

## The Interplay Between Governance Mechanisms in Managing Outsourcing Relationships for Hotel Sustainability

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### Abstract

*Hotels continue to play a big role in the sustainability of the travel and tourism industry supply chain. Hotels use outsourcing as a supply strategy and manage it through contractual and relational governance. These governance mechanisms are aimed at curtailing supplier opportunism in the relationship for resilient relationships and sustained performance. This study investigated the complementarity and substitutability of the two outsourcing governance mechanisms in Uganda's hotel context through quantitative research. Cross-sectional survey data were collected from hotel managers using a structured questionnaire. A hierarchical component model was fit and the results revealed a partial mediation effect of the governance mechanisms on each other. The governance mechanisms do not completely complement or substitute each other. The results extend transaction cost economics, agency, and relational contracts theories to managing outsourcing relationships. The results suggest that hotels should employ both contractual and relational governance in managing outsourcing relationships.*

**Keywords:** Outsourcing, contractual; relational; performance

### Introduction

Hotels continue to play a big role in the sustainability of the travel and tourism industry supply chain. Hotels provide a glue that links all other sectors by providing food, shelter, and temporary accommodation for tourists and their guides (Jani & Minde, 2016). Operational efficiency and customer satisfaction requirements in this sector prompt the need for external service providers (Kim et al., 2022). Outsourcing is a strategy where a firm gives out some of its services to specialised and efficient external service providers (Letica, 2016). Outsourcing is a reality in hotels as they delegate some of their in-house non-core activities and services to an external service provider, individual, or company. Outsourcing dates back to the 1970s when large corporations were considered underperforming (Ancarani & Capaldo, 2005). It remains to answer the question of remaining in a highly competitive market and is one of the core aspects that drive business performance (Mukucha et al., 2020; Yildiz & Demirel, 2014). Outsourcing in service firms such as hotels is generally driven by strategic and economic factors (Zitkiene & Dude, 2018). From the economic point of view, transaction cost economic theory contends that economizing motives drive the decision to outsource through cost comparisons (Williamson, 1985). Outsourcing reduces costs by enabling access to specialised services, transforming fixed costs into variable costs, and improving business flexibility (Espino-Roudriguez, 2023; Niu et al., 2020; Tiwari et al., 2023). From a strategic point of view, firms aim to have a competitive edge over their peers. Hotels, for example, outsource to access scarce resources of high quality from seasoned and

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efficient service providers (Dekker et al., 2020). Outsourcing services such as cleaning, extra kitchen staff, banquet, and entertainment services, supports hotels in meeting urgent needs or short-term capacity problems. Hotels then become strategically positioned to meet the market service demand, regardless of its fluctuations (Ibrahim et al., 2023).

Despite the benefits of outsourcing, it may negatively affect firm performance if not well managed (Lee et al., 2019). For example, outsourcing critical activities such as room service may hurt hotel performance (Espino-Rodriguez & Ramirez- Ferro, 2017). In addition, overdependence on external service providers may lead to a loss of control and can limit the innovative capabilities of a hotel (Visentin et al., 2021). There is the likelihood of lacking the knowledge of outsourced suppliers' work (Espino-Rodriguez & Ramirez- Ferro, 2017). Outsourcing also replaces existing hotel staff in some instances when a service is already in existence and this may hurt performance (Edvardsson & Óskarsson, 2021). Proper outsourcing governance is necessary if a hotel is to have access to these complementary capabilities of external providers ( Espino-Rodríguez, 2023; Khan *et al.*, 2022). Outsourcing transactions involve costs and are likely to increase when the management of transactions becomes harder (Schepker et al., 2014). This hurts the expected level of performance. Outsourcing governance encompasses all marketing activities directed toward establishing, developing, and maintaining successful transactions (Morgan & Hunt, 1994). It spans economic and social interventions required for relationship survival. Economic interventions manage transactions through the exchange, while social interventions facilitate the smooth interaction of economic agents (Espino-Rodríguez, 2023). Outsourcing governance entails contractual and relational governance (Roehrich et al. 2020).

Contractual governance implies formal, well-written, legally binding administration arrangements for implementing the party's roles and obligations (Zou *et al.*, 2019). It specifies what is and is not allowed (Schilke & Lumineau, 2018). It harmonises relationships through a clear statement of measurements, the communication channel and method, conflict arbitration, and penalties and rewards (Goo et al., 2009; Zou *et al.*, 2019). The ability to measure performance facilitates the supplier's effort to meet their obligations (Zou *et al.*, 2019). The conflict arbitration plan sets timetables for resolving issues, describes processes for interaction, and the practices and conduct rules for resolving emerging conflicts and minimising behavioural contradictions in a relationship (Schilke & Lumineau, 2018). The communication plan forms a basis for modifying contract specifications and facilitates a joint problem-solving approach ( Huo *et al.*, 2016; Zou *et al.*, 2019). It flexibly guides future uncertainties, promotes innovative thinking and cooperative framing, and joint resolution of inter-firm disputes (Zhang *et al.*, 2017). The enforcement plan ensures the balanced sharing of relationship burdens and benefits (Goo et al., 2009). This facilitates the coordination of the required resources to the business model and ensures compliance with performance goals (Wacker *et al.*, 2016; Zou *et al.*, 2019). This study considered communication, measurement, conflict arbitration, and enforcement plans as lower-order constructs of contractual governance. This measurement approach for contractual governance has been used before by previous (Lumineau & Oxley, 2012; Peng et al., 2023).

