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Formal Contractual Governance Mechanisms, Contract Contingencies, Inter-Organizational Trust, Supplier Opportunism and Outsourcing Performance

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Abstract

The purpose of this study was to explicate the influence of formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism on outsourcing performance. This research was prompted by reports of increased poor outsourcing performance characterized by poor quality of services provided, incomplete and substandard work, failure to deliver on agreed schedules, increased user complaints and contract violations in Uganda's public sector. Anecdotal evidence attributes poor outsourcing performance to lack of clearly designed formal contractual governance mechanism, failure to handle contract contingencies, lack of inter-organizational trust and existence of high levels of supplier opportunism. Hence this study was guided by the following research question: Do formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism influence outsourcing performance? Cross sectional and quantitative survey data drawn from 612 contract managers in Uganda's public sector (i.e. ministries, commissions and government parastatals) revealed that formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism are significant predictors of outsourcing performance. Results of this study have managerial and theoretical implications that are presented in this paper.

Keywords: *Formal Contractual Governance Mechanisms, Contract Contingencies, Inter-Organizational Trust, Outsourcing Performance*

1. Introduction

As the business environment becomes more dynamic and complex than ever before, the rapidly changing environments demand for cooperation between business partners to achieve the set performance standards. Indeed, a business can hardly succeed without their partners' cooperation (Ahimbisibwe & Nangoli, 2012a; Ting et al, 2007). Therefore, buying organisations are encouraged to build collaborative and long-term relationships with their suppliers to avoid supplier opportunism (Ahimbisibwe & Nangoli, 2012b). However this is difficult in Uganda's public sector since there is need to advertise publically and use competitive bidding procedures before any contract is awarded (Public Procurement and Disposal of Assets (PPDA) Act, 2003). Supplier opportunism involves "self-interest seeking with guile" (Williamson, 1979). Williamson (1979) further describes guile as lying, stealing, cheating, and calculated efforts to mislead, distort, disguise or confuse. Similarly, Muris (1981) also reveals that opportunism arises when a party behaves contrary to the other party's understanding of their contract but not necessarily contrary to the agreement's explicit terms, leading to a transfer of wealth from one party to the other. Suppliers can therefore engage in opportunism before the actual formation of the contract (i.e. ex-ante opportunism), or they can behave opportunistically after the contract has been launched (i.e. ex-post opportunism) (Ahimbisibwe & Nangoli, 2012b; Brown et al., 2000). Outsourcing essentially is the use of an outside company to provide a non-core service previously performed by staff (Gottschalk & Solli-Saether, 2005). The use of clearly defined formal contractual governance mechanisms or clauses and building inter-organizational trust is likely to reduce supplier opportunism and significantly improve outsourcing performance of the buying organizations (Ahimbisibwe & Nangoli, 2012b; Linda, Cole & Jacobson, 2002). However, contracting cannot stipulate all the future contingencies because of the uncertainties involved; this implies that formal contractual governance mechanisms are never complete in reality. Consequently, research has revealed that good relationships based on buyer-supplier trust plays a significant role in filling this gap and most importantly reducing supplier opportunism (Ntayi et al., 2010). In

Uganda, public sector organizations such as ministries, commissions and parastatals are using outsourcing as a strategy to reduce costs, increase flexibility, access better expertise, improve quality of services, reduce capital investment and improve internal user satisfaction (Ahimbisibwe & Nangoli, 2012c). According to Simmonds and Gibson (2008), organisations outsource non-core activities such as information technology, car repairs, cleaning services, waste management, couriers' services and catering services to improve service delivery. This has not been achieved in Uganda's public sector. Service delivery has not improved significantly (PPDA annual report, 2011). This could be attributed to existence of poor formal contractual governance mechanism, inadequate contract contingency management, lack of inter-organizational trust and high levels of supplier opportunism in Uganda (Ahimbisibwe & Nangoli, 2012b).

Where as a procurement contract is any legally binding agreement entered into on behalf of the organization (Margret & Ivor, 2002), and the contract may range from a very formal and structured contractual document agreement to a verbal commitment: contract terms and conditions that are always set prior to contract are rarely fulfilled during the contract execution (Ntayi et al, 2010). Anecdotal evidence from Uganda reveals existence of poor quality of services provided, incomplete and substandard work, failure to deliver on agreed schedules, increased user complaints and high levels of contract violations in Uganda's public sector (Ahimbisibwe et al., 2012a). Similarly, PPDA annual report (2011) revealed that the services are basically not provided on time, specifications are not matched and the internal users are always complaining of late deliveries. This indeed, indicates that there is an urgent problem that needs to be addressed: if this situation continues unaddressed the government will continue to lose a lot of tax payers' money in outsourcing contracts and the standards of living will continue to diminish due to poor service delivery.

