

RUI WANG

Tianjin University, China

WENXUE LU

Tianjin University, China

YUXIN WEI

Tianjin University, China

HAVE YOUR CAKE AND EAT IT: PROJECT ORGANIZATIONS' PURSUIT OF PRODUCTION EFFICIENCY AND LEGITIMATE POWER

Abstract:

In the context of project transactions and based on institutional theory, this paper examines the effect of legal enforceability (the degree of perfection of the legal system in which the exchange is embedded) on contractual complexity (reflecting the extent to which the buyer's project organization (PO) takes control and coordination measures in the project), and the effects of contractual complexity on the PO's production efficiency and legitimate power. The increased legal enforceability creates a kind of institutional pressure for the buyer by leaving it in a dilemma: (1) relying on the strong legal system rather than itself to control and coordinate the transaction process. This may help to improve the appropriateness of organizational behavior, increasing the buyer's legitimate influence on the seller (i.e., enhancing the buyer's legitimate power). It corresponds to the "legitimacy mechanism" in institutional theory; (2) conversely, the buyer can draft a more detailed contract to conveniently take control and coordination measures by itself, which may contribute to production efficiency. It corresponds to the "efficiency mechanism". Institutional theory holds that the legitimacy mechanism and the efficiency mechanism often conflict with each other, and organizations may choose the former for continuous survival.

However, POs are temporary organizations in nature. After a project is finished the constellation of people working together is resolved, so POs are not under the pressure of continuous survival. So, what choice will POs make under institutional pressure? How will this choice affect POs' production efficiency and legitimate power? These issues have not been elaborately tested and are the focus of this paper. Empirical data from a sample of 327 construction projects in China indicates that under higher level of legal enforceability, POs will improve contractual complexity. We regard this phenomenon as an isomorphism of POs. Moreover, as contractual complexity increases, PO's production efficiency and legitimate power are both enhanced, indicating that POs can achieve both of them by drafting more elaborate contracts. We also explored the contingent effects of organizational expertise on the above-mentioned isomorphism and the isomorphism's outcomes. We find that organizational expertise can improve the stability of such isomorphism and the contract's effect on production efficiency. These findings can help to capture the behavioral patterns of POs in the institutional environment and understand the application of institutional theory for POs.

Keywords:

project organizations; institutional theory; production efficiency; legitimate power; contractual complexity

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