

REVIEW

Analysis of Moral Hazard in Engineering Agent Construction System

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ABSTRACT

Analyze the moral hazard issues in the construction agency system, and enumerate the performance of moral hazard. Deeply analyze the causes, start with strengthening supervision and perfecting incentive measures, eliminate the impact of moral hazard, and give play to the advantages of agent construction.

1. Introduction

According to the “Decision on the Reform of the Investment System” issued by the State Council, the agent construction system refers to the system in which the government selects professional project management units through bidding, is responsible for project investment management and construction organization implementation, and is delivered to the unit after the project is completed. The engineering agent construction system is a unique engineering management system in China, born from the CM model in the United States. At present, most of the agent construction projects are non-operating projects invested by the government, such as public buildings such as schools and hospitals. The corresponding government authorities are the Education Bureau and the Health Planning Bureau^[1]. The original intention of implementing the engineering agent construction system is to solve the problems of non-professionalization, low efficiency, and low quality

brought by the traditional government investment project management model under the four-in-one model of “investment, construction, management, and use”, and use the system Means to eliminate corruption. Once the system was introduced, it achieved great results in the trials in various places.

With the continuous development of society and economy, municipal engineering has received widespread attention.” Engineering agent construction system” is a new type of management system that can improve the efficiency of investment and achieve efficient management of project engineering^[2]. The government has transformed from a production unit and a supply unit of an investment project into a partner and a supervision and management organization, which fully reflects the fair relationship in the market economy. It is beneficial for the market to play its fundamental role in economic operation and resource allocation. The implementation of the Engineering agent construction system can regulate the government’s management of non-operating projects,

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promote the continuous improvement of the professional level of project management, and improve investment efficiency^[3]. However, in the process of implementing the engineering agent construction system, some difficulties have hindered the exertion of the advantages. Among them, the problem of moral hazard is the most obvious.

2. Performance of Moral Hazard Issues

Moral hazard means that the agent harms the interests of the client or other agents while maximizing their own interests. It is manifested that in the agent construction project, due to the inconsistency of the interests and the asymmetry of information, the agent has used its information advantage to damage the government's interests for the purpose of maximizing its own interests. As a result, there is a moral hazard that adversely affects the results of project construction.

2.1 The Problem of Rent Seeking by Government Officials

At present, most construction contract is a whole-process management contract. The construction agency has been involved in project construction since the feasibility report was prepared. Therefore, the construction agency has great information advantages. As the project budget has some flexibility in preparation and approval, there is room for adjustment. Compared with the government department, the agent construction company has more understanding of the specific situation of the project. Then, the construction agency may conspire with the budget approving department, causing the problem of official power rent-seeking and causing property damage to the country.

2.2 Conspiracy Issues between Agent Construction Companies and Engineering Participating Units

Acting as the agent within the scope of project management stipulated in the construction contract, the agent plays a leading role in project management. Except for major project decisions, general management and project decisions are made by the agent. The government only sends a small number of personnel to collect construction information at the project site, and track and supervise the implementation of the project^[4]. Against this background, some agencies have the idea of power rent-seeking. They conspired privately with the construction unit, the material supply unit, and the supervision unit to jointly conduct misconduct. The agency unit allows the participating units to cut corners, change

the construction period, and change the procedures to obtain undeserved benefits. They partnered to deceive the government, making the government mistakenly believe that the project is in good condition. In the early years, some agency construction units and contractor units conspired to artificially increase the cost of the project, forcing the government to invest more, thereby increasing the revenue of the agency construction unit. Recently, the government eliminated the problem by issuing documents requesting that the losses caused by additional investment be borne by the construction agency. However, in a recent survey, it was found that some agency construction companies have found other ways to obtain benefits. For example, on the premise of ensuring that the final account of the project does not exceed the estimated budget of the project, the construction unit accepts bribes and allows the participating units to use inferior materials and equipment. Such acts are countless and have seriously harmed national interests. Relying on their own professional advantages, the agent construction unit can ensure that the project does not have problems in the short term and pass the acceptance. However, this kind of project has many defects and low durability. It will gradually expose various problems during long-term use, which will reduce the credibility of the government.