Although various studies have been undertaken to examine outsourcing in various domains, no single existing empirical research has elucidated the relationship between formal contractual governance mechanisms, contract contingencies, inter-organizational trust, supplier opportunism and outsourcing performance. Ting et al. (2007) examined entrepreneurs' opportunism while Anderson (1988) studied Transaction costs as determinants of opportunism in integrated and independent sales forces. John (1984) investigated some antecedents of opportunism in a marketing channel while Brown et al (2000) explicated the management of marketing channel opportunism focusing on the efficacy of alternative governance mechanisms. Similarly, Lonsdale (2001) examined the dangers of asset specificity for the outsourcing decision based on Locked-in to supplier dominance. Stump and Heide (1996) elucidated on how to control supplier opportunism in industrial relationships while Wathne and Heide (2000) studied opportunism in interfirm relationships focusing on forms, outcomes and solutions.

Earlier, Ahimbisibwe et al (2008d) examined outsourcing contracts, trust, opportunistic behavior and service delivery in public procuring and disposing entities. Similarly, Ahimbisibwe and Muhwezi (2010e) explicated vertical collaborations, buyer-supplier compliance and contract performance in public procuring and disposing entities in Uganda. Additionally, Ahimbisibwe, Muhwezi and Nangoli (2012c) elucidated the relationship between outsourced contracts, buyer-supplier trust, opportunistic behaviour and supplier performance in Ugandan Public Procuring and Disposing Entities (PDE's). Ahimbisibwe and Nangoli, (2012b) also empirically investigated Ugandan public sector procurement by examining the moderating effect of buyer-supplier trust on the relationship between outsourced formal contracts and supplier delivery performance. None of these studies specifically addresses the impact of formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism on outsourcing performance. This study therefore, focuses specifically on filling this research gap by explaining outsourcing performance using the antecedents of formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism in order to provide a new view point from which we can explain outsourcing performance in Uganda's public sector. In so doing, a contribution to the exiting outsourcing literature is made by providing a framework for understanding the unknown relationships between formal contractual governance mechanisms, contract contingencies, inter-organizational trust, supplier opportunism and outsourcing performance. Hence the study was guided by the following research question: *Do formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier*

opportunism influence outsourcing performance? The remainder of this paper is organised as follows. The next section covers theory, reviews literature to develop research hypotheses for testing the research model. The subsequent two chapters cover methodology and data analysis. Finally, the article concludes by discussing the findings, implications, limitations and directions for future research.

2. Theory, Hypotheses Development and Research Model

In examining the antecedents of outsourcing performance, this study borrowed heavily from the two predominant theoretical frameworks in the governance literature that is transaction cost analysis and relational exchange theory. Transaction cost analysis is principally concerned with managing exchange transactions such that the sum of production and transaction costs is minimized. Production costs are those entailed in internalizing the functions of the exchange partner where as Transaction costs are those entailed in establishing agreements with, monitoring the performance and enforcing contractual clauses against the exchange partner (Joshi & Stump, 1999). Relational exchange theory develops the argument that relational norms are a unique class of governance mechanisms and that relational norms are endogenous forms of control. Therefore behaviour in relational norm-based relationships is controlled not through incentives as in market governance or fiat as in hierarchical governance but in internalization and moral control (Joshi & Stump, 1999).

