Specificity

*Term specificity* (TERM.SPEC) is, according to Luo (2002), the degree of specification of clauses that define how the agreement is set-up, managed and terminated. Accordingly, the template clustered the data analysis in four groups: Set-up, operation and management, conflict resolution and termination.

In this study, evidence from both the contract and the interviews has been analyzed. The results of the analysis have revealed a lack of term specificity for *set-up* (SET-UP) and for *operation and management* (OP.MGMT) during the execution of the project. Moreover, when analyzing the set-up, an interesting dissonance derives from the comparison of both data sources: the contract includes two different ‘Agreement’ documents that state specific clauses for the set-up. Conversely, the third interviewee suggests a lack of specificity, especially regarding the risk and responsibilities assessment in the set-up of the S-Project. Hence, it may be inferred that not only a description of how the contract is set-up is desirable, but also who does what must be clearly articulated. This adds an additional perspective to Luo’s (2002) definition of term specificity, since the latter only stresses the analysis of clauses regarding how the exchange is set-up. The previous evidence stresses the need of more detail, as ambiguity and lack of clearness may arise when this detailed information is missing.

The sources agree on underlining the lack of term specificity regarding the *conflict resolution* (CONF.RES). Interviewee three (Company X’s PM) highlights an interesting point with his following remark: “all the issues left open to trust in the contract became big problems and conflicts later on”. This indicates how the contract did not provide proper guidelines for the resolution of conflict and how instead, the parties had to rely on the employment of social norms to unravel their differences.

Finally, the contract was the sole provider of data for analyzing the term specificity for *termination* (TERM). Nonetheless, the source provided strong evidence of clear specification for all the reasons for terminating the contract, both from the Contractor and the Client sides. Overall, the level of specification of the terms and clauses appears to be mixed. There is no apparent direct connection between the usage of relational norms and the degree of specificity of the contract. The specificity of the contract may then be attributed to project-specific peculiarities, such as complexity, industry setting and others.

In essence, it may be deduced how the S-Project lacked contractual completeness, which may be attributed to the reported initial high levels of trust. The contract was written in an atmosphere of confidence among parties, especially from the Contractor side. Accordingly, in the case of adaptability, most of the critical issues were left open to relational norms, without a defined rigidity or flexibility characteristic. Meanwhile, regarding term specificity, the data sources corroborate the low degree of specification, especially concerning the operation and management and conflict resolutions. What both parties did not foresee was the future drop in the levels of trust as the project
progressed. This, combined with a contract that left grand part to interpretation and relational norms, led to conflictive situations.

Therefore the authors are not surprised to notice that the conflicts arising during the execution phase could not be resolved and terminated on a contractual base. The case has shown an inconsistent level in the definition of clauses. Some clauses, usually the ones favorable to the Client, were very detailed; some others were left more general, leaving more space for the involvement of relational norms. This approach is aligned with Hartmann and Caerteling’s (2010) theory of complementarity between discrete, formal contracts and relational norms. However, as stated earlier, the success of relational norms lies on the belief that the other party won’t behave opportunistically. Such a scenario was present in the negotiation phase, when reputation and previous collaborations led the parties to believe there was a climate of trust. However, this condition did not endure; the levels of trust deteriorated gradually. The contracting parties failed to meet a crucial requirement for the proper functioning of relational norms: the preservation of the levels of trust throughout the entire project’s life cycle. When anomalies and unforeseen events befell, and trust was no longer existent, the parties did not count with a proper formal contract with which to work, as it was written in a way that conferred these responsibilities to their own social relationships. As a result, this unfitting match of contractual incompleteness and opportunistic behaviors, led to claims and conflicts between the parties.

5.3 GOVERNANCE TENDENCIES IN COMPANY X

The template’s third main area of analysis encompasses the perception of relational governance in Company X. This investigation was based solely on the interviews. Obviously, the S-Project contractual documents do not provide any information about this topic.

Two were the data aggregations considered in the analysis: usage of relational governance (USAGE.RELGOV) and current contractual trends (CONT.TRENDS). The authors are convinced that these groups of data were appropriate for obtaining the pulse and perception of important managers with regards to relational governance.

5.3.1 Usage of Relational Governance

The data collected and analyzed from the interviews is highly interesting, because it disconfirms part of the authors’ assumptions on this topic. The literature preceding this study suggests an evolutorial trend from discrete contracts to relational contracts in order to face the turbulent environmental conditions (Williamson, 1979; Turner & Simister, 2001; Gil, 2009).

