

Outsourcing Relational Governance Quality Effects on Hotel Financial Performance under Environmental Uncertainty in Uganda

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Abstract

The need to access the scarce quality resources necessary for firms to achieve desired performance has seen outsourcing becoming a global business strategy. Given the uncertain environments in which hotels operate, outsourcing relationships require proper management if the anticipated benefits are to be realized. This study investigated the effect of outsourcing relational governance (RG) quality on hotel financial performance under environmental uncertainty in Uganda. The study was guided by the transaction cost economics theory, relational contracts theory and the agency theory. Cross-sectional survey data were collected from 175 hotel managers in Uganda using a structured questionnaire. A hierarchical component model was fitted using variance-based PLS-SEM with Smart PLS (3.2.9) as an analysis tool. Results revealed that relational norms, knowledge and information sharing and conflict resolution are important components of RG and that RG quality positively and significantly affects hotel financial performance due to outsourcing. Further, environmental uncertainty was found to weaken the positive relationship between RG quality and hotel financial performance. Partners in a relationship should be dynamic to absorb any shocks arising from environmental uncertainties. The results of this study provide a model for managing outsourced resources in hotels under environmental uncertainties. Future studies can investigate the role of contractual governance on the financial performance of a hotel due to outsourcing and explore the potential interaction of the two governance mechanisms in an uncertain environment.

Keywords: Outsourcing; relational governance; environmental uncertainty; financial performance

Introduction

Hotels, like other business entities, have the primary objective of optimizing their financial performance in terms of efficiency, quality, productivity and profitability (Espino-Rodríguez & Ramírez-Fierro, 2018a; Asatiani, Penttinen, & Ashish-Kumar., 2019). Financial performance results from efficient operations (Lynch & Cross, 1991; Fitzgerald, Johnson, & Brignall, 1991; Neely, Adam & Kennerley, 2002). The financial performance of any business, including hotels, is constrained by the scarcity of financial, human and technological resources (Ahmed, Guozhu, Mubarik, Khan, & Khan, 2019). Thus, for their sustainability, firms must look for strategies to access these scarce resources (De Massis, Audretsch, Uhlaner & Kammerlander, 2018).

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Outsourcing is one of the strategies that can enable access to such resources at comparatively low costs. It involves sourcing services to more specialized and efficient external providers (Kolawole & Agha, 2015). Previous studies have demonstrated the importance of outsourcing to firm performance (Kedia & Lahiri, 2007; Santoro, 2015; Mukucha, Manyika, Madhuku, & Chari, 2020; Kalubanga & Namagembe, 2021). Through outsourcing, hotels, for example, can spread risk to partners, avoid spending on obsolete technology, and access specialised and efficient labour, providing additional income without spending. Low or generalised skill requirements and less interconnectedness with other jobs characterise the often outsourced services (Lysons & Farrington, 2016). Hotels outsource services such as; laundry, security, equipment maintenance, food service, ground keeping, finance, transportation and marketing services (Espino-Rodríguez & Ramírez-Fierro, 2018a) to ensure guest satisfaction for repeat business and better financial outcomes.

Much as outsourcing is expected to come with performance benefits, outsourcing relationships must be well managed (Tamás, 2018). An outsourcing relationship develops from the hotel's exchange with its service provider about its vision and objectives and the need for the service provider to meet these objectives on behalf of the hotel. Outsourcing becomes a disadvantage to a hotel by increasing the risk of dependency on suppliers and increasing the number of incompetent staff (Yildiz & Demirel, 2014), limiting the economies of scope, reducing firm competitiveness and increasing the cost of managing services due to opportunistic behaviour (Kotabe & Murry, 2018). Management of outsourcing relationships must be considered an essential component in enterprise management, just like human resource management, to ensure that outsourced resources are properly utilised (Afande, & Maina, 2015). One of the tools for that is relational governance which implies using unwritten, non-contractual, work-based controls to influence inter-organisational behaviour (Macneil, 1980). It is characterised by informal controls manifested in socially derived arrangements (Roehrich, Selviaridis, Kalra, Van der Valk, & Fang, 2020) such as conflict resolution and communication. Whereas contractual governance is a proper and basic governance tool for most outsourcing relationships, relational governance explains why some arrangements continue to exist without formal contracts.

Much as researchers have been interested in inter-organisational research, few studies link governance mechanisms with performance outcomes (Roehrich et al., 2020). These studies are mostly conducted in developed countries and have yielded inconsistent results (Lacity, Khan, & Yan, 2016). Therefore, on top of the inconclusive knowledge, existing studies lack contextual relevancy in developing countries. The current study contends that, the inconsistency is attributed to the conceptualisation of the constructs (Crocetta, Antonucci, Cataldo, Galasso, Grassia, Lauro, & Marino, 2020) and the neglect of the environment in which these relationships thrive (Espino-Rodríguez, 2023). Environmental uncertainty can pose great difficulty in predicting demand for services, customer preferences, and the inputs prices. On conceptualisation, there is a need to depart from the dominant reflective measurement tradition in the social sciences, choosing instead to develop and use higher-order constructs (Crocetta et al., 2020) because of their ability to generate more information (Becker, Cheah, Gholamzade, Ringle, & Sarstedt, 2023). The present study captured RG quality as a second-order reflective construct and investigates the moderating role of environmental uncertainty in the effect of outsourcing relational governance quality on hotel financial performance. This study widens the