2.1 Formal Contractual Governance Mechanisms, Inter-Organisational Trust and Supplier Opportunism

Formal contractual governance mechanisms are clauses of explicit agreements that are legally binding between two or more competent parties, which create obligations, whereby one party becomes bound to another to do or omit to do certain acts that are the subject of that contract (Ntayi et al., 2010b). This implies that contracts provide the framework for the economic exchange, outlining the nature and terms of the relationship, what is to be provided and the rights and obligations of parties to the contract. Similarly, contracts also fulfil another important role in minimizing the potential for opportunistic behaviour. This can occur through ex ante mechanisms that bind the parties together, such as requiring parties to undertake transaction-specific investments or credible commitments to the relationship (Stefanie, Phillip, Kim, & Helmut 2010). According to Goo et al. (2009) outsourcing service contracts mainly involve Service Level Agreements (SLA). They defined a Service Level Agreement as a formal written agreement developed jointly between service recipient and service provider that specifies a product or service to be provided at a certain level so as to meet business objectives (Goo et al 2009). Similarly, Ahimbisibwe and Nangoli (2012b) revealed that the SLA specifies responsibilities, strengthens communication, reduces conflict and is expected to build trust over time and mitigate supplier opportunism in an exchange relationship. Therefore well designed formal contractual governance mechanisms help to develop inter-organizational trust by enhancing open communication, joint problem solving and mutual support between parties. In order to extend the understanding of the relationship between formal contractual governance mechanisms, inter-organizational trust and supplier opportunism, the following hypotheses are proposed:

H1: There is a positive and significant relationship between well designed formal contractual governance mechanisms and inter-organisational trust.

H2: There is a negative and significant relationship between well designed formal contractual governance mechanisms and supplier opportunism.

2.2 Inter-Organisational Trust and Outsourcing Performance

Inter-organizational trust is essentially the firm's confidence that another party will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that will result in negative outcomes (Stefanie et al., 2010). According to Ahimbisibwe and Nangoli (2012c), formal contractual governance mechanisms explicitly state the predetermined performance standards that focus on achievement of minimum standards with an emphasis on maximizing outsourcing performance. This includes defining details of quality, quantity, timing, and method of delivery of the corresponding inputs and outputs required from both parties to support the outsourcing process. The components of quality, such as response time,

reliability, and quality of support services must be defined according to the function being outsourced to achieve best service delivery. Well defined formal contractual governance mechanisms create buyer-supplier trust and also limit supplier opportunism through detailed SLA (Ahimbisibwe & Nangoli, 2012b). This encourages trust based behaviors and decreases the frequency of conflict situation, while delivering the expected outsourcing performance in terms of quality, time, scope and flexibility (Stefanie et al, 2010). Therefore consistent with this debate, the following hypothesis will subsequently be tested;

H3: Inter-organizational trust has a positive and significant relationship with outsourcing performance.

2.3 Contract Contingencies, Inter-Organizational Trust and Supplier Opportunism

Contract management is the supervision of contracts made with customers, vendors, partners, or employees (Hefetz & Warner, 2004). It includes negotiating the terms and conditions in contracts and ensuring compliance with the terms and conditions, as well as documenting and agreeing to any contingencies that may arise during its execution (Moe, 1996). Common commercial contracts include employment letters, sales invoices, purchase orders and utility contracts. Complex contracts are often necessary for construction projects, goods or services that are highly regulated with detailed technical specifications, intellectual property agreements and international trade. Similarly, contract management deals with contingencies by explaining what works when. Clear administrative procedures try to ensure that all parties to the contract understand how to deal with contingencies. However, all contingencies cannot be included in the agreement because no one can anticipate all future uncertainties. Therefore the importance of contract contingencies to the success of the contract and to the relationship between customer and provider should not be underestimated. The contract documentation itself must continue to accurately reflect the arrangement and contingencies to it must also be carefully controlled. Moreover, responsibility for authorizing different types of change will often rest with different people, and documented internal procedures will need to reflect this. Also, contract contingencies continue throughout the life of a contract and involve managing proactively to anticipate future needs as well as reacting to situations that arise.

The central aim of contract management is to obtain the services as agreed in the contract and achieve value for money. Contract management may also involve aiming for continuous improvement in performance over the life of the contract. No matter what the scope of the contract; there will always be some tensions between the different perspectives of customer and provider. Although, contract management eases these tensions to build a relationship with the provider based on mutual understanding, trust, open communications and benefits to both customer and provider on a 'win-win' relationship (Dehoog, 1984), dealing with contract contingencies remains a big challenge that raises suspicion for suppliers and potentially increases opportunism.

