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Explaining Outsourcing Performance in Uganda's Commercial Banks

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Abstract: This study aimed at investigating outsourcing performance in Uganda's commercial banks basing on the variables of contract, relational norms, trust and commitment. It was motivated by the fact that where as outsourcing has been identified as a global trend in this millennium and a competitive strategy for the contemporary business, there were limited (if any) empirical studies on outsourcing performance in Uganda. Besides, previous studies conducted outside Uganda have provided conflicting views on whether or not contract and relational norms can be used concurrently to enhance outsourcing performance. The study was also intended to contribute to this debate by establishing the extent to which the variation in outsourcing performance was explained by the model that was developed. Findings revealed that the only significant predictor of outsourcing performance was contract and the model accounted for 40.1% of the variation in outsourcing performance. The findings present implications for commercial bank management in the area of contracting and contract management, which have to be addressed if outsourcing performance is to be enhanced and competitiveness in the banking sector improved.

Key words: *contract, relational norms, trust, commitment, outsourcing*

1. Introduction

The contemporary global competitive forces are exerting intense pressure on many firms to recognize the need to hire outside service providers to meet their in-house needs (Kotabe and Michael, 2009). This strategy referred to as outsourcing, enables firms exploit their core competences (Kannan and Tan, 2003). Outsourcing has been identified as a growing global trend in the new millennium (Kai et al., 2007), and has been viewed to be growing at an exponential rate, as companies recognize the increasingly vital role of competitive factors such as cost, speed, quality, volume, flexibility and innovation (Farrell, 2010). By outsourcing certain services to specialist vendors, firms may concentrate on their core activities, thereby maximizing the potential effectiveness of those activities (Jiang, et al., 2006). Various studies have revealed that contract is crucial in steering outsourcing performance (Goo and Nam 2007; Goo, et al; 2006; Bajari and Tadeh, 2001). In outsourcing, contract refers to formal written agreement developed jointly between service recipients and service providers that specify a product or service to be offered at a certain level to meet business objectives. Goo, et al; (2006) argue that well specified service level agreements (SLA) in outsourcing contracts in terms of foundation, change management and governance characteristics protect against each party's failure to perform as agreed. On the other hand, Gottschalk and Solli-saether (2006) contend that even though contract is essential in guiding outsourcing evolution and performance, it should be used jointly with relational norms. Relational norms are patterns of accepted and expected sentiments and behavior shared by members of an exchange system that have a force of social obligation or pressure. They include role integrity, long-term orientation, mutuality, flexibility and solidarity (Ivens, 2004). It is argued that relational governance, Contracts function as complements, and relationship commitment and trust are the key attributes of relational governance impacting on inter organizational performance (Goo and Nam, 2007).

Where as these views are consistent with studies in developed countries, little research has so far been conducted in Sub Saharan Africa and particularly in Uganda's commercial banks, in which outsourcing is a relatively new strategy. The banking industry in Uganda is relatively young, with approximately 20% of all commercial bank assets held by institutions that entered Uganda as licensed commercial banks after 1990. Although Uganda's banking system is relatively small (even by African standards), underdeveloped and characterized by a large share of foreign ownership (Egesa, 2010), it has undergone reform and liberalization which have seen the licensing of private local banks, the lifting of barriers to entry of foreign banks and the

privatization of state banks. Commercial banks in Uganda hold approximately US$3.5 billion in total assets and most banks are foreign owned, including major international institutions such as Stanbic (South Africa), Citibank (USA), Barclays (United Kingdom), and Standard Chartered (United Kingdom). Where as the commercial banking sector in Uganda is fast growing, it has been adversely affected by system inefficiencies and high operational costs coupled with stiff competition (Bank of Uganda report, 2008/2009). Commercial banks finance SMEs, which are fundamental to the economy for them, account for 90% of the private sector (Hategа, 2007). SMEs also provide employment to approximately 2.5 million people, contribute 75% of the Gross Domestic Product and are major players in the supply chains of large manufacturing firms as buyers, suppliers or intermediaries (Eyaa and Ntayi, 2010). Given this indispensable role of commercial banks to Uganda's economy, they need to re- examine their strategic priorities, including outsourcing non-core activities to be able to concentrate on their core competencies. The issue of how such an outsourcing strategy performs is paramount.