scope of the prevalent relational governance theories making it possible for the relational governance- outsourcing financial performance model to respond to the question of when, how and why a particular relationship exists under environmental uncertainty. The study focuses on hotels among other firms because hotels are essential in the travel and tourism industry employing over 90% of the workforce (Uganda Hotel Owners' Association, 2019). The industry contributes greatly to Gross Domestic Product globally and in Uganda (WTTC, 2020; MFPED, 2019; UNPA, 2020). Hotels in Uganda are, however, constrained by limited access to essential resources necessary for better financial performance outcomes (Uganda Hotel Owners' Association, 2019) in an uncertain business environment. Outsourcing is one of the means for accessing such resources and there is need to generate this knowledge on outsourcing relationship management, so that it can guide national policymaking and hotel management decision making on best way to outsource in order to maximize financial performance. Through an understanding of outsourcing RG quality-performance nexus, this study informs the Ugandan hotel industry managers and sector policymakers on how to integrate relational governance components such as communication, knowledge and information sharing, conflict resolution, and relational norms in managing outsourcing relationships. Improving hotel financial performance through proper governance of outsourcing relationships is expected to improve Uganda's competitiveness as a tourist destination in the East African region, which is currently low compared to its neighbours (Calderwood & Soshkin, 2019).

Theoretical Background

The main study variables were relational governance resulting from; relational norms, communication, knowledge and information sharing and conflict resolution, and environmental uncertainty. There is no single theory that incorporates all these variables. Therefore, it was necessary to combine different theoretical frameworks, namely, Transactional Cost Economics theory (TCE), Relational Contracting Theory (RCT) and Agency Theory (AT). The TCE posits that firms must consider production and transactional costs before deciding whether to outsource (Williamson, 1985). Accordingly, firms outsource if the cost of outsourcing is less than that of insourcing. Outsourcing will not occur if transactions are high in asset specificity, frequency, and uncertainty. Under such conditions, the activities that would be outsourced will be performed internally (Williamson, 1985), informing the basis for testing the moderating influence of environmental uncertainty in the relationship between relational governance quality and hotel financial performance. The RT theory challenges the traditional premise that all contracts are mere transactions but relational and posits that relational norms are essential in determining how commercial exchanges operate (Macneil, 1980). Thus, the variable relational norms derived from this theory inform the current study. The agency theory seeks to address two problems that can arise in a relationship: agency and risk sharing (Eisenhardt, 1989). AT assumes the existence of asymmetric information and different perceptions of risk between the principal and agent and thus treats information as a commodity, which has cost and market price (Eisenhardt, 1989). This theory explains the role of communication, knowledge and information sharing and conflict resolution in managing outsourcing relationships for better financial Performance (Chun-Lai, Espino-Rodri'guez & Baum, 2019).

Literature review

Financial performance of a hotel

Financial performance shows how an outsourcing relationship has helped a firm reduce costs, improve investments, and improve financial results such as profitability (Chun-Lai et al., 2019; Espino-Rodríguez & Ramírez-Fierro, 2018b). A firm's financial performance due to outsourcing results from the specifications in a contract and their utilization (Crosno et al., 2021). Proper relational governance of outsourcing relationships in a hotel will likely improve the hotel's relationship quality with service providers. Relational governance quality is associated with a reduction in transaction and operational costs because of the reduction in opportunistic behaviour that occurs in situations of uncertainty (Huo et al., 2016). With relational governance quality, hotels and service providers can negotiate better prices for supplies and enjoy the economies of scale obtained by offering their services to various clients, which reduces costs and improves profitability (Espino-Rodríguez & Ramírez-Fierro, 2018b). Cost saving is possible because hotels will enjoy the services of external providers who have made substantial investments in the services and may not need to invest in related services (Zhang, Ma, & Qu, 2018). Sustainable profitability is the main objective of most hotels, and therefore it was considered in this study as a financial performance measure.

Relational governance quality and financial performance

The present study captured RG quality as a second-order reflective construct obtained from reflectively measured lower-order constructs; communication, conflict resolution, information and knowledge sharing and relational norms. Literature on relational governance indicators has yielded inconsistent results. Paulssen, Leisching, Ivens, and Birk (2016) for example, established that relational norms have a positive relationship with customer reactions to relationship transgression in the financial sector in favour of active and constructive reactions. This finding was confirmed in a hotel sector, by Chun-Lai et al. (2019) and Tukamuhabwa, Ntayi, Muhwezi, Eyaa, and Saturday (2012) in Uganda's commercial banks. These findings support the view that norms can counter the threat of opportunistic behaviour in relationships (Yang, Zhao, Yeung, & Liu, 2016). Lacity et al. (2016) found communication and knowledge to be positively related to performance in most of the studies, while Pankowska (2019) on sustainable coordination and management of information technology outsourcing chains, found that multi-tier information sharing facilitates higher overall performance. It was revealed that regular meetings positively influence the success of an outsourcing deal and that the quality of communication determines the quality of an outsourcing relationship. In line with this, St. John, Guynes, and Vedder (2014) also found a positive relationship between communication and offshoring success, which contradicts Tukamuhabwa et al. (2012). Information sharing can lead to positive outcomes on performance, while withholding and information asymmetry may lead to negative outcomes. Conflict resolution is important because conflicts are inevitable in a relationship and may harm partnership quality and performance (Schilke & Lumineau, 2018). Conflicts can be resolved using a legal address; however, a relational component of self-regulation plays a big role in successful alliances (Schilke & Lumineau, 2018).