However, all of the five managers contacted by the authors provided the same responses on this issue: in current competitive project environments it is always better to have very well defined and rigid clauses. They argue that flexibility is functional only in the execution phase when there is full agreement between parties. Hence, the substitution of formal contracts by relational ones is not supported by the managers and deemed completely inappropriate. Even if the contract to which this study refers to may be considered dated, it should be underlined that this feedback is provided by managers
that have continued to manage important projects in the Oil & Gas sector for at least the last 15 years, when this contract expired.

Such a view that cancels the substitutability of formal contracts for more flexible, relational contracts is not startling in an industry where risk is one of its most representative characteristics. The large investments and complexity that accompany projects in this industry limit the usage of more subjective and social forms of governance. This view is au pair with many scholars (Stinchcombe, 1985; Bradach & Eccles, 1989; Luo 2002; Poppo & Zenger, 2002; Von Branconi & Loch, 2004; Wang & Chen, 2006), who view formal contracts and relational governance as complements. The respondents view formal contracts as a solid and rigid framework with which to guide the management of projects; relational norms are exclusively used under the limits of this contractual framework, which ensures the availability of terms and provisions for the business-as-usual activities of the project.

5.3.2 Current Contractual Trends

This last data analysis cluster provides vital information for answering the research questions and to compare the findings with the propositions given by the literature review. The answers given by the five managers were, in this case, more varied. According to the first and second interviewees the contracts are evolving (or regressing) to more rigid forms; trust and other relational norms are not considered good practices. The third interviewee does not see any form of evolution in the formal contractual agreements; moreover, he states that the contracts are always more favorable to the Client and therefore it is increasingly difficult to involve trust in non win-win relationships. A more original perspective is collected from the fourth interview: the manager connects the rigidity and absence of relational norms in the present contractual trends with the success of project financing in large projects. However, according to him, in one-to-one contracts with win-win agreements, flexibility and utilization of relational norms might be successful practices. Finally, the fifth interviewee reminds us how every contract has its own story and consequently it is not appropriate to generalize. However, he does not notice any important changes when comparing the contractual practices in place at the moment with the past ones. He added that according to his experience, in order to successfully manage a contract, senior manager interpersonal relationships are more important rather than the contract structure or characteristics.

Overall, the five managers have shown a high degree of skepticism with the successfulness and the necessity of relational forms of governance in complex projects. They stated that the current business environment where they operate is pushing for opportunistic behaviors from the parties involved. One of the main causes, according to the interviewees, is related to the low profit margin that the Contractors have to accept to win the bids, which corroborates many authors’ viewpoint that competitive bidding is detrimental to projects, promoting adversarial relations and mistrust (Kadefors, 2004; Won et al., 2005; Hartman & Caerteling, 2010). These findings confirm what the literature suggested in the following:

a) Transaction-Cost Economics grounds itself on the assumption that opportunism is latent in every exchange and that there is a natural inclination of parties to behave opportunistically (Williamson, 1979).
b) As a way to mitigate exchange hazards deriving from opportunism, managers tend to craft meticulous and complex contracts that aim to define all possible terms and conditions in anticipation of how the exchange will unfurl (Poppo & Zenger, 2002).

Thus, unless the perils posed by opportunism in risky, complex and high-investment industries like the Oil & Gas industry are overcome, there are gradually less chances of incorporating social norms as additional governance mechanisms. Further, with the increasing success of project financing as a procurement strategy, additional stakeholders are introduced, whose main target is the assurance of returns on investment. This causes an increment in the levels of suspicion and rigidity in the negotiation climate. In such a context, trust and relational governance cannot thrive.

This chapter discussed the findings that emerged from the analysis of the empirical data. Causal relationships were discussed and reasons for these relationships were outlined. The next chapter uses these explanations to provide answers to the research questions and conclude the study with a model for the phenomenon under analysis.
Chapter 6 - CONCLUSIONS

In this last chapter, the authors integrate the themes and topics addressed in the previous sections into an emergent theory of the effects of relational governance on contractual completeness. The chapter brings to a close with both managerial and practical implications of the suggested model, as well as with proposed future directions of research on the topic.

6.1 UPDATED PROPOSITIONS

Projects in the Oil & Gas industry are complex and risky endeavors (Berends, 2007). An effective and customized governance system is a success factor in this industry (Olsen et al., 2005). Contracts are therefore, the pattern where the diverse forms of project governance are constituted and forged. The authors investigated how governance characteristics like rigidity, flexibility, completeness, trustiness, cooperation and opportunism can impact on the project environment and vice-versa.