According to Pearce et al (2004), contract enforcement problems in the banking sector are common in many developing economies. Anecdotal evidence from Uganda's commercial banks reveals that there have been contract deficiencies and violations, low relational norms, low trust and commitment and deficiency in outsourcing performance. In Standard Chartered Bank, the outsourced service providers for cleaning and security services violated their contractual obligations and provided sub standard services. There are frequent complaints over contract duration and some have pressurized the bank for payments before fulfilling their contractual obligations. Some outsourced providers withdrew before expiry of their contracts, complaining of the bank's unfavorable standard terms. Employees also complain over long lead-time and poor quality of outsourced canteen services. In the outsourced local courier and messenger services, costs escalated from Uganda Shillings 10 Million to 24.5 million (Procurement assessment report, 2007). In Stanbic Bank, the outsourced private security guards have not been performing as per contract. The exchange relationship between the bank and the outsourced security has been distrustful. The bank officials blame security guards for the theft of the bank's money for instance the robbery of ug.sh.1.2 billion (Mugisha et al., 2007). The above situation is undesirable given that Uganda has a great potential for becoming a preferred Business Process Outsourcing (BPO) destination in the East and Central African region (BPO report, 2008).

Although prior studies have attempted to predict outsourcing performance, to the best of our knowledge, we are not aware of any single study that has attempted to relate contract, relational norms and outsourcing performance in commercial banks in Uganda in a single framework. Further to that, while there are well developed research streams on both formal and relational governance, research on their relationship and its effect on outsourcing performance is limited (Stefanie et al; 2010). Studies in commercial banks in Uganda have concentrated on other issues such as sales force performance; behavioural performance of accounts relationship managers (Ntayi, 2010); privatization of commercial banks etc but none has addressed outsourcing performance. Most of the studies on outsourcing in the banking sector have been conducted from developed economies e.g. studies by Federal Reserve Bank of New York (1999) and Pujals (2004).The notable exception is a study conducted in Kenyan banking sector by Barako and Gatere (2008), but this focused on perceived benefits, risks and factors determining outsourcing decisions in Kenyan banks. Another pioneer study carried out in Uganda by Muhwezi (2009) on horizontal collaborative purchasing recommended that where less or no knowledge is published in certain areas, studies should always be undertaken.

Although there is increased use of outsourcing in Uganda's commercial banks, studies about the performance of this outsourcing strategy are limited. This study provides empirical findings on contract, relational norms and outsourcing performance in commercial banks in the Ugandan context. Further to that, previous researchers (Paswa et al., 1998; Poppo and Zenger, 2002) argue that contract can not be used concurrently with relational norms to enhance outsourcing performance, while others (Gottschalk and Solli-saether 2006; Goo and Nam 2007; Vandaele et al; 2007) as cited in Berbe´e et al; (2009) maintain that contract and relational norms are complements. These conflicting views raise the critical question as to whether relational and formal governance are substitutes for each other or whether they function as complements (Stefanie, et al; 2010). This study also contributes to this on going debate by determining the extent to which both contract and relational norms predict outsourcing performance in commercial banks.

2. Literature Review

Contract and Outsourcing Performance: Recent studies have shown that the contracting ability to effectively manage relational exchanges can improve various dimensions of organizational performance (Goo and Nam, 2007). It is further argued that in order to minimize contract related risks which include excess costs, poor service, loss of competitiveness, loss of revenues, and loss of customers, it is vital to ensure contract monitoring, coordination, and client-contractors liaison capabilities (BPO Report, 2008). The formal contract is the initial and necessary platform for the outsourcing relationship. If it is well structured, it shapes a good outsourcing relationship, which then supports high Business Process Outsourcing performance (Stefanie, et al; 2010). Transaction cost economics (TCE) (Williamson 1979; Williamson 1985) explains how to design formal governance mechanisms for managing outsourcing contracts (Lacity and Willcocks 1998). The intent is to minimize the costs of such governance processes while ensuring the delivery of the desired quantity and quality, and reducing the cost of the outsourced service. Within TCE, formal agreements are treated as mechanisms to specify expectations, obligations, responsibilities and processes for dispute resolution. Explicit contract is the most pronounced protective device against possible opportunistic hazards in transaction cost economics (Yaqub, 2009).