Interestingly, some scholars have pointed out that RG quality can lead to negative performance outcomes, especially at higher levels of relational governance where partner closeness is high (Srinivasan, Mukherjee & Gaur, 2011; Krishnan, Martin, & Noorderhaven, 2006). This is because of the possibility of partner-specific causal ambiguity (Srinivasan et al., 2011).

Generally, RG quality is thought to improve the relationship quality, thus influencing financial performance positively. The general hypothesis is thus;

H₁: Outsourcing relational governance quality positively influences hotel financial performance.

The Moderating role of Environmental Uncertainty

Studying relational governance without considering moderation effects of an underlying environment may yield insufficient information (Namazi & Namazi, 2016), making it difficult to generalise findings. Environmental Uncertainty (EU) refers to external disturbances to a relationship that is difficult to predict (Williamson, 1985). The EU is characterised by the volatility and unpredictability of the external environment and can trigger partner conflict, which hurts performance (Schilke & Lumineau, 2018). In a hotel setting, these uncertainties are manifested in technological changes, variations in customer preferences and tastes, changes in the behaviour of other hotels, fluctuations in products, and changes in the demand and supply of materials (Schilke, 2014). TCE theory indicates that a transaction may not occur when environmental uncertainty is high (Williamson 1985), and this uncertainty can create exchange hazards which result in opportunism (Huo, Ye, Zhao, Wei, & Hua, 2018). The uncertainties make it difficult for hotel management to allocate resources effectively for better outsourcing performance. It harms performance because uncertainty can limit partners' information processing capability, which may increase opportunistic behaviour (Srinivasan et al., 2011; Huo et al., 2018).

On the other hand, EU can foster positive performance outcomes when partners adapt to environmental changes and develop a sense of solidarity in avoiding price changes which is the primary source of partner conflict (Chun-Lai et al., 2019). It can also facilitate rapid growth by using new technologies, service innovations and improvements to meet the dynamic demands of the environment (Chun-Lai et al., 2019; Altin, Uysal, & Schwartz, 2018). Partner conflict increases transaction costs, likely harming a hotel's financial performance. The EU has been found to moderate the relationship between supply chain relationship quality and supply chain performance (Pham & Doan, 2020), and thus study hypothesized that;

H₂: Environmental uncertainty moderates the relationship between outsourcing relational governance quality and hotels financial performance.

Research model

Figure 1 presents a diagrammatical illustration of the variable relations assessed by this study. The predictor variable is relational governance quality, hypothesized to directly influence hotel financial performance (H1), as informed by Relational Contracting Theory and Agency Theory (AT). This relationship is hypothesized to be moderated by environmental uncertainty (H2), informed by Transactional Cost Economics theory.