The methodological process followed in order to answer the research questions, started from a deep literature review. Based on it, the authors made propositions that were used as main clusters for the data analysis. Data was collected from contractual documents and interviews to managers. This data was provided by Company X, the leading contractor in the S-Project, the project under analysis. The case study is centered on this LSTK construction contract whose scope was the design, supply, construction, commissioning and testing of an integrated gasification and combined cycle plant. This project was unsuccessful, creating legal tensions between the parties involved.

The data analysis provides elements for discussing the topic, especially through a meaningful contrast between findings from the case study and the propositions based on the literature review. This leads us to the following updating of the propositions:

*Proposition 1:*
There is a tendency to move from discrete contracts to more relational contracts, where trust and cooperative and collaborative behaviors are fomented.
According to most of the authors reviewed in the literature it seems that the actual trends in complex projects is heading to relational forms of governance. However, the findings show how the interviewees agree on the contrary. Therefore, there is not enough evidence to confirm this first proposition.

*Proposition 2:*
The presence of relational norms stimulates the writing of more flexible and adaptable contractual clauses.
The findings reveal an association between flexibility and trust/cooperation on one hand, and rigidity with mistrust, on the other. Therefore, the second proposition may be confirmed.
Proposition 3:  
The presence of relational norms fosters term specificity; the contracting parties become less hostile and encourage the explicit definition of clauses.  
There are no findings supporting this proposition. Hostility between parties may emerge during both the negotiation and execution phase, independently of the usage of relational norms. The presence of trust does not imply a high degree of term specificity.

Proposition 4:  
Relational governance brings contractual success only under background conditions that allow the inclusion of critical success drivers like trust and solidarity in the relationship between parties.  
The findings provide evidence about the possibility of having successful contracts based on relational norms. However, the study reveals that this is possible if: (a) the relational norms are maintained at a uniform level throughout the entire project life cycle, (b) financing strategies do not modify, impede or deter the natural development of institutional relationships between Owner and Contractor.

6.2 ANSWERS TO RESEARCH QUESTIONS

The study has allowed to either confirm or disconfirm the initial propositions. The updated contents of the propositions provide the backbone for answering the research questions initially posed by the researchers:

Research Question No. 1  
How does relational governance between the contracting parties affect the completeness of contracts in Company X?

As there are no previous studies analyzing this phenomenon, the authors have developed a new theory to explain this relationship. Whetten’s (1989) guidelines on theory development have been followed in the elaboration of this theory. Figure 23 depicts the authors’ theory on how Relational Governance affects Contractual Completeness. The main constructs of the theory have been mapped out in a horizontal sequence, and their precedential relationships represented by arrows. Vertical constructs, in this case drivers and blockages to the main constructs, have also been introduced.
However, it is impossible to study this relationship on its own. In order to study said relationship, antecedent forces must be analyzed. Starting from the left, every economic exchange initiates with an initial relationship status between the contracting parties. Reputation, previous experiences, expectancy of future collaborations and inimitable areas of expertise will then enable the emergence of trust in this relationship. However, the emergence of trust is based on the assumption that none of the parties will behave opportunistically, which may hinder or eradicate the existence of trust.

Once high levels of trust have been achieved, other social norms such as cooperation, flexibility, information exchange and solidarity will develop between the parties, nurturing social processes. Consequently, the central component of this model, Relational Governance, emerges. This outcome, however, is conditional, and will only function in a setting where the interference of additional stakeholders (particularly financing entities) does not impact the nature of the contractual parties’ relationship.

The employment of relational governance mechanisms affects both components of contractual completeness: contingency adaptability and term specificity. With regards to the first component, the presence of trust and cooperation between the parties at the moment of the negotiation impacts positively on the contract’s clauses. It leads to the creation of more open clauses that intend to accommodate unforeseen contingencies in a manner that is mutually satisfactory for the parties. Regarding the second component, there is no direct cause-and-effect relation between the application of relational
governance and the degree of specificity of terms in the contract. Despite the existence of high levels of trust, parties might still draft either highly or poorly detailed contracts, as requested by the specific transaction. Thus, term specificity is more related to contextual factors surrounding the transaction.