On the other hand, relational governance implies unwritten, non-contractual, work-based controls designed to influence inter-organizational behaviour (Macneil, 1980). They are informal and manifest in socially derived arrangements Chun-Lai *et al.*, 2019; Roehrich *et al.*, 2020). They include; communication, knowledge sharing, trust, relational norms, client-provider interface

design, commitment, cooperation, and client-provider alignment (Lacity *et al.* (2016). Qi and Chau (2015) revealed trust, commitment, knowledge sharing, and communication while Espino-Rodríguez and Ramírez-Fierro (2018) identified confidence, commitment, business understanding, shared benefits and risks, and conflict resolution as components of partnership quality that lead to performance. Qian *et al.* (2021) found a consensus among researchers that relationship quality is a second-order construct capturing different but related facets. This study viewed relational governance as a daily routine process of social instruments that guide a relationship into performance. This study conceptualized relational governance as a second-order construct made up of relational norms (Heide & John, 1992), communication (Zou *et al.*, 2019; Mu *et al.*, 2023; Qi & Chau, 2015), conflict resolution (Lacity & Willcocks, 2017; Cai *et al.*, 2022), and knowledge and information sharing (Li *et al.*, 2020; Qian *et al.*, 2021).

The link between outsourcing governance and performance has been a subject of interest among scholars. There are diverse interpretations and hence definitions for performance (Taouab & Issor, 2019). For example, according to Adam (1994), performance is related to employees' performance quality resulting from knowledge, and skills to enhance their adaptation to the environment. Firm performance results from the motivation and satisfaction of its members to embrace innovation, production, market, and financial performance (Ferreira *et al.*, 2020). Performance in a hotel is achieved through multiple operating inputs from various relationships that include price, fixed costs, and management systems (Kim *et al.*, 2022). The performance benefits of outsourcing were categorized by Kedia and Lahiri, (2007) as tactical, strategic, and transformational. Performance results from cost reduction and quality improvement through labour arbitrage (Gunasekaran *et al.*, 2015). A hotel performs if it remains locally responsive to changes in the global environment and concentrates on its core competencies (Alonazi, 2017; Espino-Rodríguez & Rodríguez-Díaz, 2014). Suppliers act as allies to a hotel in increasing its market share and competitive advantage (Kedia & Lahiri, 2007). Since hotels outsource to meet different goals, performance is reflected in their ability to achieve pre-determined goals before undertaking an outsourcing strategy. Thus operational performance, financial performance, and overall satisfaction with the quality of the outsourcing relationship were used as measures for hotel performance due to outsourcing (Chun-Lai *et al.*, 2019; Espino-Rodríguez *et al.*, 2017; Saunders *et al.*, 1997).

The literature review points to inconclusive evidence on whether it is necessary to employ both contractual and relational governance in outsourcing governance. This observation could be linked to academic research having concentrated in developed countries with China, England, the USA, Spain, and Australia, dominating in the hospitality context (Roehrich *et al.* 2020; & Li *et al.*, 2021). Industrial-specific differences, also play a role yet the hotel sector has received little attention. For example, hotels have unique operational characteristics that range from higher customer-to-staff ratios, customised person-to-person interactions, diverse amenities, and numerous products within a limited space (Kim *et al.*, 2022). The nature of outsourced resources, the value attached to the outsourced resources, and the certainty of the outsourcing goals, have implications on the substitution or complementarity of contractual relational governance (Lioliou, 2014). The current study argues that such characteristics vary from one industry to another. There are also a few studies that examine the structure of governance choices and link them with performance (Qian *et al.*, 2021; Roehrich *et al.*, 2020). Performance outcomes are likely to determine the nature of the relationship between contractual and relational governance (Cao & Lumineau, 2015; Kranz, 2021). Additionally, the measures of formal and informal governance mechanisms are fragmented across

studies with single, multiple variables differing from study to study (Lioliou et al., 2014; Qian et al., 2021). To address this fragmented measure, some studies advocate for higher-order constructs with underlying lower-order constructs (Crocetta et al., 2021; Jiang et al., 2016). This study thus investigated the complementarity and substitutability of contractual and relational governance in managing outsourcing in a hotel context of a developing country, guided by three objectives. The first was to test for the mediating effect of relational governance on the relationship between contractual governance and hotel performance due to outsourcing. The second involved testing the mediating effect of relational governance on the relationship between contractual governance and hotel performance. Finally, the study tested the interaction effect of contractual and relational governance on hotel performance due to outsourcing.