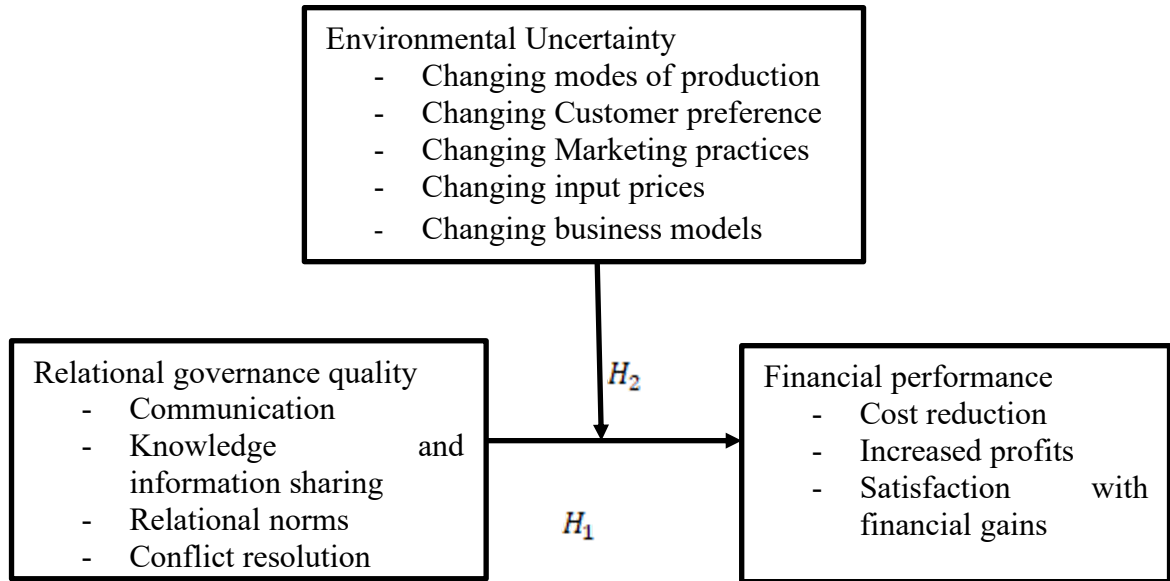


Figure 1. A Research Model of the Study
Source: Synthesis from Literature review

Materials and Methods

From the population of 305 hotels in seven (7) purposively sampled Ugandan cities, the Yamane (1967) formula $n = \frac{N}{1 + Ne^2}$ was used to arrive at a sample size of 175 hotels. The cities are Kampala and Entebbe in Central; Mbarara, Hoima and Fort-Portal in the West; Gulu and Arua in the North; and Jinja and Mbale in the East, selected as they lie in the country's major tourism gateways. Probability proportionate to size sampling was used to distribute hotels among the cities since they do not have an equal number of hotels. Simple random sampling was used to select a star hotel from each city using a sampling frame from Uganda Hotel Owners' Association, where random numbers were generated based on the list of hotels in the city.

The study used a cross-sectional survey utilising a self-administered structured questionnaire. In order to ensure the validity and reliability of the questionnaire, the scale items were adapted from previous studies (Chuni-Lai et al., 2019; Goo, Kishore, Rao, & Nam, 2009; Lacity et al., 2016; Schilke & Lumineau, 2018). Communication, Knowledge and information sharing, Conflict resolution, and relational norm as relational governance components were measured using items adapted from Downs and Hazen (1977), Heide and John (1992), Goo et al. (2009), and Heide and John (1992), respectively. The outcome variable, financial performance, was measured using items adapted from Saunders, Gebelt, and Hu (1997). Environmental Uncertainty was measured using five items adapted from a study by Schilke (2014). Content validity was checked using five relationship management experts to assess each question's relevancy for every section of the questionnaire, and their recommendations were considered (Zamanzadeh, Ghahramanian, Rassouli, Abbaszadeh, Alavi-Majd, & Ninkafar, 2015; Haynes, Richard, & Kubany, 1995). Then, pilot study was conducted on a sample of 30 Ugandan hotels, the final tool was deployed to 175 hotels, targeting hotel managers, people in charge of all outsourcing decisions (Promsivapallop, Jones, & Roper, 2015).

After data collection, descriptive analysis assessed the respondents profile presented in frequency tables. The inferential analysis examined simultaneous relationships among variables where the partial least squares SEM was deemed appropriate (Hair et al., 2014, Hair, Risher, Sarstedt, & Ringle, 2019). The higher-order construct, RG quality was constructed using a disjointed two-step algorithm (Sarstedt, Hair, Cheah, Becker, & Ringle, 2019) because the repeated indicator approach of Wold (1982) becomes problematic when the higher-order construct also serves as a dependent variable (Sarstedt et al., 2019) in the same model. PLS-SEM was run using Smart-PLS (3.0) statistical package. The measurement and structural model PLS-SEM were assessed for validity and reliability.

Results

Background characteristics

About 63% of the managers were males; and 65.1%, 17.7%, 13.7%, 2.3% and 1.1% of the 175 managers had a bachelor's degree, Diploma, Master, Certificate and PhD, respectively. In addition, most hotels (58.3%) had less than 50 rooms, 27.4% of the hotels had between 50 and 100 rooms, and 14.3% had more than 100 rooms. The most outsourced services were security (53.7%), waste disposal (18.9%), and other services accounted for 27.4%. Other outsourced services included; internet, transport, revenue management, marketing, events management, provision of casual labourers, human resource management, interpretation, medical services, and repair and maintenance. Most hotels had partnered with the service provider for over two years (90.9%).

Direct Effects of Components of RG quality on financial performance

A direct effects model of the components of RG quality on financial performance is presented in Figure 2. Its measurement and structural models in stage 1 were assessed before extracting and saving latent scores of the components to be used as lower-order constructs of RG quality as a Higher-order construct in stage two. The measurement model results in Table 1 shows that the reflective constructs had Composite Reliability index (CRE) values greater than 0.70. Thus, their measurement scales were considered reliable after removing items with the lowest outer loadings iteratively. In addition, all the Average Variance Extracted (AVE) values were greater than 0.50. The outer loadings (OL) are all greater than 0.5, indicating the presence of indicator reliability (Hair et al., 2014).

Table 1: Construct validity and reliability tests

Indicators	OL	VIF	CRE	AVE
Communication			0.845	0.577
CN1: Hotel management is aware of the problems faced by the service provider	0.687	1.321		
CN2: Management listens and pays attention to the views of the suppliers	0.779	1.582		
CN3: Either party offers guidance for solving job-related problems.	0.764	1.541		
CN4: The service providers are open to ideas	0.804	1.576		
Conflict Resolution			0.727	0.801
CR2: Differences of opinion have often been resolved to	0.670	1.546		