As earlier stated supplier opportunism includes withholding or distorting information and failing to fulfill promises (John, 1984) and is likely to increase when dealing with contingencies that are usually not included in the contract. Suppliers can also engage in opportunism before the actual formation of the contract (i.e. ex-ante opportunism), or they can behave opportunistically after the contract has been launched (i.e. ex-post opportunism) (Brown et al., 2000). Most attention has been directed at designing agreements between exchange partners under conditions of uncertainty to avoid opportunism (Bergen et al., 1992) and implementing alternative governance mechanisms to mitigate opportunism (Brown et al., 2000). Opportunism can have several serious consequences for any inter-organizational collaboration if not controlled. First, the potential for opportunistic behavior is a major source of transaction costs in inter-organizational partnerships. Firms perceiving the threat of opportunism are faced with a greater need for screening, negotiating, and monitoring partners' behavior, resulting in increased transaction costs. Second, given that organizations strive to maximize gains, self-interest seeking behavior will be prominent in the partnership context. The failure to see beyond the short-term optimization of self-interest hampers cooperative effort that is essential to business success. Based on the above literature, the following hypotheses are proposed:

H4: There is a positive and significant relationship between contract contingencies and supplier opportunism.

H5: There is negative and significant relationship between contract contingencies and inter-organisational trust.

2.4 Supplier Opportunism and Outsourcing Performance

Opportunism is widely construed as seeking gain for oneself at the expense of others (Ahimbisibwe & Nangoli, 2012c). Such behavior is usually associated with breaches of contract (Narayandas & Rangan, 2004). Since organizations are currently operating under pressure to do more with fewer resources, organizations have moved from direct service provision to providing services by contract (Ahimbisibwe et al., 2012a). Proponents argue that contracting can reduce costs and improve flexibility and customer satisfaction (Brown & Potoski 2003). Critics however point out to a growing number of failed contracts, arguing that there are numerous pitfalls associated with contracting. It has often been argued that management of the contracting process from procurement to renewal is essential for organizations to realize the gains of contracting (Wise, 1997). Organizations today receive goods and services from a variety of vendors working under contract including for-profits and non-profits and government agencies from other jurisdictions. There are many accounts of successful contracting and advocates of such alternative service delivery arrangements promote competitive contracting with promises of efficiency, cost savings, and improved effectiveness (Ferris & Graddy, 1991; Stein, 1990). At the same time, the academic literature and popular press are fraught with accounts of contracting disasters where governments have been badly burned by unscrupulous vendors. Citing a growing number of incomplete, failed, and corrupt contract arrangements, critics argue that contracting creates numerous procurement problems, sacrifices service quality for efficiency and cost savings, often does not result in improved efficiency and cost savings, and ultimately “hollows” the state (DeLeon & Robert, 2000; Miranda & Allan, 1995). Contracting is not a “one size fits all” proposition. The success or failure of any alternative service delivery arrangement depends on how well organizations are able to manage the entire process from assessing the feasibility of contracting for particular services through implementing contract arrangements to monitoring and evaluating service outcomes and vendor performance activities that require strong organizations management capacity. From the aforementioned argument, it is hypothesized that:

H6: There is a negative and significant relationship between supplier opportunism and outsourcing performance.

Figure 1 shows the hypothesised research model for this study.

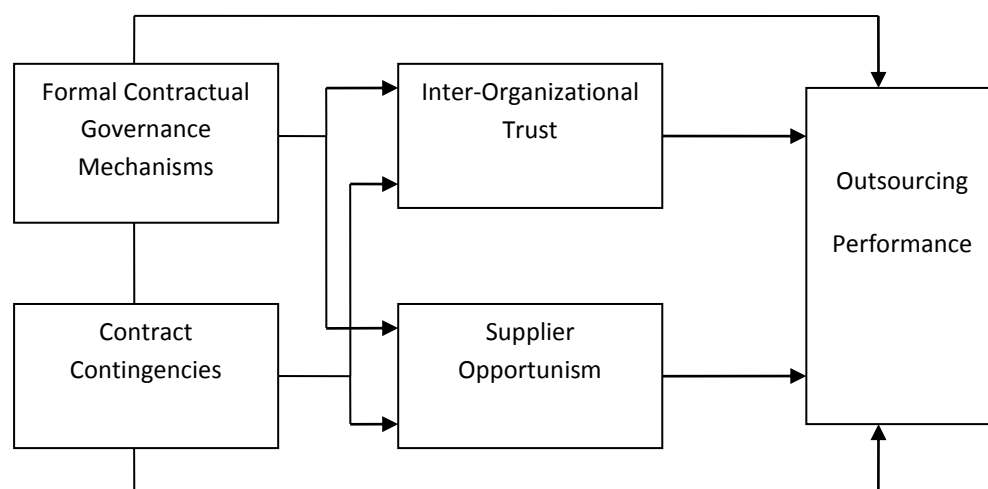


Figure 1: Research model

3. Research Methodology

3.1 Definitions, operationalization, sources and measurements of study constructs: The following were the definitions, operationalization, sources and measurements of the constructs used in this study.