Outsourcing also lowers production costs because specialised suppliers are used (Kotabe, 1998). Outsourcing further opens up the possibility of obtaining rents from relations with suppliers (Dyer and Singh, 1998; Linder, 2004). This study draws on theories of inter-firm coordination to integrate these perspectives and posit that contractual and procedural coordination perform complementary roles in the governance of BPO relationships and that their systemic fit affects BPO performance. Therefore, in the absence of contractual coordination, firms have little incentive to invest in costly procedural coordination mechanisms. The bounds of opportunism are increased, thereby, adversely affecting BPO performance (Manil et al; 2007). The contract seeks to align incentives and interests between both firms, and represents ex ante promises or obligations to perform particular actions in the future (Poppo and Zenger, 2002).

Exchange relationships are governed by contracts, which may be formal or informal. It is important that formal contracts are used because they can be referred to. In the process of outsourcing services, the formal contracts that are used are known as Service Level Agreements (SLAs). According to Singleton et al., (1998), a SLA is a "formal written agreement developed jointly between a client and provider that specify a product or service to be provided at a certain level so as to meet business objectives". A formal contract like a SLA details the duties and responsibilities of the exchange partners, systems for monitoring the execution and implementation of the contract, penalties for non – compliance, rewards for conformity/performance and safeguards against opportunistic behavior. Contracts also provide a way of managing the relationships through a clear statement of the measurements, conflict arbitration, penalty and rewards, communication channel and method (Goo and Nam, 2007). When exchange hazards increase, the need to safe guard the contract involves provisions and administrative procedures that are focused on dispute prevention and resolution as well as the distribution of costs and benefits under various future contingencies (Williamson, 1985). Bajari and Tadelis (2001) argue that in order to benefit from outsourcing, firms should be capable of drafting detailed contracts. In agreement, Novak and Stern (2006) reveal that detailed contract provisions are very critical and they encourage firms to achieve specific performance objectives.

According to the logic of Transactional Cost Economies (TCE), as exchange hazards rise, so must contractual safeguards, which act to minimize the costs arising from such hazards and help firms to build initial institutional trust (Gefen et al; 2006 and Mcknight et al; 1998). Thus, the objective of a formal contract is to place credibly enforceable limits on the actions of each party, thereby constraining the ability of one party to extract additional rents from the other by failing to perform as agreed (Aubert et, al; 1996). Typically, a formal contract specifies roles and responsibilities to be performed, procedures for monitoring and penalties for noncompliance, rewards for outcomes attained. An outsourcing contract provides a legally bound, institutional framework in which each party's rights, duties, and responsibilities are codified and the goals, policies, and strategies underlying the arrangement are specified. Every outsourcing contract has the purpose of facilitating exchange and preventing opportunism (Gottschalk and Solli-saether 2006). TCE and other perspectives in contracting, however, hold that bounded rationality and uncertainty prevent parties from writing detailed and complete contracts that deal with all possible contingencies.

Hypotheses: From the discussion, we therefore derive hypothesis;

H1: Contract improves outsourcing performance in commercial banks.

Trust and Outsourcing Performance: Trust reflects one party's belief that its requirements will be fulfilled through future actions undertaken by the other party (Zaheer and Venkatraman, 1995) and is viewed as a necessary condition for relational governance (Mcknight et al; 1998). Trust in outsourcing relationships is largely associated with creating confidence of the Service Recipient in the Service Provider because of the Service Provider meeting the target performance and accomplishing stipulated terms in the Service Level Agreement. Blumenberg et al; (2009) citing Grover et al; (1996) indicate that partnership elements such as trust are crucial for outsourcing success. As cited in Blumenberg et al (2009) Poppo and Zenger (2002) studied relational and contractual governance in outsourcing and found out that relationship quality dimensions of trust and open communication influence outsourcing success. (Yaqub, 2009) also reiterated that relationship intensity composed of trust and commitment is associated with outsourcing success. Lee et al (2008) also added that trust is a highly relevant predictor of outsourcing success. We therefore derive the second hypothesis.