the mutual satisfaction of the hotel and service providers.				
Hotel management believes that mutual discussions on areas of disagreement are essential for the future.	0.535	1.509		
CR4: Hotel management acknowledges that conflicts are inevitable in every relationship and must be harmoniously resolved for continuity.	0.844	1.748		
CR5: Sources of conflict between the hotel and service providers with their solutions have been documented for future reference	0.764	1.226		
Knowledge and information sharing			0.842	0.573
KN1: In this relationship, any information that might help the other party is provided to them	0.753	1.259		
KN2: We share information with the service frequently and informally	0.801	1.931		
KN3: Both parties provide proprietary information if it can help the other party	0.779	1.827		
KN4: There are individuals internally who are responsible for receiving suggestions for improvement	0.688	2.346		
Relational norms			0.830	0.501
RN3: Whenever our service providers incur problems, the hotel has supported them beyond contractual obligations	0.826	1.900		
RN4: Hotel management and service providers expect that agreements or contracts are negotiable under certain circumstances	0.816	1.379		
RN5: Hotel management and our service providers have ensured that none looks for their benefits	0.574	1.507		
RN7: Hotel management is aware that mutual concessions are part of the relationship	0.728	1.576		
RN8: Service providers have always supported us beyond contractual obligations whenever we are faced with challenges	0.545	1.403		
Financial Performance			0.862	0.558
FP1: The Outsourcing of the service has helped us not to make investments related to that service	0.584	2.085		
FP2: Outsourcing of this service has enabled us to reduce costs	0.832	1.955		
FP3: A significant increase in the hotel's performance can be attributed to the Outsourcing of this service	0.692	1.296		
FP4: There has been an increase in profits resulting from Outsourcing	0.797	1.421		
FP5: The management of the hotel is satisfied with the financial gains resulting from outsourcing this service	0.802	1.304		

The results in Table 2 indicate that all HTMT ratios were significantly less than 0.85, providing evidence of discriminant validity among all constructs (Henseler, Ringle, & Sarstedt, 2015).

Table 2: Showing results of Discriminant validity tests

	CN	CR	FP	KN	RN
CN					
CR	0.386				
FP	0.497	0.381			
KN	0.578	0.347	0.690		
RN	0.597	0.463	0.591	0.648	

For the structural model, results are presented in Tables 2 and 4. Multicollinearity was tested and Tables 1 and 3 show that all the indicators and constructs' Outer and inner Variance Inflation Factor (VIF) values were less than 3, implying no evidence of multicollinearity (Hair et al., 2014). The indicators and their constructs are not highly correlated, and there is no pathological collinearity; hence, common method bias in measuring the constructs is not confirmed (Kock, 2015).

Results on the fitted model's ability to predict the variance of the outcome variables are presented in Table 3. The resultant effect (Q^2 -values) on financial performance is 0.191. Previous studies indicate that Q^2 -values of >0 , ≥ 0.25 , and ≥ 0.5 imply small, medium and large predictive relevance of the PLS path model (Hair, Hult, Ringle, & Sarstedt, 2017); thus, the fitted model has a small predictive relevance for measures of hotel financial performance. The effect size values, both general and for individual variables, are greater than 0, implying that the variables are essential in predicting hotel financial performance (Hair et al., 2017). Conflict resolution, relational norms, and knowledge and information sharing are found to positively and significantly affect financial performance due to outsourcing by hotels, given by values of ($\beta = 0.143, p \leq 0.05$), ($\beta = 0.206, p \leq 0.05$), and ($\beta = 0.379, p \leq 0.05$), respectively. On the other hand, communication is found to have a non-significant effect on financial performance of a hotel ($\beta = 0.085, p > 0.05$). Generally, the relational governance quality components explain 37.3% of the total variance in financial performance due to Outsourcing ($R^2=0.373$). The predictive relevancy of the model is small (0.191), with small effect sizes for each independent variable, in predicting financial performance.

Table 3: Outsourcing relational governance quality and financial performance

Path	Coefficient B	P- value	LCI 5%	UCI 95%	Q^2	q^2	R^2	f^2	VIF
CN -> FP	0.085	0.135	-0.028	0.224		0.000		0.008	1.403
CR -> FP	0.143**	0.027	0.041	0.281		0.011		0.028	1.172
KN -> FP	0.379***	0.002	0.136	0.569		0.058		0.164	1.431
RN -> FP	0.206**	0.024	0.038	0.378	0.191	0.019	0.373	0.045	1.538

The linkage between EU, RG Quality and Hotel financial performance

The moderating influence of environmental uncertainty on the relationship between relational governance quality and financial performance was tested, and the results are presented in Tables 4, 5 and 6. The model was assessed for validity, reliability and the presence of multicollinearity. Results presented in Table 4 and Table 5 confirm evidence of validity and reliability and no multicollinearity among constructs (Hair et al., 2017). RG quality is highly reflected in

relational norms with a significant outer loading of 0.805 and least reflected in conflict resolution with an outer loading of 0.57. Environmental uncertainty is highly reflected in customer preferences, marketing practices and then price changes, with outer loadings of 0.818, 0.806 and 0.758, respectively. Financial performance is highly reflected in cost reduction, satisfaction with financial gains and increased profits due to outsourcing, with outer loadings of 0.834, 0.801 and 0.799, respectively.