The study contributes to the existing literature on the relationship between contractual and relational governance. There has been limited knowledge and inconclusive findings on whether the governance mechanisms can be employed independently or jointly in managing hotel outsourcing. This kind of debate remains relevant in academic research in marketing and management because outsourcing governance is costly and its efficiency is important for maximisation of expected outcomes (Sheng et al. 2018). Hotel managers were guided on how contractual and relational governance can work together for better outsourcing relationships. In addition, there has been limited application of hierarchical component models in social research (Crocetta *et al.*, 2020). The use of higher-order constructs allowed the extraction of more information from outsourcing management components and their relationship with hotel performance.

## **Theoretical Background and Review of Literature**

### **Theoretical Background**

The complex nature of outsourcing governance that entails economic and social factors demands an integration of more than one theory. For example, according to the transaction cost economic theory, contracts are governance structures that minimize transactional costs that might arise from opportunistic behaviour or lack of adaptation of the contracting parties (Schepker et al., 2014; Williamson, 1985). The theory is based on cost efficiency to determine whether to outsource and ensure adherence to obligations, however, it fails to explain why some relationships continue to exist without formal contractual obligations. The theory ignores the role of relational governance attributes. The theory was complemented by relational contracts theory which argues that exchanges go beyond economic transactions and encompass all forms of social interactions (Macneil, 1980). The agency theory on the other hand acknowledges the existence of partner conflict from the interaction of agents and principals. This conflict must be resolved for a relationship's success, formally and informally (Jensen & Meckling, 1976). Conflict is likely to give rise to opponent-centered behaviour, which can slow decision-making (Cai *et al.*, 2022; Lacity & Willcocks, 2017). The theory argues that developing complete contracts and investing in information systems that facilitate communication for goal alignment and knowledge and information sharing reduces information asymmetry (Eisenhardt, 1989). Information asymmetry creates knowledge monopoly, moral hazard, or adverse selection that negatively affects performance (Li *et al.*, 2020; Qian et al., 2021). Transaction cost economics theory was the leading theory that informed this study because hotel outsourcing involves cost comparisons. Ideally, a hotel outsources if the cost of running an outsourced service is cheaper than if carried out by in-house staff.

### **The interplay between Relational Governance and Contractual Governance on performance**

A number of studies reveal contradictions in the complementarity and substitutability roles of relational and contractual governance in managing business to business relationships. In Poland, Czernek et al. (2017) utilized a qualitative case study design and collected data from tourist entrepreneurs selected from different sectors of the travel and tourism supply chain. Results revealed that trust and formal contracts are not necessarily substitutes but also complement each other depending on the situation at hand. Partners that had engaged before were more likely to opt for relational governance. This was in line with an earlier observation by Liouliou et al. (2014) through a case of a major commercial bank in the United Kingdom that contractual governance substituted relational governance when there was a change in the workforce and in times of difficulty. Relational governance substituted contractual governance in situations of vagueness in roles and obligations, bureaucratic delays, rigidity in formal contracts, in difficult times, and when there is a need to adjust clauses to match changes in project design or environment. Complementarity is possible when partners are in difficult situations. Thus Abdi and Aulakh (2017) concluded that the relationship between contractual governance and relational governance depends on the characteristics of the partnership. Such an observation seems to imply that this relationship must always be tested empirically.

Zhang and Jin (2020) using buyer-supplier dyads across large manufacturing firms in China found that Contractual definability complements relational governance while contractual enforceability substitutes relational governance in influencing supplier performance. Higher levels of legal development pushed contractual definability and relational governance into more substitutes than complements. These findings support the view held by other researchers that the two governance mechanisms can have a conflicting relationship. Contractual governance can damage relational governance (Heide & John, 1992) as formal controls signal distrust and expectation that the partnership will not be reciprocal (Abdi & Aulakh, 2017). Also, trust can make contracts redundant (Gulati & Nickerson, 2008). Yet other scholars such as Czernek et al. (2017) argue that contracts do not merely signal distrust but are to meet other factors such as accounting requirements or points of reference. Abdi and Aulakh (2017) investigated the effect of contractual governance on relational governance under consideration of environmental and behavioral uncertainty in cross-border inter-firm relationships in the US. Environmental uncertainty drives the formal and relational arrangements into a more substitutive than a complementary relationship. In the current study, we argue that these uncertainties vary by region, sector, or level of development and therefore call for an empirical investigation. We advance these findings by considering hotel performance due to outsourcing in a developing country context.