- Formal contractual governance mechanisms in this study mean administrative procedures for implementing the party's roles and obligations in a contract (Ahimbisibwe & Nangoli (2012b). They explain ways of how to manage the relationship through a clear statement of the measurements, conflict arbitration, penalty, rewards, and an agreed upon means to facilitate communication. These measures were adapted to suit the current study and include among others a communication plan, measurement charter, conflict arbitration plan and an enforcement plan. Responses were anchored on a five (5)-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).
- Contract contingencies mean all the uncertainties and unforeseen events that may occur during contract execution and management (Goo et al., 2009). Therefore, contract contingencies include all undefined outcomes, ambiguity and lack of clarity over situational parameters. The measures of contract contingencies specifically reflect how to deal with future and uncertain demand requirements, any future desired changes, innovation and feedback procedures. Responses were also anchored on a five (5)-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).
- Inter-organizational trust refers to the firm's belief that another party will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that will result in negative outcomes (Stefanie et al., 2010). These measurements were modified to suit this study and captured dimensions such as benevolence, dependability, honesty, competence and friendliness. Responses were also anchored on a five (5)-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).
- Supplier opportunism means "self-interest seeking with guile" (Williamson, 1979). Supplier opportunism was measured based on measurements from Wathne and Heide (2000) and Ntayi et al. (2010) that were modified to suit the current study and dimensions like withholding information, failing to fulfil obligations, evasion, refusal to adapt, violation, and forced renegotiation were improved. Responses were also anchored on a five (5)-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).
- Outsourcing performance is the extent to which the set standards between the recipient and vendor are achieved in terms of both efficiency and effectiveness for any outsourced services (Ahimbisibwe & Nangoli, 2012b). Measurements were modified from works of Ahimbisibwe and Nangoli (2012b) and item scales for timely delivery, order completeness, delivery speed, quality of goods provided by the supplier, reduced costs and user complaints were added to the questionnaire. Responses were also anchored on a five (5)-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

3.3 Questionnaire design and pre-testing: The Survey questions were designed to capture perceptions of contract managers who are knowledgeable and are responsible for managing outsourcing contracts on an ongoing basis. Perceptual measures are frequently used in management research since they can parallel objective data in accuracy and research has supported the use of department managers as the key respondents for questions regarding performance within their respective departments and organization (Kearns & Sabherwal, 2007). The initial draft of the survey was first pilot tested using management professors from Makerere University Kampala, a major research university in Uganda, as respondents. All these four professors had a remarkable experience of more than five years working on outsourcing contracts in public sector. Further, the pilot survey was also tested using individuals from 48 public sector organizations as respondents and yielded 95% response rate. Based on these pilot tests and comments from respondents concerning the clarity of the questions contained within the survey, measurement items were improved as required. Consistent with the guidelines set forth by Dillman (1991); questions were brief and to the point, addressing only a single issue at a time. In addition, each construct as outlined in the research model proposed

by this study was measured by at least three questions or items that were created on the basis of established theory.

The reliability of the scales was ascertained by performing the Cronbachs alpha coefficient tests and all the coefficients were above .7 and hence deemed adequate (Nannally, 1967). Table 1 shows Cronbach's alpha values used to test for reliability in this study.

Table 1: Cronbach's alpha values

<i>Variable</i>	<i>Anchor</i>	<i>Cronbach Alpha Value</i>
Formal contractual governance mechanisms	5 point	0.83
Contract contingencies	5 point	0.78
Inter-organizational trust	5 point	0.83
Supplier opportunism	5 point	0.85
Outsourcing performance	5 point	0.89

3.3 Data collection procedures and survey responses

The list of all self-accounting public sector organizations was attained from the Public Procurement and Disposal of Assets Authority (PPDA), the body that is mandated with regulating public sector procurement in Uganda. The study data was therefore collected from all the existing public sector organizations at the time as follows: 26 ministries, 14 commissions, 12 government hospitals in the capital city and 64 government parastatals (PPDA annual report, 2011, page 81). For each public organization, contract managers were investigated. These contract managers were considered to be more knowledgeable about the subject matter of this study because of their participation in awarding, signing, renegotiating, monitoring and termination of outsourced contracts. A self-administered survey was used to obtain data from respondents. A five (5) point Likert scale ranging from 5 – strongly agree 4-Agree 3-Not sure 2-Disagree to 1-strongly disagree was used to measure respondents responses to the various questions included in the survey.