Table 4: Assessment of the measurement model of the moderation model

	OL	VIF	CRE	AVE
RG Quality			0.820	0.536
Communication (C.N.)	0.732	1.403		
Conflict resolution (C.R.)	0.570	1.172		
Knowledge and Information Sharing (K.N.)	0.797	1.431		
Relational norms (R.N.)	0.805	1.538		
Environmental Uncertainty (E.U.)			0.861	0.555
Changing modes of production (EU1)	0.681	1.678		
Changing Customer preference(EU2)	0.818	2.327		
Changing Marketing practices(EU3)	0.806	2.006		
Changing prices(EU4)	0.758	1.713		
Changing business models (EU5)	0.646	1.510		
Hotel Financial Performance			0.862	0.559
Reduced investments in outsourced service (FP1)	0.578	1.259		
Reduced costs (FP2)	0.834	1.931		
Improved general performance(FP3)	0.696	1.827		
Increased profits (FP4)	0.799	2.346		
Satisfied with the financial gains (FP5)	0.801	1.900		
RG Quality * Environmental uncertainty	1.414	1.000	1.000	1.000

Results presented in Table 5 confirm evidence of discriminant validity among the constructs since all HTMT ratios are less than 0.85 (Hair et al., 2017).

Table 5: Showing Discriminant validity test

	EU	Hotel FP	RG Quality	RGquality*EU
EU				
Hotel FP	0.379			
RG Quality	0.395	0.795		
RGquality*EU	0.352	0.394	0.408	

Results of the structural model assessment presented in Table 6 reveal that environmental uncertainty, RG quality and their interaction explain 39.9% of the total variance in the financial performance of a hotel due to outsourcing ($AR^2 = 0.399$). The predictive relevancy was measured by the Stone-Geisser's Q^2 value (Stone, 1974), and a value of 0.208 was obtained, which implies that a medium predictive relevance of the PLS path model (Hair et al., 2017; Hair et al., 2019). In addition, all the effect sizes of the independent variables are greater than zero,

implying that they are important predictors (Hair et al., 2017). Results in Table 6 show that RG quality is positively related to the financial performance of a hotel due to Outsourcing ($\beta = 0.527, p \leq 0.05$) at a 5% significance level. The EU does not have a direct influence on the financial performance of a hotel due to outsourcing ($\beta = 0.107, p > 0.05$) at a 5% significance level. There is evidence of moderation since the coefficient of the moderation effect is negative and significant ($\beta = -0.103, p \leq 0.05$) at a 5% significance level. A post-moderation analysis was conducted, and a large moderating effect of 0.042 was obtained (Hair, Hult, Ringle, & Sarstedt, 2021).

Table 6: Testing for moderation effect of environmental Uncertainty- The structural model

Path	Coef β	P- Value	LBCI	UBCI	Q ²	q ²	R ²	f ²	VIF
EU -> PHFP	0.107	0.093	-0.011	0.241		0.019		0.017	1.162
RGQuality -> PHFP	0.527	0.000	0.412	0.643		0.202		0.390	1.202
RGquality*EU-> PHFP	-0.103	0.022	-0.193	-0.018	0.208		0.399	0.030	1.206

R² without= 0.374 R² with=0.399 Moderation effect =0.042 (R²with-R²without)/(1-R²with)

A simple slope analysis for the moderating influence of environmental uncertainty on the relationship between relational governance quality and financial performance of a hotel due to outsourcing is presented in Figure 3. The slope of the financial performance of a hotel against RG.quality is flatter at higher levels of Environmental uncertainty. Hotel financial performance remains higher at high EU compared to low values for all levels of R.G. quality until the point of interaction. After this point, the financial performance of a hotel remains lower at high EU compared to low values of EU for all levels of RG quality. This finding implies that EU weakens the relationship between R.G. quality and the financial performance of a hotel only at higher levels of R.G. quality. The second hypothesis that, environmental uncertainty moderates the relationship between outsourcing relational governance quality and hotels’ financial performance, is not rejected.