If the achieved levels of contractual completeness match the features and requirements of the industry, and the levels of trust and other social norms remain unchanged, relational governance mechanisms can be properly introduced in the economic exchange. Conversely, if the relationship’s status declines or the level of contractual completeness does not match the project’s context, the resulting contractual form is deficient and will lead to conflicts amongst the parties.

**Research Question No. 2**

_**Do the current contractual trends within Company X lead to an inclusion of relational governance in contracts?**_

There is no visible progress towards the incorporation of relational norms in the contracting forms of projects in Company X. The current contractual trends remain conservative, leaning towards the writing of even more complete, rigid and discrete contracts. This trend occurs in a Company within the Oil & Gas industry, an industry characterized by high investments, high degree of technical intricacy and high exposure to unforeseen risks, which minimize the possibilities of engaging in cooperative contractual forms.

**6.3 MANAGERIAL IMPLICATIONS**

From a practitioner perspective, the authors believe that the study and the resulting model do not provide any formal procedures for establishing the perfect contractual governance in different project settings. It does, however, elucidate the managerial audiences on the different governance mechanisms available, how they interact, and it provides a practical guide on how to accomplish the successful implementation of relational governance mechanisms in economic exchanges. This, the authors believe, is a valuable managerial asset. In this regard, the following words of advice summarize the value-added contributions to practicing professionals.

Firstly, it is important for managers to notice that only certain environmental characteristics provide the proper conditions for successful relational governance. The study has raised awareness on how managers must diagnose the social, financial and technical settings in which the project is carried out. Based on this, they must determine the appropriate mix of formal and relational governance mechanisms employed in the project.

The second main remark is the attentiveness that managers must present during the project’s execution phase. Contingencies that completely change the behavioral attitudes of the players may rise during this phase, while the contract’s features remain static and do not change accordingly. This, as evidenced before, leads to conflictive situations. Hence, managers must ensure that the levels of trust, cooperation and other social norms are maintained in a continuous state during the entire project life-cycle.
A third word of advice for managers comes from the experience provided by Company X: relational norms and goodwill intentions must be bilateral and each negotiating part must be certain about its counterparts’ willingness to trust them. Unequal levels of trust have negative effects in the negotiation phase and limit the possibility of proper usage of relational governance.

6.4 THEORETICAL IMPLICATIONS

The study has both concurred and diverged with the theoretical assertions preceding this research. With regards to contractual completeness, the study’s findings provide new insights on its two dimensions: contingency adaptability and term specificity. While previous studies (Luo, 2002) have described quantitatively the effects of relational norms on both dimensions, the present study reveals new aspects due to its qualitative nature. This qualitative nature is a powerful stimulus, particularly in a research field that lacks a strong theoretical core (Parkhe, 1993).

With regards to contingency adaptability, both studies agree that more adaptive clauses are written as a result of the inclusion of social perspectives in the economic exchange. Likewise, both studies report ambiguity in the levels of specificity; there is no clear direct effect of relational governance on term specificity. Even though the levels of specificity were low, the results were mixed and showed no clear trend.

However, two new perspectives were uncovered, adding to the theoretical annals of relational contracting and making it more conceptually complete. First, for the successful implementation of relational governance, there must be a sustained level of social norms throughout the entire project’s life-cycle. Otherwise, if the levels decline or increase during a certain phase, this disparity may create conflicts between events related to both time periods. Secondly, project financing represents a major blockage for the employment of relational governance. Banks and other financing entities raise the levels of suspicion amongst parties, the rigidity of terms and lower the flexibility in decision making of the parties.

With regards to the current trends, Company X’s practices oppose the tendencies described in most of the literature. Instead of presenting the significant move towards the incorporation of more collaborative arrangements (Williamson, 1979; Turner & Simister, 2001; Gil, 2009), contracts drafted in Company X are becoming increasingly rigid and well-specified. This leads the authors to believe that the tendency stated in the literature cannot be generalized to every industry and thus, calls for additional research to confirm said tendencies.

6.5 STRENGTHS AND WEAKNESSES OF THE STUDY

The present study has several peculiarities that represent some of its strengths and set it apart from previous efforts. Given the slow progress and weak structure within the relational governance field (Parkhe, 1993), the chosen inductive approach results in a suitable choice for theory development. In this type of study, order emerges from the data as opposed to following patterns from the literature, which fits well in an area in which research remains fragmented. Further, the coupling of this approach with a case
study strategy provides a deeper understanding and better conceptualization of the social phenomena interwoven with relational governance. A case study represents a good vehicle for explanatory research, as it provides rich and subtle insights through its focused and in-depth inspection of social events. It offers ample opportunities for clarification of research questions and elaboration of answers.