H2: Trust improves outsourcing performance in commercial banks

Commitment and Outsourcing Performance: While the issue of commitment arises as early as the selection of the Service Provider and then becomes formalized with the signing of the contract in outsourcing practices, commitment should evolve into an engine that drives parties' ex post incentives (Newman and Sabherwal, 1996). Transaction Cost Economics (TCE) suggests using means to create a general commitment between partners from which desirable actions evolve (Aubert at al; 1996). In addition, by being knowledgeable about each other's business, parties might effectively carry out services that each depend on. In this way, the benefits of these exchanges can be obtained by both parties and their association endures. Thus, the cultivation of this environment could be "institutionalized" through foundation characteristics that encourage a pervasive mindset of continuous commitment to this relationship (Mcknight et al, 1998). Lee and Kim (2003) report commitment to be one of the main drivers of outsourcing success. In a related argument, Goo and Nam (2007) found trust and commitment to have a positive influence on outsourcing success. Commitment has also been shown to be a determinant of critical factors related to group performance, such as more open exchanges of relevant ideas and feelings, greater clarification of goals and problems, greater adaptability in responding to unforeseen circumstances, greater satisfaction with efforts, and greater motivation to implement decisions (Aubert et al; 1996). Commitment to an outsourcing relationship produces a highly interactive, flexible relationship between two organizations. It creates an environment where the technical skills and resources of Service Provider can be leveraged by Service Recipient to achieve its business objectives. Most importantly, as continuous improvement and innovation are cultivated through sustainable relationships over the strategic planning horizon, quality output can be materialized, which is likely to lead to successful contract performance. We therefore derive the third hypothesis.

H3: commitment improves outsourcing performance in commercial banks

Relational Norms and Outsourcing Performance: Relational norms represent important social and organizational ways of controlling exchange (Gundlach et al; 1993). They include role integrity, mutuality, effectuation of consents, implementation of planning, flexibility, solidarity, enhances and expectations of interest, creation and restraint of power, preparing means and harmonization with socially mutual (Macneil, 1983). Although there are various constructs of relational norms in the existing literature as mentioned above, this study will concentrate on five relational norms i.e. role integrity, flexibility, solidarity, mutuality and long-term orientation. This is adopted from the research by Ivens (2004), which integrated Macneil's ten relational constructs and provided researchers with an argument for concentrating on selected relational behaviors in empirical studies. The concept of solidarity defines a bilateral belief that a partner is highly valuable and therefore dictates that parties in an exchange stand by one another and work cooperatively to keep the relationship going (Cannon, et al., 2000). As such, the relational norm of solidarity includes behaviours directed specifically towards maintaining the relationship (Heide and John, 1992). In agreement, Kaufman, Stern and Achrol as cited in Ivens (2002) contended that solidarity means preservation of

relationship particularly in situation in which one partner is in predicament. The relational norm of flexibility refers to the provision for adoption within a relationship through adjustment of the agreement terms and/or focus in response for unforeseen and changing events (Macneil 1980). It may also mean the actors or parties readiness to adopt an existing implicit or explicit agreement to new environmental conditions (Noordenier et al., 1990).

According to Dwyer and Oh (1988), role integrity is the participation, expectation as well as realization of joint decision-making facilitating collaborative exchange. Kaufman (1987) refers to role integrity as maintenances of complex multi- dimensional roles forming network or relationship**.** The extant literature recognizes the limitations of adopting a legal contract as the sole governance mechanism. Instead, it advocates for the use of additional informal governance mechanisms, such as relational governance, based on the establishment of a psychological contract between the vendor and the client (Goles and Chin 2005) as cited in Blumenberg et al; (2009).The aim of relational governance is to raise the quality of the relationship between outsourcer and service provider as a means for achieving a more successful outsourcing relationship (Poppo and Zenger, 2002). The relational norm of mutuality implies the requirement of a positive incentive to exchange for both parties. In relational exchanges, the parties expect generalized reciprocity emanating from on going relationship (Fink, et al; 2007). In agreement, Dant and Schul (1992) argue that mutuality is reflected by an actor's attitude that the realization of one's own success depends on the partners' overall success. Long-term orientation refers to the desire and ability of an economic partner to have long-term relationship with a specific exchange partner (Ganesan, 1994). Ivens (2004) argues that long-term orientation is closely linked to solidarity and both behaviors are directed towards relationship maintenance by influencing commitment.