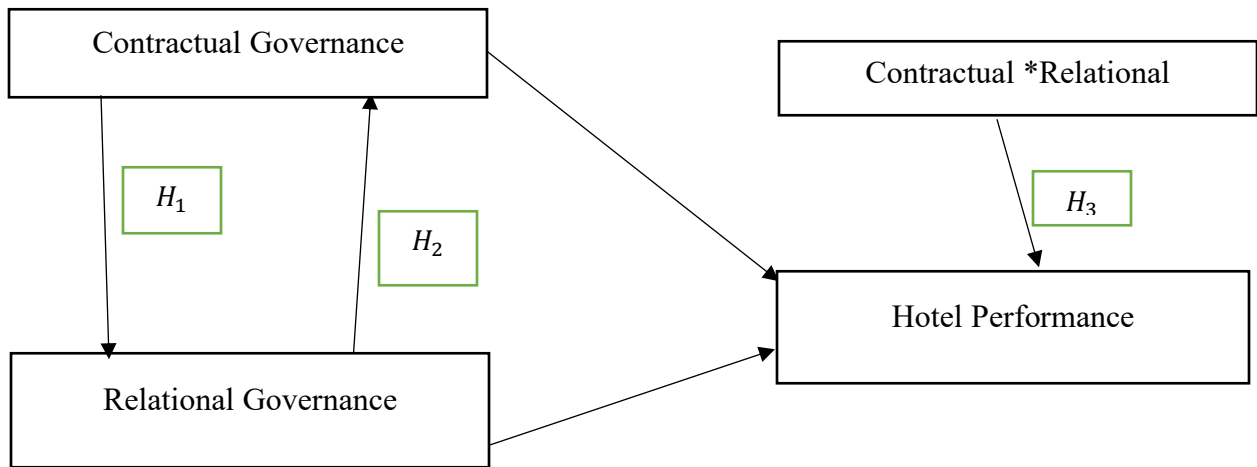
Since it is difficult to foresee all future contingencies to a relationship at the onset of the contract (Klijn & Koppenjan, 2016; Schilke & Lumineau, 2018) there is a possibility of complementarity. Contractual governance may prove inadequate in managing outsourcing relationships if it prevails in a context with underdeveloped legal systems (Wang *et al.*, 2019). Relational governance is not legally binding in case of opportunistic behaviour and its effect on performance is negatively affected by environmental uncertainties in the market (Niwamanya & Jani, 2024). Partners may use relational governance to fill the voids from formal contractual governance to increase the chances of relationship survival and safeguard specific investments from premature and costly termination (Poppo & Zenger, 2002). Indeed some studies support this view. Howard et al. (2019)

based on data from the relationships between the UK defense ministry and two contractors as cases in a longitudinal study demonstrated that contractual and relational governance complement each other in a function-dysfunction mode. They argued that complementary governance occurs when both contractual and relational governance are functional. It was also observed that there can be a negative complementary relationship where the positive effects of one are reduced by the dysfunctions of the other. This observation rimes with the findings of Akkermans et al. (2019), Mu et al. (2023), and Nullmeier et al. (2016) who find this complementary relationship between contractual governance and relational governance. Kranz (2021) investigated the differential and interaction effects of contractual and relational governance mechanisms on relationship learning and joint innovation. The study was based on senior-level IT employees of firms with a vendor on strategic innovation in the United States, United Kingdom, and Germany. Relational governance was measured by goodwill trust, norms of reciprocity, and social interaction ties such as communication while contractual governance was measured by profit sharing, long-term orientation, and contractual flexibility. The results revealed an inverted U-shaped relationship between governance mechanisms and joint innovation. There is an additive complementary relationship between governance mechanisms and relationship learning. There was no evidence of the governance mechanisms acting as substitutes.

Beulen et al. (2022) through an exploratory case study, investigated how formal and relational governance are used to manage information systems outsourcing. The results revealed that contractual and relational governance are complementary especially when the partners develop the tools together. These findings support Cao and Lumineau, (2015) through a meta-analytic study based on outsourcing governance studies, mainly from China and the USA. Cao and Lumineau, (2015) revealed that governance mechanisms complement than substitute each other. Other researchers contend that the relationship between contractual and relational governance oscillates between being substitutes and complements over time (Huber et al., 2013). Studies that include relationship conditions have indicated that with environmental uncertainty, continuous use of contractual or relational governance may undermine the effectiveness of the other (Abdi & Aulakh, 2017). This review reveals a lack of scholarly consensus on the relationship between the two governance mechanisms despite the cost of jointly employing them. The current study attributes it to contextual and variable measurement differences. This study therefore investigated the relationship between contractual and relational governance and linked them with performance outcomes.

### **Research Model**

In Figure 1, it is expected that both contractual and relational governance exert positive effects on hotel performance due to outsourcing. Relational governance mediates the effect of contractual governance on hotel performance via the link H<sub>1</sub>. Contractual governance mediates the effect of relational governance on hotel performance via the link H<sub>2</sub>. The interaction of the two governance mechanisms is also postulated to positively influence hotel performance via the link H<sub>3</sub>.