Additionally, Company X, the provider of all the empirical data, is a leader in the Oil & Gas industry on an international level. Hence, the findings are coming from a respectable source that may be a good representative of the industry in general and its reputation increases the credibility of the findings.

Further, the access to organizational documents that are typically inaccessible for the purposes of research is one of the study’s major strengths. The abundance of confidential data to which the authors gained access allowed for a more objective and direct inspection of documents instead of relying only on the more personal and subjective perceptions deriving from interviews. These documents played a vital role in the corroboration of the findings, as they could be cross-referenced to the interviews, allowing the triangulation process and thus raising the levels of validity.

Also, the topic of the study is of interest in a broad spectrum of fields, and may appeal to a vast audience. The findings may be taken into consideration in other areas that entail buyer/supplier relationships in the form of economic exchanges.

Similarly, the authors acknowledge some of the limitations and shortcomings of the study. For example, the study analyzes just one of the contractual parties: the Contractor. It would have been interesting to analyze the Owner’s side in parallel, in order to compare and contrast points of views, perceptions of trust, and have a more complete depiction of what the S-Project was like.

The number of prospect interviewees was another restriction. Since the project expired quite a time ago, it was difficult to reach personnel who participated in the S-Project. Some were unavailable in overseas locations, and others are no longer working for Company X, making it quite difficult for the researchers to contact all the desired managers. Perhaps, because of this, valuable insights from unreachable managers were missed.

Additionally, since this study is a pioneering effort, there is a lack of similar studies with which to compare it. Previous studies have analyzed relational governance but under another light, focusing either on project performance or previous cooperation. Thus, a full understanding of the usage of relational governance still remains unclear and still needs further research.

Finally, the lack of practical experience of the authors in the contract management field might have led them to overlook certain clauses or terms in the contracts that could have added valuable knowledge to the study. Similarly, the authors might have failed to interpret the information adequately, or make proper inferences from it, limiting the evidence extracted from said source.
6.6 SUGGESTIONS ON FURTHER RESEARCH

After performing this study, the authors firmly believe that theory on relational governance would be more complete by the supplementary investigation of two main aspects.

Firstly, it would be useful to test the present research with the conduction of a polar case. In this sense, data should be collected in a project with successful outcomes. However, this data must come from a comparable project, with similar forms of governance and under similar project characteristics. In this way, it would be beneficial to see if the analysis of a successful case leads to the validation of the model developed herein. This cross-case comparison would aid in minimizing the familiar criticism of lack of generalizability. It would also be interesting to compare the contractual documents and the interviews, in order to understand which were the critical factors that made the difference between success and failure.

Additionally, project financing has emerged as a major influence in the appropriate adoption of relational governance in projects. Thus, the effects that financing strategies and other governance structures have on the development of social processes during projects, represents a major area of focus for research followers.

It is still in the authors’ convictions that the appropriate incorporation of relational governance mechanisms provides the basis for the establishment of more satisfactory and efficient contractual forms. In a world where complexity is tangled with every aspect of our lives, it is the simplicity of basic human interactions that provides a healthy balance to the overly multifarious projects. Even if not revolutionary, it is the authors’ utmost hope that the study’s findings represent a useful guide to which both scholars and practitioners can refer to. The authors wish that this study represents a first step in the study of relational governance and its effects on contractual architecture, and inspires others to pursue further research on this topic.
Interview: Governance Mechanisms in S-Project

Company:

Role played:

1. During the negotiation phase, how would you describe the level of trust present between the contracting parties?

2. Which of the following factors influenced the level of trust between the parties involved in S-Project and how?
   a) Previous collaboration experiences;
   b) Reputation;
   c) Opportunity for collaborating in future projects.

3. At which level and with which dynamics did the level of trust between parties influence the risk allocation, the definition of incentives and responsibilities for each of the parties involved in the project?

4. How did these dynamics of trust influence the flexibility or rigidity of the contract in case of unforeseen contingencies?

5. According to your experience, is it better to be granted a contract with a high level of definition of responsibilities, penalties, etc. or is it better to sign a more flexible contract that promotes a more collaborative behavior between parties?

6. S-Project is a contract signed by Company X in the past. In your opinion, factors like flexibility, cooperation, trust and common objectives are now more present, implicitly or explicitly, in more recent contracts? Do you see an evolution of contractual forms in this sense?
REFERENCES


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