Of the initial 746 copies of the survey questionnaires that were sent out, 612 usable questionnaires representing 82% response rate returned. The descriptive statistics revealed that the services that had been outsourced mostly in Uganda's public sector were as follows; cleaning services (85.3%), consultancy (74.2%), security (70.9%), IT and maintenance (70.3%), courier & messenger (44.8%) and transportation (34.3%). The respondents from the Parastatals (55.6%) dominated the study followed by those from the Ministries (25.5%), Commissions (17.0%) and Hospitals (2.0%). Among the entities with over 1000 employees, the majority were Parastatals (60.0%) while the Ministries comprised 24.0% of this workforce category.

4. Findings from Data Analysis

4.1 Zero order correlations and regression analysis

All the six hypothesized relationships were supported by the survey data got from 612 contract managers in Uganda's public sector. The results indicated significant relationships between all the predictor values and outsourcing performance hence providing supporting evidence for *H1, H2, H3, H4, H5* and *H6*. The results in Table 2 reveal that formal contractual governance mechanisms are positively and significantly associated with inter-organizational trust ($r = .262^{**}$, $p < 0.01$) supporting *H1: There is a positive and significant relationship between well designed formal contractual governance mechanisms and inter-organisational trust*. Formal contractual governance mechanisms were negatively and significantly associated with supplier opportunism ($r = -.430^{**}$, $p < 0.01$) hence providing support for *H2: There is a negative and significant relationship between well designed formal contractual governance mechanisms and supplier opportunism*.

Table 2: Zero-order correlations

	1	2	3	4	5
Formal contractual governance mechanisms(1)	1.000				
Contract contingencies (2)	-.428**	1.000			
Inter-organizational trust(3)	.262**	-.298**	1.000		
Supplier opportunism(4)	-.430**	.398**	-.341**	1.000	
Outsourcing performance(5)	.395**	-.367**	.459**	-.723**	1.000

Note: ** Correlation is significant at the 0.01 level (2-tailed).

Similarly, Inter-organisational trust was positively and significantly correlated with outsourcing performance ($r = .459^{**}$, $p < 0.01$) hence providing support for H3: *Inter-organizational trust has a positive and significant relationship with outsourcing performance*. There was a positive and significant association between contract contingencies and supplier opportunism ($r = .398^{**}$, $p < 0.01$) supporting H4: *There is a positive and significant relationship between contract contingencies and supplier opportunism*. The results also revealed that contract contingencies were negatively and significantly associated with inter-organizational trust ($r = -.298^{**}$, $p < 0.01$) hence supporting H5: *There is negative and significant relationship between contract contingencies and inter-organisational trust*. As initially hypothesized, there was a negative and significant association between supplier opportunism and outsourcing performance ($r = -.723^{**}$, $p < 0.01$) thus supporting H6: *There is a negative and significant relationship between supplier opportunism and outsourcing performance*. Other findings reveal that there is a direct positive and significant relationship between formal contractual governance mechanisms and outsourcing performance ($r = .395^{**}$, $p < 0.01$). Also, contract contingencies negatively and significantly influence outsourcing performance ($r = -.367^{**}$, $p < 0.01$). Similarly, formal contractual governance mechanisms and contract contingencies were negatively and significantly correlated ($r = -.428^{**}$, $p < 0.01$).

Consistent with the results above, the regression model shown in Table 3 reveals that formal contractual governance mechanisms ($\beta = 0.281$, $p < 0.01$) contract contingencies ($\beta = -0.211$, $p < 0.01$), inter-organisational trust ($\beta = 0.366$, $p < 0.01$) and supplier opportunism ($\beta = -0.537$, $p < 0.01$) were all significant predictors of outsourcing performance and account for 64.1% of the variance in outsourcing performance (*adjusted R-square = .641*).