**Figure1: The Research Model**

Source: Synthesis from Literature Review

### Methodology

This study thus investigated the complementarity and substitutability role of the two outsourcing governance mechanisms in a hotel context. The study was based on secondary data collected by Niwamanya and Jani (2024) from Uganda hotel managers. The study's observations were captured using numbers on a 7-point Likert scale, an ordinal scale measure. It is argued that increasing Likert-scale points support multivariate analysis as they approximate continuous data (Wu & Leung, 2017). This scale of measurement has been successfully used by previous research in hotels producing acceptable reliability values (Chun-Lai *et al.*, 2019; Paulssen *et al.*, 2016). Hotel performance was conceptualised as a higher-order reflective construct from financial performance, operational performance, and overall satisfaction. The performance components were measured using the hotel manager's perceptual attributes of the suppliers' services. Previous research has demonstrated that buyer's perception is a consequence of the supplier's actual performance (Lee *et al.*, 2019). Both perceptual and objective performance measures converge to the underlying concept of performance and are positively related (Lee *et al.*, 2019). Contractual governance was conceptualized as a higher-order formative construct from a communication plan, measurement charter, conflict arbitration charter, and enforcement plan (Goo *et al.* (2009). Relational governance was conceptualised as a higher-order reflective construct using communication (Downs & Hazen, 1977), information and knowledge sharing, relational norms (Heide & John, 1992), and conflict resolution (Goo *et al.*, 2009).

Cross-sectional survey data were collected from 175 out of the 305 hotels in Uganda using a structured questionnaire. Only star-classified hotels registered with the Uganda Hotel Owners Association were visited. The data was cleaned and care was taken to ensure the reliability and validity of the findings. It was then analyzed to obtain both descriptive and inferential statistics. At the descriptive level, the data was analyzed and presented using frequency tables. At the inferential level, a hierarchical component model was fit using covariance-based PLS-SEM with SmartPLS (3.2.9) as an analytical tool. Path weighting was used because it produces the best parameter recovery in formatively specified HOCs compared to factor and centroid weighting schemes (Becker *et al.*, 2019). A two-stage disjoint approach was used to estimate HOC in this study as recommended by Sarstedt *et al.*, (2019) and Becker *et al.*, (2019). A reliability test was

carried out as recommended by Saunders *et al.* (2019). Internal consistency was tested using a composite reliability index instead of Cronbach's alpha reliability index, which would otherwise lead to an underestimation of internal consistency reliability (Hair *et al.*, 2014). Following an iterative process, the indicators whose outer loadings were above 0.4, when the average variance extracted (AVE) was above or equal to 0.5, were retained for the constructs (Chin, 1998; Becker *et al.*, 2023). Convergent validity was established based on the (AVE  $\geq$ 0.5). The resultant summary is presented in Table 1 below. Convergent validity was of concern for formative constructs. It was assessed using redundancy analysis (Chin, 1998) based on correlation values ( $\geq$ 0.7) of the construct dimensions with a global reflective item of the construct. Results presented in Table 1 show that all dimension-to-construct correlations were significant and the correlation between the HOC, contractual governance, and its reflectively measured construct (GlobalCg) is higher than 0.708, thus providing evidence for convergent validity (Chin, 1998, Hair *et al.*, 2019).

**Table 1: Results for Assessment of Convergent Validity of Contractual Governance as a Formative Higher-order Construct**

Construct	Latent CG score	CA	CP	EP	MC
Global CG	0.740**	0.47**	0.63**	0.43**	0.67**

**Source:** Smart PLS output

Note: \*\* implies correlation is significant at a 1% level of significance

The discriminant validity for the lower-order constructs was based on the higher-order construct's AVE greater than 0.5 following the guidelines of Sarstedt *et al.* (2019). For the general model, discriminant validity was assessed using the Hetero-Trait Mono-Trait (HTMT) criterion because it is more sensitive than the Fornel-Larcker criterion and cross-loadings (Henseler *et al.*, 2015). The significance of HTMT ratios was obtained by bootstrapping using 10000 bootstrap subsamples (Becker *et al.*, 2023). HTMT values were significantly different since the upper limits of the bias-corrected and accelerated confidence intervals were below one (Hair *et al.*, 2021; Ringle *et al.*, 2020). Based on the variance inflation factor (VIF $\leq$ 3) as recommended by Hair *et al.* (2014), there was no evidence of multicollinearity.

**Table 2 Reliability and validity tests**

	CR	AVE	HTMT	VIF
Hotel Performance	0.87	0.69		
Contractual governance	1.00			1.54
Relational governance	0.83	0.55	0.57	1.75
Interaction			0.46	1.33

## Analysis and Interpretation of Findings

### Background Characteristics

Background characteristics provide a descriptive summary of the nature of the hotels visited. Results in Table 3 show that the majority (62.9%) of the respondents were male. The sector offered a relevant sample that is representative of both gender perspectives. In addition, most respondents had attained a bachelor's degree level of education (65.1%). The education level of managers informed the study on managers' knowledge of outsourcing management and performance attributes. Most hotels had been with their service providers for 4 to 6 years (41.1%). The hotel sample is representative in providing information on experience with outsourcing. Ugandan hotels



majorly outsource security services (69.1%). Other outsourced services include waste disposal, marketing, transport, medical insurance, and finance and revenue management. The information on outsourced services provided evidence of outsourcing in Ugandan hotels.