2.3 The Laziness Problem of Agent Construction Companies

After the project starts, the agency construction company is responsible for the organization and coordination of the entire project. It plays the role of a central brain. The final result of a project is excellent or passing, which has a lot to do with the effort level of the agency construction company. Since the government only sees the results of the acts of the agent construction company, it pays little attention to its behavior itself, so that the agent construction company has a lot of room for maneuver. At present, some agency construction companies are reluctant to perform their duties, and their efforts are not worth the remuneration paid by the government. The project management is extensive and inefficient. Although the project can still be delivered on time, there are many hidden dangers in the project, which affects the safety of the building. For example, the curing of cement has strict time requirements at all stages. If the agent construction company does not strictly supervise the construction unit, some units will end the maintenance in advance in order to shorten the construction period, thereby laying hidden safety hazards, shortening the life of the building, and causing waste of government investment.

3. Analysis of the Causes of Moral Hazard

3.1 Regulatory System is Difficult to Implement

In order to ensure that the agent construction companies perform their duties, the government has established strict supervision measures, but many problems have occurred in the implementation of the supervision system. Some government personnel lack a sense of responsibility, fail to implement the inspection system, and even collude with the agent construction companies. As a result, the role of government supervision cannot be exerted. Some government personnel are not professional and are easily cheated when facing professional agency construction companies. Although the government can rely on the supervision unit for supervision, the supervision industry has low profits and bad morals, and conspiracy between the agent construction unit and the supervision unit often occurs. The government cannot fully trust the supervision unit. In the absence of supervision, it is difficult for the government to detect the unethical behavior of the agent.

3.2 The Risks and Costs of Unethical Behavior are Low

In the context of market competition, many unethical behaviors can be explained from the perspective of interests. China's construction market has been in a state of "High investment, low yield" for a long time. If the construction unit completes a project strictly according to standards, it will require a lot of capital and time, but the benefit conversion rate is very low. Agent construction units are mostly risk-averse, and their income from unethical behavior is equal to the expected return minus the cost of risk. Due to the lack of supervision and light punishment, the risk of unethical behavior is low, but the expected benefits are high, which has attracted the attention of some people. Interests drive them to abandon the bottom line and take immoral behavior to obtain undeserved benefits.

3.3 Incentives are not Enough

In order to motivate the agent construction companies to perform their duties seriously, the government has set up incentive measures. But from the application results, the effect is not significant. Because under current market conditions, the benefits of unethical behavior far outweigh the benefits of incentives. In addition, some local governments have set caps on rewards privately, which has dampened the enthusiasm of the agent construction companies. Therefore, some agent construction

companies have voluntarily given up rewards, reduced investment, perfunctory matters, and even engaged in speculative behaviors to obtain undeserved benefits.

4. Measures to Address Moral Hazard

To eliminate the effects of moral hazard, we need to start with both internal and external aspects. It is necessary not only to reduce the constraints of external objective conditions, but also to enhance internal management capabilities. A two-pronged approach can minimize risk.

4.1 Strengthen Supervision

From the perspective of external factors, the prerequisite for the generation of moral hazard is that the agent construction unit cannot be effectively monitored, and its immoral behavior is difficult to be found. Therefore, the government must reasonably arrange various tasks, ensure a certain amount of regular inspections and surprise inspections, and cannot fully trust the report of the agent construction unit, and conduct field inspections. At the same time, it is necessary to increase inspections of participating units to avoid collusion. The government should strengthen market investigations and increase the approval of project estimates to prevent material suppliers and agent construction companies from conspiring to misrepresent prices. Supervise all aspects and urge all participating units to perform their duties.