Table 3: Regression model summary of coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	2.863	.231		12.4	.000		
Formal contractual governance mechanisms	0.292	.045	.281	6.40	.000	.45	1.41
Contract contingencies	-.226	.033	-.211	4.20	.000	.53	1.34
Inter-organizational trust	.379	.050	.366	6.80	.000	.54	1.87
Supplier opportunism	-.539	.024	-.537	-13.80	.000	.46	2.05
<i>Dependent Variable: Outsourcing performance</i>							
R Square	.646						
Adjusted R Square	.641						
F Change	135.884		Sig.	.000			

These findings further reveal that supplier opportunism is a better predictor of outsourcing performance than all the rest of the variables ($\beta=-0.537$, $p<0.01$). The Variance Inflation Factor (VIF) was less than 4 and Tolerance Ratio was above 0.1, indicating that multicollinearity in this study was not a problem (Garson, 2010). As such, the interpretations of the β weights and *R-square* values were reliable.

5. Discussion of Findings

The purpose of this study was to explicate the influence of formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism on outsourcing performance. Initially, it was hypothesized that formal contractual governance mechanisms and contract contingencies influence inter-organizational trust and supplier opportunism which in turn both impact outsourcing performance. As hypothesized formal contractual governance mechanisms and contract contingencies influence inter-organizational trust and supplier opportunism which in turn both impact outsourcing performance.

The results specifically revealed that formal contractual governance mechanisms were positively and significantly associated with inter-organizational trust while formal contractual governance mechanisms were negatively and significantly associated with supplier opportunism. This implies that the success of inter-organizational trust greatly depends on well designed formal contractual governance mechanism. These results support Goo et al. (2009) who found that well designed SLA that are developed jointly between service recipient and service provider specify the service to be provided at a certain level so as to meet business objectives and if fairly implemented are likely to build trust over time. Similarly, these results echo findings by Ahimbisibwe and Nangoli (2012b) which revealed that the SLA specifies responsibilities, strengthens communication, reduces conflict and is expected to build trust over time and mitigate supplier opportunism in an exchange relationship. Also, these results support Ntayi (2010) study which concur that well designed contractual governance mechanisms also minimize the potentiality for supplier opportunism.

Inter-organisational trust had a positive and significant effect on outsourcing performance. This implies that when there are high levels of inter-organizational trust, the outsourcing performance increases. This is also in line with findings by Stefanie et al. (2010) who revealed that trust based behaviors decrease the frequency of conflict situations, while delivering the expected outsourcing performance in terms of quality, time, scope and flexibility. There was a positive and significant association between contract contingencies and supplier opportunism. The results also revealed that contract contingencies were negatively and significantly associated with inter-organizational trust. This indicates that contract contingencies increase suspicion for opportunistic suppliers who always want to take advantage of any uncertainties that may arise in future. This is in line with John (1984) who stated that supplier opportunism increases when dealing with contingencies that are usually not included in the contract. Similarly, opportunistic suppliers do not like detailed contracts that stipulate as many contingencies as possible. Also, according to the regression model, it reveals that when many clauses about contingencies are included in contracts the level of inter-organizational trust seems to diminish. This implies that when buyers attempt to include as many contract contingencies as possible; suppliers think that they are doubted and feel uncomfortable leading to suspicious behaviours that discourage building trust over time.

There was a negative and significant association between supplier opportunism and outsourcing performance. These results concrete findings by Ahimbisibwe and Nangoli (2012) who found that supplier opportunism can have several serious consequences for any inter-organizational collaboration if not carefully controlled. Similarly, Ntayi et al. (2010) and Wathne and Heide (2000) findings revealed that the potential for opportunistic behavior was a major source of transaction costs in inter-organizational partnerships. This means that organizations which perceive the existence of opportunism are faced with a greater need for screening, negotiating, and monitoring partners' behavior, resulting in increased transaction costs. Also, failure to see beyond the short-term gains of self-interest by suppliers hinders outsourcing performance through opportunistic tendencies such as cheating, contract renegotiation, increased prices and incomplete service provision among others.

6. Managerial, Policy and Theoretical Implications

This research has examined the influence of formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism on outsourcing performance. Given the strong negative impact of supplier opportunism on outsourcing performance and weak positive impact of formal contractual governance mechanism on inter-organizational trust, the following are some recommendations for reducing supplier opportunism and improving inter-organizational trust, posing implications for policy makers, managers of public entities and academicians.

There is a need to increase adherence to the PPDA act and regulations in order to control supplier opportunism such as ensuring that for every contract, there is a contract manager and the contract document is prepared before the contract commences as required by the law. There some public sector contracts currently that have started without with any contract document in place and such practices should stop henceforth. The late design of contracts when they are being implemented or when they are already completed defeats the original legal purpose of contracting. Training of staff in contract management to improving inter-organizational trust and commitment in relationships is necessary since trust is likely to check supplier opportunism. Improving contract management by using formal contractual governance mechanisms would also improve outsourcing performance. This may require improvement in designs of SLA given that services are not easy to specify by nature – they are intangible.