**Table 3: Background Characteristics of the Sample**

	Characteristic	Frequency	Percentage
Gender	Male	110	62.9
	Female	65	37.1
Level of Education	Certificate	4	2.3
	Diploma	31	17.7
	Degree	114	65.1
	Masters	24	13.7
	PhD	2	1.1
Duration of the Service Provider (years)	Less than 2	16	9.1
	2 to 4	48	27.4
	4 to 6	72	41.1
	Above 6	39	22.3
<b>Outsourced service</b>			
	Events management	26	14.9
	Waste disposal	94	53.7
	Human resource management	32	18.3
	Internet	30	17.1
	Marketing	17	9.7
	Medical services	12	6.9
	Repair and maintenance	46	26.3
	Revenue management	38	21.7
	Security	121	69.1
	Transport	49	28.0

Source: Field data (2022).

### **Bivariate Relationship between Contractual and Relational Governance, and Hotel Performance**

Results in Table 4, reveal that contractual and relational governance have a moderate positive relationship with hotel performance due to outsourcing with correlation coefficients of 0.598 and 0.662, respectively. There also exists a positive relationship between relational governance and contractual governance at a 5% level of significance ( $r=0.553$ ).

**Table 4: Pearson Correlation Coefficient between Contractual Governance, Relational Governance, and Hotel Performance**

	Pearson Correlation Coefficient		
	Hotel Performance	CG	RG
Hotel Performance	1.000	0.598**	0.662**
CG	0.598**	1.000	0.553**
RG	0.662**	0.553**	1.000

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

### Structural Equation Model for Testing for Interaction or Complementarity of Contractual Governance, and Relational Governance

The fitness of the model to the data was assessed, and the results in Table 5 below show that the governance mechanisms explain 50% ( $AR^2=0.50$ ) of the variance in hotel performance due to outsourcing. The independent variables have a combined moderate predictive power ( $Q^2_{predict} = 0.35$ ) of hotel performance in the model consistent with Chin (1998) and Hair *et al.* (2021). According to Chin (1998), contractual and relational governance exert a small ( $f^2 = 0.12$ ), and medium ( $f^2 = 0.23$ ) effect respectively on hotel performance. The PLS model was better since it had a smaller root mean square error (RMSE) than the linear model. Further, the stability of the model was checked using the finite mixture partial least squares (FIMIX-PLS) segmentation to uncover unobserved heterogeneity in the inner model that would otherwise affect the magnitude of the estimated coefficients (Becker *et al.*, 2013; Sarstedt *et al.*, 2020). Results in Table 5 show that the first segment contains the minimum values of CAIC, BIC, and MLD5. The results indicated that the data should be analysed as one segment and there was no evidence of unobserved heterogeneity. Overall, the model fits the data well (Hair *et al.*, 2021).

**Table 5: Model Robustness Test for Unobserved Heterogeneity**

	1	2	3	4	5
BIC (Bayesian Information Criteria)	827.38	840.21	836.66	859.49	868.10
CAIC (Consistent AIC)	833.38	853.21	856.69	886.49	902.10
HQ (Hannan Quinn Criterion)	816.09	815.76	799.07	808.70	804.14
MDL5 (Minimum Description Length with Factor 5)	951.33	1108.78	1249.87	1417.28	1570.5
EN (Entropy Statistic (Normed))		0.33	0.72	0.69	0.87
NFI (Non-Fuzzy Index)		0.38	0.71	0.64	0.84
NEC (Normalized Entropy Criterion)		117.792	49.096	54.44	22.92

The first and second hypotheses were tested using mediation analysis. According to Preacher and Hayes (2008), a major requirement for mediation to occur in PLS-SEM is the presence of a significant indirect relationship. Previous scholars (Baron & Kenny, 1986; Preacher & Hayes, 2008; Gannon *et al.*, 2020) identify three types of mediation effects in PLS-SEM: full mediation, partial mediation, and non-mediation. Full mediation occurs when the direct relationship between variables is not significant but the indirect effect through a mediator is significant. Partial mediation occurs when there is both a direct and indirect relationship between variables. Non-mediation occurs when the indirect relationship is not significant (Preacher & Hayes, 2008; Nitzl *et al.*, 2016).