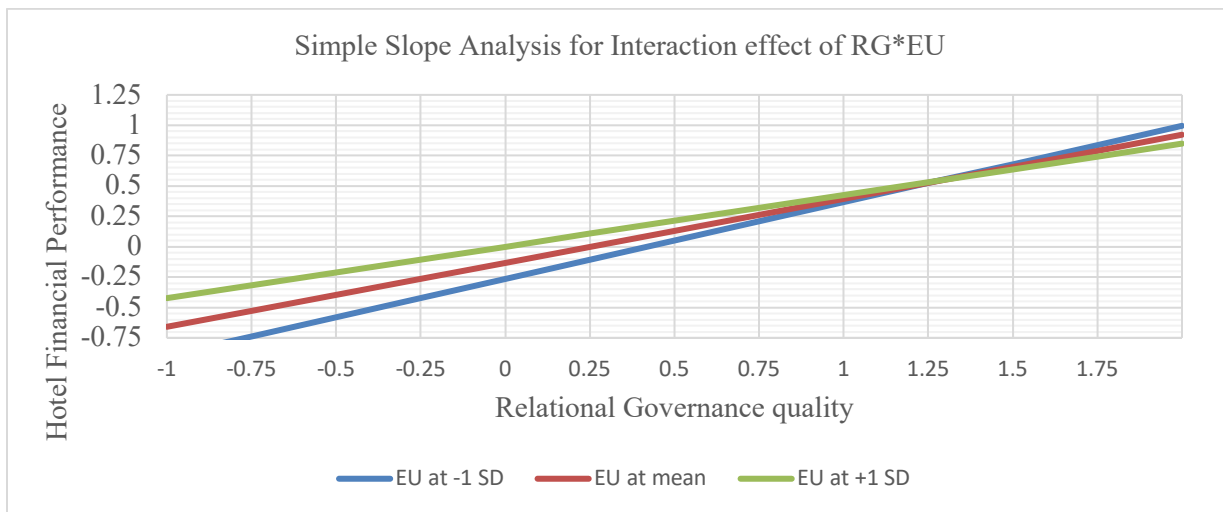


Figure 3: EU, Outsourcing RG Quality and Hotel Financial Performance

The performance of independent variables in predicting the financial performance was evaluated using Importance Performance Map Analysis (IPMA). Results are presented in Table 7. Results show that knowledge and information sharing is the most important relational governance quality attribute in predicting hotel's financial performance with an importance value of 0.201. Statistically, a unit increase in knowledge and information sharing between hotel and service providers from 75.2% to 76.2% leads, on average, to an increase in financial Performance of a hotel by 0.201 units from 79.3 % to 79.5%, holding other factors constant. Other relational governance quality components by order of performance are relational norms, communication and conflict resolution, with importance values of 0.176, 0.142, and 0.12, respectively.

Table 7: Results of Importance Performance Map Analysis

	Importance	Performance
Dependent Variable: Financial Performance		79.3
Independent Variable : RG Quality	0.638	75.6
CN	0.142	80.5
CR	0.120	73.1
KN	0.201	75.2
RN	0.176	73.9

In the IPMA map in Figure 4, all the components of R.G. quality lie in the upper right quadrant. The four components of R.G. are all important in predicting financial performance of a hotel due to outsourcing. The graph shows that knowledge and information sharing is the most important relational governance quality component in predicting hotel financial performance due to outsourcing. Hotels need to invest more resources in knowledge and information sharing to improve financial performance.

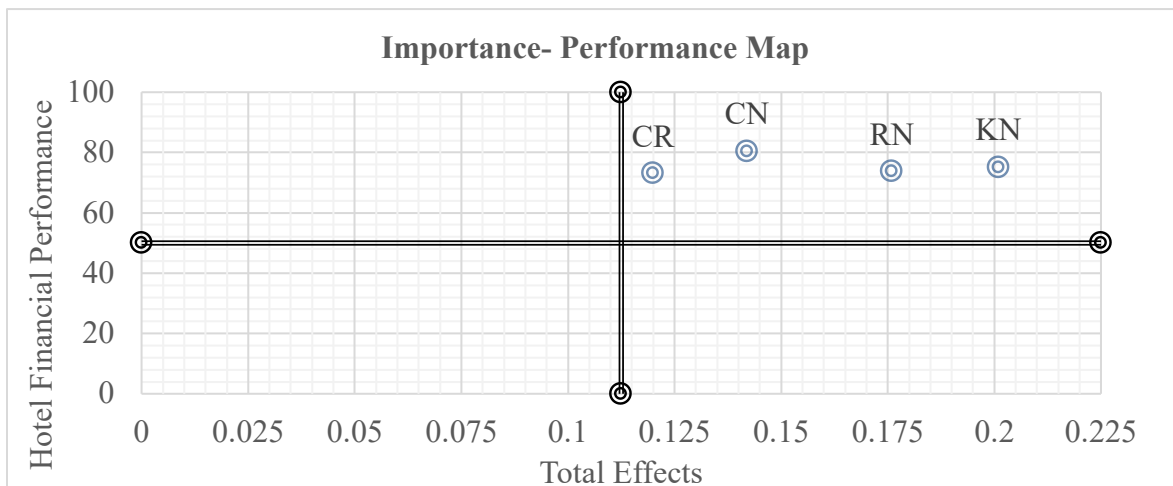


Figure 4: Results of Importance –Performance Map Analysis

Discussion and conclusions

This study investigated the effect of outsourcing relational governance quality on the hotel financial performance, a study motivated by the inconsistencies in the past studies on relational

governance components. It was argued that these inconsistencies could have been arising from neglecting the role played by environmental uncertainties and the conceptualisation of constructs. The results revealed that knowledge and information sharing, relational norms, communication and conflict resolution are important components of relational governance quality that improves financial performance of a hotel due to outsourcing. Results support relational contracts theory and agency theory, which emphasise long-term relationships through the use of norms, communication, knowledge and information sharing and conflict resolution, to improve a hotel's financial performance due to Outsourcing. Results are in tandem with those of previous studies but in their unique contexts (Paulssen et al., 2016; Pankowska, 2019; Lacity et al., 2016 and Tukamuhabwa et al., 2012). Relational governance quality enhances financial performance by facilitating the development of trust, which helps partners reduce the costs they would incur in managing a relationship in the long run. This trust promotes closer relationships that facilitate performance because of the fear of betraying one another. Relational governance tools enhance bonding between suppliers and hotel management, which allows hotels to concentrate on their core competencies because hotel management and suppliers are less concerned with issues of opportunism. Relational governance quality results in the development of social capital through negotiations between hotel and service providers on the benefits and potential drawbacks to the relationships (Cyr, Breton-Miller & Miller, 2022) which results in the alignment of the goals of Outsourcing. The result is enhanced efficiency and improved financial performance outcomes. The different components of relational governance quality contribute differently to the different aspects of hotel financial performance.