4.2 Increase Punishment

Benefits are one of the main reasons for unethical behavior. To curb defeats, it is necessary to reduce expected returns or increase risk costs. At present, it is difficult to reduce the expected benefits, so we mainly start with increasing the cost of risks. Within the scope allowed by the rules and regulations, the competent government department raises the rent-seeking threshold of the agent, and sets up a punishment mechanism, thereby increasing the rent-seeking cost of the agent^[5]. Strengthen the government's own Integrity building and increase the bribery cost of the agent construction unit. As the cost of risk increases, the benefits of agency construction companies decrease, and the tendency to adopt unethical behavior decreases.

4.3 Improve the Professional Ethics of Agent Construction Personnel

The above measures are to solve the problem from the outside. To solve the problem from the inside, we must solve the problem of people. As China's agent construction model is still in its infancy, most of the talents in

China's agent construction units are transformed from traditional construction management. The quality of personnel is not high, the organizational structure of personnel is unreasonable, the evaluation methods are not perfect, and there are many problems in management, operation and innovation^[6]. Therefore, the government should promulgate relevant policies to strengthen the professional ethics of agents and cultivate employees' correct sense of justice and self-discipline. Municipal engineering involve huge amounts of money. To resist immoral behavior, it is necessary to strengthen the construction of psychological defense. The government and enterprises must work together to establish a reasonable evaluation mechanism. Credit lost employees are not allowed to participate in the construction of the project.

4.4 Increase Motivation

Incentive measures are divided into explicit incentives and implicit incentives. Explicit incentives are the sum of the substantial compensation that the parties expect to obtain within a certain period of time^[7]. Implicit incentives are compensation for explicit incentives, most of which are the reputational effects of spiritual rewards. In today's society, just propagating the "communist style" is difficult to produce sufficient incentive effects, and excessive demands for "material rewards" are not feasible. The two need to be combined. In other words, we need to consider both explicit and implicit incentives. When conducting explicit rewards, the government should pay attention to the amount of rewards. Too little will not be enough to motivate the agent construction enterprises, and too much will lead to excessive government investment. The implicit rewards provided by the government must also be well-founded. False praise cannot be given, otherwise the agent construction unit cannot afford the evaluation given by the government, which will damage the public's trust in the government and affect the government's credibility. In terms of specific measures, on the one hand, according to the local price level and the actual operation of the project, the agency construction fee rate is dynamically adjusted to adapt to market changes, and to avoid rigidity and loss of labor enthusiasm caused by invariability. On the other hand, the investment balance is graded and rewarded. The more the balance, the higher the reward ratio, which increases the enthusiasm of the agent.

4.5 Cultivate the Government's Own Agency Talent

To solve the problem of moral hazard, a powerful mea-

sure is to strengthen the government's own talent team building. As long as government officials have excellent professional standards, high professional ethics, can perform their duties seriously, and timely detect and identify unethical behavior of participating enterprises, the incidence of moral hazard can be further reduced. The government should encourage departmental personnel to strengthen professional learning, increase the enthusiasm of departmental personnel for learning by means of monetary rewards. Enhance the professional conduct and professionalism of departmental personnel. Ensure that the personnel of the department are of high professional quality and strong sense of responsibility, and can effectively find problems, solve problems, and protect national interests.

5. Conclusion

We should make clear that in view of China's current construction industry situation, the moral hazard problem in agent construction projects is an objective and unavoidable hidden danger, and there is no effective solution in the short term. Although the agency construction system has various problems and difficulties, advantages outweigh disadvantages. In general, the engineering agent construction system is still a policy management reform in line with China's national conditions. It is a basic strategy to standardize and organize the order of the economic market. It is a major measure to ensure the quality of construction projects and improve the efficiency of project investment^[8]. Therefore, the government and enterprises must work together to build a defense system through various means such as education and restraint. We will work together in various fields, taking into account the current and future, and gradually eliminate the impact of moral hazard, and promote the development of the national economy.

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