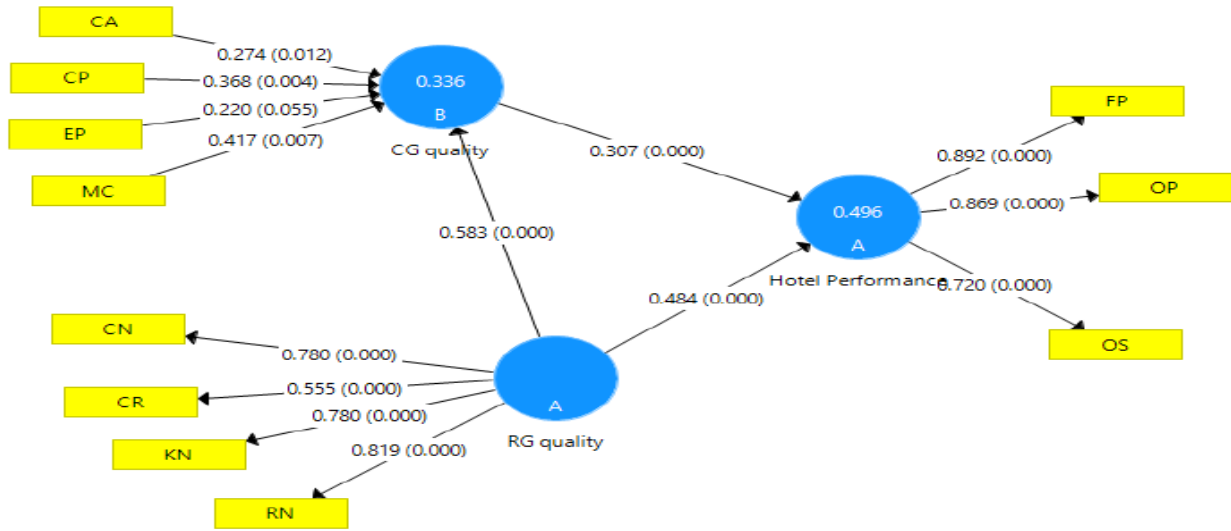


Figure 3a: Mediation Effect of Contractual Governance on the Relationship between Relational Governance and Hotel Performance

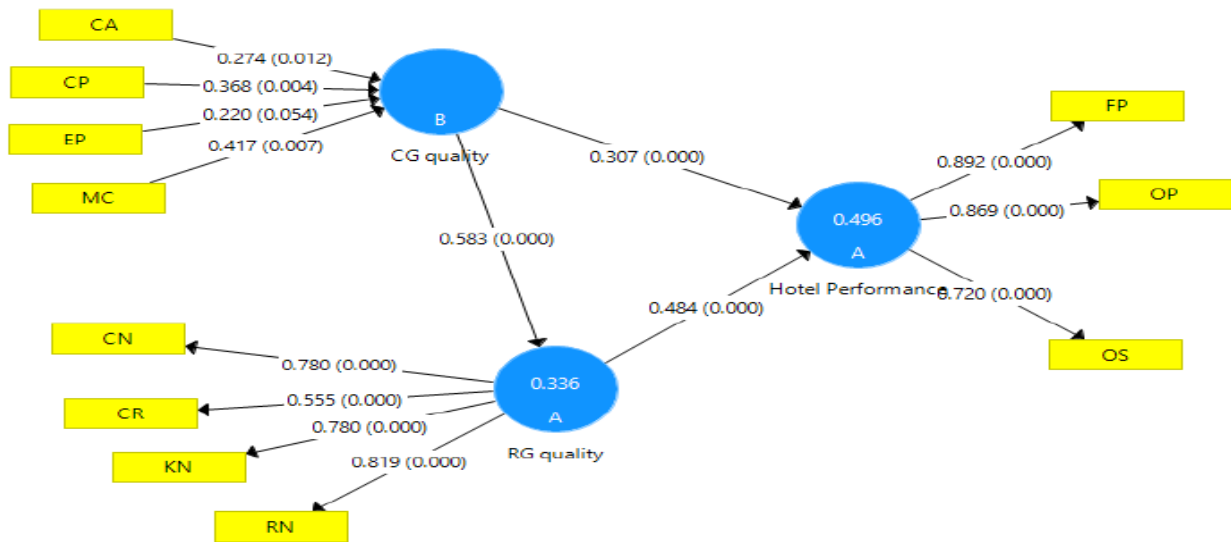


Figure 3b: Mediation Effect of Relational Governance on the Relationship between Contractual Governance and Hotel Performance

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he results in Table 6, indicate that governance mechanisms partially substitute each other. They exhibit complementary partial and not competitive partial mediation (Baron & Kenny, 1986). They are therefore partially substitutes and partially complements. Contractual governance cannot fully substitute relational governance and vice versa. Some relational elements such as information sharing may help to overcome the negative effects of outcome uncertainty, a contractual governance component, on supplier performance (Nullmeier et al., 2016). Also, the pre-contractual relational governance can easily facilitate formal contractual governance (Mu et al., 2023) by reducing procedural uncertainties, thereby helping the partners design an elaborative contract

through negotiation. A relational governance component of communication may be a medium for reducing ambiguities in assigned tasks and aligning relationship goals to resolve a pending conflict (Mu *et al.*, 2023). The marginal effect of a conflict arbitration plan, as a contractual governance component, on hotel performance depends on shared knowledge and information. Contractual governance quality is important in establishing data gathering and transformation processes by facilitating communication and information transfer (Aben *et al.*, 2021). The third hypothesis was achieved by testing the interaction effect through moderation analysis. This study involved a hierarchical component model, and the moderation test was carried out using a two-stage algorithm (Hair *et al.*, 2019). There is no interaction effect of the two governance mechanisms at a 5% significance level (Hair *et al.*, 2021).