Conflict resolution, knowledge and information sharing, and relational norms positively influence financial performance due to outsourcing. Conflict resolution strategy is developed through appreciation of conflicts as inevitable in a relationship and understanding that every disagreement should always be resolved to the mutual satisfaction of both the hotel and service providers. All knowledge and information which is deemed to be helpful for either party in meeting outsourcing goals must be shared to reduce information asymmetry. Having regular and mostly informal meetings is essential in improving the level of knowledge and information sharing. Relational governance tools tend to be flexible and collaborative and facilitate adjusting new information to address information asymmetry (Beulen, Plugge & Van Hillegersberg, 2022). This result is thus in support of the agency theory, which views information as a commodity with a market price calling for investment in information systems for better performance of inter-organisational relationships. In addition, respect for relational norms is essential for relationship continuity and financial performance. Relational norms are manifested in the ability of partners to give room for negotiation and renegotiation of contracts since it is difficult to foresee the future in totality at the inception of a contract. This finding supports the view held by the relational contracts theory that relations are not merely transactional and governed by formal contracts but are also relationally governed by relational norms. Indeed the relational norms component of relational governance quality had a direct positive relationship with financial performance due to outsourcing.

Whereas individual dimensions of relational governance had a very small effect size on the financial performance of a hotel due to outsourcing, a combination of them to produce relational governance had a high effect size on the financial performance of a hotel due to outsourcing. Communication did not have a direct effect on financial performance; however, it was an

important predictor of financial performance in the Hierarchical Component model. Lioliou, Zimmermann, Willcocks, and Gao (2014) observed that reciprocal communication is necessary to affect performance outcomes. There must be effective communication between partners so that either side receives timely feedback after a message is sent. The study, therefore, partly addresses the question regarding inconsistency in findings on relational governance, arguing that relational governance should always be treated as a higher-order construct. The general outcome is that well-designed relational governance mechanisms improve financial performance due to outsourcing relationships in a hotel. The study findings reveal that the positive effects of relational governance quality of financial performance are harmed by environmental uncertainty. This result conforms to TCE theory, which argues that high environmental uncertainty may discourage outsourcing transactions, and this is associated with decision-makers' inability to specify complete contracts (Williamson, 1985). This finding was in line with the findings of other researchers in different disciplines (Schilke & Lumineau, 2018; Srinivasan et al., 2011; Huo et al., 2018; Carson, Madhok & Wu, 2006) where relational contracts were insufficient in addressing opportunism in business relationships operating under high uncertainty.

Relational governance tools may become inadequate in highly uncertain environments because they are not legally binding (Roehrich et al., 2020), yet it is limited in hindering opportunism. Suppliers in developing countries like Uganda tend to move with forces of demand and supply, implying that high uncertainty may force suppliers to act in a way that benefits without considering the possible risks to the hotel as a result of their action. It calls for a moderate level of negotiation and renegotiation through effective knowledge and information sharing because higher levels of relational governance could not withstand the negative effects of environmental uncertainty. This negotiation should be backed by respect for norms and harmonious conflict resolution in order to be able to influence these environmental uncertainties. This study revealed how the effect of outsourcing relationship governance quality on hotel financial performance can be explained by the three theoretical lenses.

Implications to the hotel sector

Through this study, the hotel sector in Uganda was found to operate in a dynamic environment with many uncertainties. If hotels are to survive in such environments, hotel owners and managers should be dynamic to match the environment. Whereas formal contracts are important in outsourcing relationships in aligning partners, relational governance quality is important for healthy relationships that result in financial performance. However, only moderate levels of relational governance attributes are necessary as higher levels fail to mitigate the negative effects of environmental uncertainty. This study reveals the need to respect partnership norms and create a knowledge and information-sharing environment through regular meetings while ensuring that almost all conflicts are resolved to mutual satisfaction. Through these meetings, knowledge and information can be shared on areas of improvement, and social cohesion and relational norms are developed. In these meetings, any source of conflict is easily pointed out, discussed, and a mutual position is attained to the satisfaction of hotel and service providers.

Hotel managers should note that higher levels of environmental uncertainty harm financial performance. This is possible especially at high levels of relational governance, where hotel management is likely to allow complete control of the outsourced service in the hands of the

supplier or entrust the supplier with many resources. The hotel will lose the resources if the supplier decides to act opportunistically, knowing that relational governance controls are not legally binding. The hotel will further lose resources during negotiation and renegotiation to maintain a relationship, especially when the reputation and image of the hotel are at stake. Hotels and their service providers should foresee unexpected changes in a business environment, such as changes in prices, technology and modes of production, and changes in customer preferences and propose means for managing such uncertainties. Foreseeing unexpected business environmental uncertainties can be achieved through environmental scanning and proactive planning to create a stable environment. This can be achieved through increasing the level of information and knowledge sharing on anticipated environmental changes.

Limitations and Areas of future research

This study was based on cross-sectional data, yet relational governance will likely grow over time. Future studies can consider a longitudinal study to understand the role of relational governance mechanisms on performance outcomes in uncertain environments over time. The study addressed the relational side of outsourcing relationship governance; however, further studies can investigate the role of contractual governance on the financial performance of a hotel due to outsourcing and find out if there is the possibility of interaction of the two governance mechanisms in an uncertain environment.

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