Several studies have linked the level of relational norms to indices of performance of inter firm exchanges. For example, Noordewier, et al; (1990) claimed that relational norms interacting with an uncertain environment were significantly linked to transaction performance as measured by percent on time deliveries and percent acceptable quality. Lacity et al; (1995), stipulate that in order to achieve success in outsourcing, there is need to maximize flexibility in the control of outsourced function to allow an organization to follow different options. According to Parmigiani and Mitchell (2006), Toyota's outsourcing performance success is attributed to their relational governance activities that allow the company to share information with suppliers while building high performance, long-term relationships. Dahlstrom et al; as cited in Pache, (1998) also add that in logistical outsourcing context, when investments tend to become more and more idiosyncratic and the climate is unstable, relationism makes it possible to secure logistical performance. As opined by Yaqub, (2009), when relational norms are developed, they reduce the need for more elaborate safeguards, thus reduce the transaction cost. A study by Ellram and Edis ; Wong and Fung; Ulaga, as cited in Fink et al; (2007) found out that customers attribute reduced costs, faster time to market, increased productivity and enhanced product quality to closer relationships with their suppliers. Greater reliance on relational norms helps overcome problems with incomplete contracts and reduces the risk of disputes between the contracting parties. This saves both ex ante and ex post transaction costs (Lai et al; 2006).We therefore develops the following hypothesis.

H4: Relational norms improve outsourcing performance in commercial banks.

3. Methodology

Cross–sectional and quantitative study designs were used in the study that was carried out in 2007 in Kampala District that is home to the Head Quarters of all commercial banks in Uganda. Data was colleted from respondents using a structured self – administered questionnaire. Since pre-testing is regarded as important to reliability (Jones, 2008), the questionnaire was pre – tested to ensure appropriateness in wording, format and sequencing of questions. We conducted small scale pre-testing because in using a census approach, with a relatively small population, any large-scale piloting amongst the population would decrease the number of responses achievable for the main study (Jones, 2008). The responses in the questionnaire hinged on a five point Likert scale ranging from one = 'strongly disagree', 2 = agree, 3 = neither agree not disagree, 4 – disagree and 5 = 'strongly agree'. We used a likert scale because information gathered in the social sciences, marketing, medicine, and business, relative to attitudes, emotions, opinions, personalities, and description's

of people's environment involves the use of Likert-type scales (Gliem and Gliem, 2003). The Likert instrument has also been shown to have acceptable levels of reliability and validity across a variety of settings (Elmuti, 2003). In this study, a survey was used since surveys are able to provide a "panoramic view", giving a breadth of coverage regarding a subject at a specific point in time (Denscombe 2003). Zikmund (2003) also adds that survey investigations attempt to describe what is happening or to learn the reason for a particular business activity. Our study population was all commercial banks that had been in operation for at least a year, giving fifteen (15) commercial banks as per the Bank of Uganda registration records in 2007. A census of the commercial banks was taken and three respondents who are the procurement officer, legal officer and administrative officer were drawn from each bank, giving 45 respondents. A census survey, as opposed to a representative sample was used since this was a small-scale study (Denscombe, 2003; Saunders et al., 2003). Usable questionnaires were collected from fourteen (14) commercial banks, giving a response rate of 93%.

Based on the literature, measurement scales for the variables in this study were identified. Thirty-three items were directly adapted from Goo et al., (2006) to measure the extent to which provision of the eleven elements (which were summarized under foundation, change management and governance characteristics) are addressed in the contract, which in this case is the Service Level Agreement (SLA). Relational norms were measured using mutuality, solidarity, long-term orientation, role integrity and flexibility according to the works of Ivens (2004). Trust was measured using the perceived credibility and benevolence of a target of trust basing on the scales adopted from Doney and Cannon (1997) while measurement scales for commitment were as cited by Ivens (2004) and these scales were represented by mutual investment in the relationship and intention to continue with the relationship. Outsourcing performance was measured using the scales of quality, lead-time, cost saving, innovation, relationship management and customer satisfaction obtained and adapted from the works of previous scholars such as (Kotabe et al; 1998; Goldstein 1999; Malhorta 1997; Carney 1997) as cited by Elmuti(2003), Lee (2001), Manil et al; (2007) and Goo and Nam (2007). In this study, perceptual measures were used because prior research in a multitude of disciplines suggests that objective measures of performance such as profitability and costs may not capture the complex goals of many inter-firm relationships relative to perceptual measures. Supporting this view, Manil et al; (2007) add that Business Process Outsourcing (BPO) is characterized by a range of business objectives ranging from reduced costs to innovation to speed to market and a single objective measure of performance, such as operational efficiency, may be inadequate. The reliability of the measurement scales was tested using the Cronbach Alpha coefficients, which are shown in table 1 below. All coefficients were above 0.7, which is acceptable according to Nunnally (1978).