Since outsourcing performance greatly depends on well-designed formal contractual governance mechanisms, management should put in place measures to ensure that contracts are well managed. In order for outsourcing performance to be effective, enforcement mechanisms must exist to ensure that contract violation is avoided. There is a need for public sector to establish measures that can improve contracting and the whole contract management process. Such measures could include creating awareness of contract management amongst staff through workshops and seminars, appointment of qualified contract managers to manage, supervise and monitor outsourced contracts such that progress reports, dispute resolution, risk management and performance management are carefully dealt with, and ensuring that attention is paid to detail during the writing of the contract in order to avoid loopholes that suppliers can take advantage of in the event that things go wrong. It is important also that contracts clearly define the penalties that exist for breach of contract by both the supplier and buyer. There is a need for public sector to start making periodic contract reviews and conduct evaluation meetings as requirement for all outsourced contracts in order to monitor progress and performance of the outsourcing contracts.

Similarly, the public sector should ensure that it makes timely payments to suppliers as outlined by the terms of the contract. Indeed today, there are a lot of bureaucracies in paying suppliers which leads to delays and discourages most of the suppliers. If suppliers are paid on time, they will be motivated and possibly endeavor to meet their obligations. Also, since outsourcing is important in improving and delivering better services, it is quite necessary that the public sector ensures that it develops trusting relationships with reputable firms that over time have been outsourced and shown to be good performers.

There is need for a fundamental culture change of cheating not only at organizational but even at individual level. Uganda is ranked amongst the most corrupt countries in the world. This corruption is mainly manifested through mismanagement of public funds, fraudulent practices and involvement of public officials in government contract breaches. There is a need for senior public officials to be committed to resist dealing with prevalent opportunistic tendencies if the contracts they manage are to achieve their set targets and objectives. The top-level management should lead as an example so that the lower staff can learn from them and have no excuses for engaging in practices like conniving with suppliers to defraud government. Additionally, as a means to help those involved with procurement to overcome the challenges associated with opportunistic tendencies, procurement officers, evaluation committees, and contract committees should also focus increased attention on strengthening supplier evaluation procedures so as to proactively avoid opportunistic suppliers. Further, public entities need to develop mechanisms to deal with suppliers who engage in opportunistic behavior. The PPDA Authority which regulates public sector procurement in Uganda should

consider blacklisting suppliers who continue such vices so that they are not awarded government contracts in future.

This study contributes to the existing body of knowledge by establishing the influence of formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism on outsourcing performance. No exiting empirical study specifically addresses the impact of formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism on outsourcing performance. This study therefore contributes to the existing literature by filling this research gap by explaining outsourcing performance using the antecedents of formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism in order to provide a new view point from which we can explain outsourcing performance in Uganda's public sector and should be used as a basis for future studies.

7. Limitations of the Study and Future Research

This study is limited by a number of factors. Firstly, this study only covers the public sector focusing on central government organizations. Future studies should be undertaken and extended to the local government entities like districts in order to cross validate and ascertain if the results will be the same. There is of recent a lot of public outcry from poor services especially in newly created districts and future studies could extend there to examine outsourcing performance. Also, suppliers who are important sources of information regarding contract management, opportunistic behavior and outsourcing and service delivery were not part of the respondent sample. It is important that in future studies suppliers are considered respondents especially when they are a vital source of information of the variables that are being studied. The scales that were used in the study were adapted from studies undertaken in more developed countries, whose contexts are very different from those of developing countries like Uganda. Future studies should ensure that scales that are unique to our setting in Uganda are developed.

This study was based on only four constructs i.e. formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism to explain outsourcing performance. These four antecedents explain 64.1% of the variance in outsourcing performance, future research should look at other variables affecting outsourcing performance since there are other variables that affect it and are not accounted for by the regression model.

Conclusively, this study has found that formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism are significant predictors of outsourcing performance. In so doing, a significant theoretical contribution has made to the existing theory since no single empirical study specifically addresses the impact of formal contractual governance mechanisms, contract contingencies, inter-organizational trust and supplier opportunism on outsourcing performance. This study therefore provides a new view point from which we can explain outsourcing performance in Uganda's public sector and should be used as a stepping stone for future studies.

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