Table 1: Reliability tests

Variable	Anchor	Cronbach Alpha Value
Contract	5 point	0.8333
Relational Norms	5 point	0.8146
Trust	5 point	0.7296
Commitment	5 point	0.7953
Outsourcing Performance	5 point	0.7373

Collected data were analyzed using the Statistical Package for Social Scientists (SPSS) software. Spearman's Correlation analysis was used to establish the magnitude and direction of the relationship between the independent and dependent variables while multiple regression analysis was used to determine the variation in outsourcing performance that was explained by contract, trust, commitment and relational norms.

4. Results and Discussion

Correlation Analysis Results: Correlation analysis revealed positive significant relationships between the independent variables and outsourcing performance (contract and outsourcing performance - $r = 0.636$, p-value < 0.01; relational norms and outsourcing performance - $r = 0.480$, p-value < 0.01; trust and outsourcing performance - $r = 0.446$, $p < 0.01$; commitment and outsourcing performance ($r = 0.371$, $p < 0.05$) supporting hypotheses H1, H2 H3 and H4. This implies that when contract, relational norms, trust and commitment improve, outsourcing performance improves. The strongest correlation is however between contract and outsourcing performance implying that the positive impact of contract is stronger than that of relational

norms regarding outsourcing performance of commercial banks in Uganda. The results of the correlation analysis are shown in the table 2 below:

Table 2: Correlation Analysis Results

Variables	Contract	Relational Norms	Trust	Commitment	Outsourcing Performance
Contract	1.000				
Relational Norms	.488**	1.000			
Trust	.410*	.508**	1.000		
Commitment	.626**	.526**	.566**	1.000	
Outsourcing Performance	.636**	.480**	.446**	.371*	1.000

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

** Correlation is significant at the 0.05 level (2-tailed).*

Regression Analysis Results: The regression analysis revealed that contract, relational norms, trust and commitment explain 40.1% of the variation in outsourcing performance of commercial banks in Uganda. Amongst the four (4) independent variables, the only significant variable is contract (Sig=0.005, $p<0.05$). Relational norms, trust and commitment are not significant predictors of outsourcing performance. Contract also has the highest standardized beta coefficient of 0.587 implying that a 100% change in contract creates a 58.7% change in outsourcing performance.

Table 3: Regression Model

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Dependent Variable: Outsourcing Performance	
Model	**B**	**Std. Error**	**Beta**				
(Constant)	.489	.711		.688	.498	R Square	.481
Contract	.523	.172	.587	3.032	.005	Adjusted R Square	.401
Relational Norms	.116	.150	.136	.772	.447	F Change	6.019
Trust	.336	.232	.248	1.449	.159	Sig. F Change	.001
Commitment	.162	.178	.179	.912	.370		

Discussion: The findings on contract and outsourcing performance are in line with the argument presented by Bajari and Tadelis (2001), Novak and Stern (2006) .These findings are further supported by Goo, et al; (2006), who contended that well specified service level agreements in outsourcing contract guard against each party's failure to perform as agreed. Contract being a significant predictor of outsourcing performance in Uganda's commercial banks may be because commercial banks in Uganda have been adversely affected by contract enforcement problems and severe contract violations. Even the research by Pearce et al. (2004**)** indicated that contract enforcement problems in the banking sector are common in many developing economies. In Kenya which neighbors Uganda and which lies in the same East African community with Uganda, a study that was conducted by Barako and Gatere (2008) found out that commercial banks lacked risk management frame works and regulatory policies and one way of mitigating risk of performance failure is a well-detailed contract. Almost all of the procurement audit and investigations reports in Uganda have indicated that contract management is a major hindrance to procurement in Uganda **(**PPDA base line survey, 2010; PPDA compliance check report, 2008; PPDA workshop report, 2008; PPDA compliance check report, 2009**).** Undoubtedly, in a circumstance where an appropriate contract is in place with detailed and clear service level agreements stipulating all the terms and conditions for the service provider and the service recipient, both parties will understand their duties, obligations, and this will guide outsourcing performance. Moreover, the existence of a contract will imply litigation in case of breach and this will eliminate room for compromising the expected outsourcing performance.

The study findings further revealed that relational norms, trust and commitment were not significant predictors of outsourcing performance in Uganda's commercial banks. These findings contradict with the previous scholars such as Heide and Miner (1992), Goo and Nam (2007) et al; (2006). These findings though contrary to literature may not be surprising given that the reviewed literature was based on studies conducted in developed economies where cultural and other environmental contexts are different from the Ugandan setting. In addition, commercial bank managers in Uganda may find it hard to trust people since most customers have always defaulted to pay their loan obligations. Commercial banks in Uganda also change outsourced suppliers quite often and it becomes hard to build trust and commitment as they require adequate time. The performance of these banks has been adversely affected and some have been acquired by others, merged or closed down. For example the defunct Green Land bank, Former Uganda commercial bank and former Nile bank. Certainly, the surviving banks have to rely on well-drafted contracts to ensure performance and option for litigation in case of breach. The other issue that could explain why commercial banks do not substantially rely on relational governance in outsourcing is because most of the outsourced service providers are Small and Medium Enterprises (SMEs). According to Eyaa and Ntayi (2010), SMEs in Uganda are fond of bidding for contracts in which they do not posses competences by falsifying documents during the bidding processes. Such outsourced firms cannot perform basing on relational governance but contract because they aim at achieving their own benefits such as maximizing profit at the expense of the commercial banks that outsource them.

5. Conclusion and Recommendations

The findings of our study shed light on outsourcing contract performance management in commercial banks in a developing country where research on outsourcing is limited. Our model had four variables explaining outsourcing performance management and only contract was found to be significant. In this way, we make our contribution on the importance of contracts in outsourcing ventures in developing countries. Empirical evidence has suggested that contract significantly affects performance management in outsourcing situations. Our model explained 40.1% of the variation in outsourcing performance, implying that there are other factors that account for the remaining 59.9% variation. We therefore provide a stepping-stone for other researchers in this area who wish to further establish the other factors that explain the variation in outsourcing performance. The study revealed contract as a significant predictor of outsourcing performance. This means that the success of outsourcing lies in the contract implying that management should put in place systems to ensure that contracts and contract management is well taken case of. Goo and Nam (2007) state that for contracts to be effective, enforcement mechanisms should be put in place to ensure that contract violation does not occur. Management of the commercial banks in Uganda should therefore implement strategies to improve contracting and the entire contract management process. These strategies should entail creating awareness of contract management amongst staff through workshops and seminars, appointment of qualified contract managers to manage, supervise and monitor outsourcing contracts such that aspects like progress reports, dispute resolution, risk management and performance management are well taken care of, 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. Contracts should also clearly define the penalties that exist for breach of contract by both the supplier and buyer. Management of the commercial banks should also make periodic contract reviews and conduct evaluation meetings a requirement for outsourcing contracts in order to monitor progress and performance of the outsourcing contracts. The periodic reviews should also cater and plan for contract termination as well in order to ensure "a good ending". Another strategy that can be implemented is the appointment of a contract manager by the supplier firm in an outsourcing contract in order to ensure that there is someone responsible for contract performance management on the supplier side.

Commercial banks should also provide a favourable environment in which good contracting and contract management practices can flourish. Having the strategies for improvement alone is not enough; the environment in which the strategies are to be implemented should be favourable. Aspects of a conducive environment for contract management include availability of required resources for contract performance management, equipping the contract managers with up – to – date contract management knowledge and skills through refresher courses and training, recognition of the contract management function at the

strategic level, improved communication systems within the bank and also between the bank and the outsourced supplier and provision for change management.

Study limitations and directions for future research: Despite the fact that the findings of our study are of immense interest in the field of outsourcing performance management, there exist some weaknesses that limit the interpretation of the results. First, the findings present the perceptions of respondents in the commercial banks on the variables in the model. The perceptions of the suppliers on the variables are not represented. Future studies in outsourcing should consider the perceptions of both the buyer and supplier firms. Secondly, findings on outsourcing performance in other financial institutions like insurance firms, micro – finance institutions, to mention but a few may vary from the findings presented here. We cannot also conclude that our findings can be extended to other industries in the economy as well as the public sector. Future studies should therefore be extended to other financial institutions, industries and the public sector. Thirdly, the study adopted a cross sectional study design and the true nature of outsourcing performance, relational norms; trust and commitment need to be studied over time. We therefore suggest a longitudinal study in future. Fourth, the independent variables explained only 40.1% of the variation in outsourcing performance. We propose further research into other factors, which affect outsourcing performance such as firm infrastructure, asset specificity, opportunistic behaviours, vendor selection and technical competences. Fifth, the study was quantitative and the scales used in the study were adapted from previous studies carried out in countries / regions whose contexts are very different from those of Uganda. We recommend that researchers should in future consider developing scales that are tailored to the banking sector in Uganda and also combine the qualitative and quantitative research designs.

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