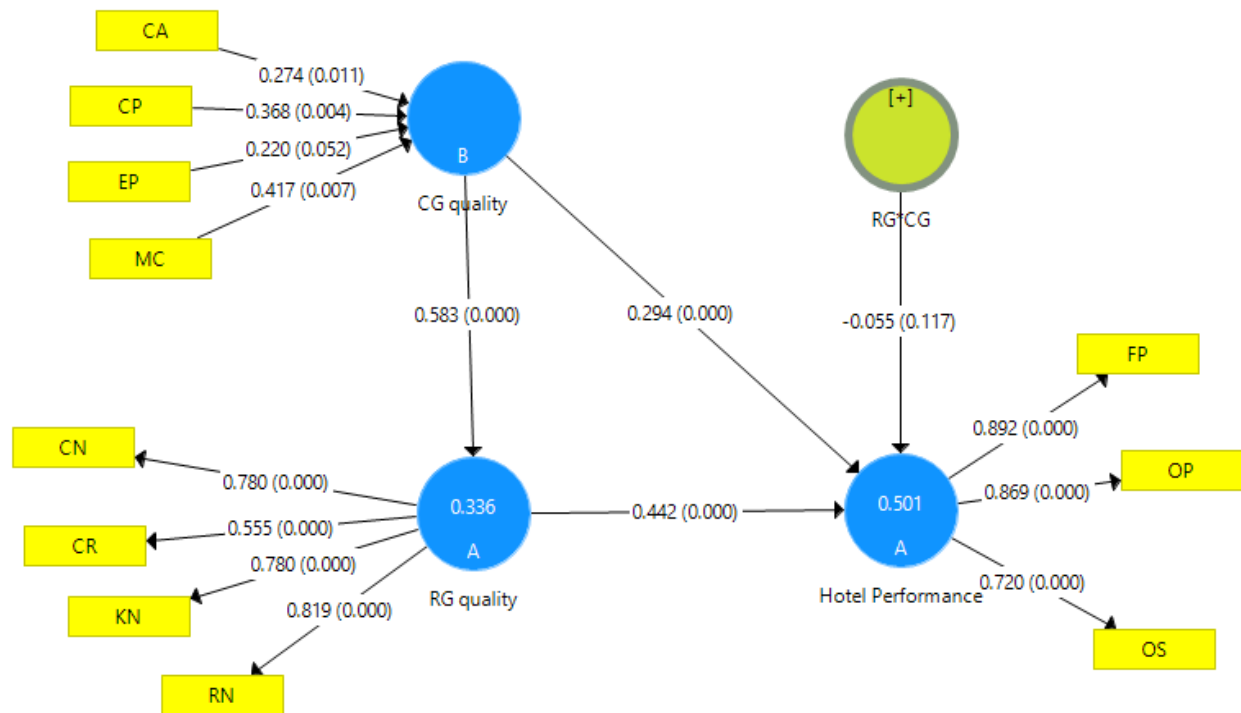


Figure 2: Relationship between Contractual Governance, Relational Governance and Hotel Performance

**Table 6: Testing for substitutability or Complementarity of Contractual and Relational Governance**

	$\beta$	T	Bias	CI	$f^2$
DV: HP					
Direct					
CG -> HP	0.29*	4.45	0.01	0.17-0.40	0.12*
CG -> RG	0.58*	8.46	0.01	0.45-0.68	0.52*
RG -> HP	0.44*	5.83	0.00	0.50-0.72	0.23*
Interaction					0.02
RG*CG -> HP	-0.06	1.19	-0.01	-0.14-0.00	
Indirect					

CG -> RG ->HP	0.26*	4.46	0.00	0.17-0.34	
RG -> CG ->HP	0.17*	3.84	0.00	0.10-0.25	
Fit Indices	$AR^2 = 0.50$ RMSEpls=0.822 $Q^2_{predict} = 0.35$ RMSElin=0.932				

Source: Smart PLS output

### Conclusions and Implications

This study investigated the complementarity and substitutability role of the two outsourcing governance mechanisms in a hotel context through quantitative research. There was evidence that outsourcing is practiced in Ugandan hotels with the majority outsourcing security and garbage collection services. This points to the observation by other scholars that, the outsourced services are those that are peripheral and are not connected to other jobs (Espino-Rodríguez & Ramírez-Fierro, 2018; Lysons & Farrington, 2016). Both contractual and relational governance positively affect hotel performance due to outsourcing. the two governance mechanisms have a partial mediation effect on each other in this relationship and therefore do not fully substitute each other. This reveals that neither contractual nor relational governance can completely substitute or complement the other for better performance of hotels due to outsourcing. Some elements cannot be substituted or complemented in outsourcing relationships. The two mechanisms compensate each other in outsourcing relationship governance for hotel performance.

The study contributes to existing knowledge on the interplay of outsourcing governance mechanisms for performance arguing that they are partially substitutes and partially complements. These findings are in support of previous scholars who have found the relationship between governance mechanisms to vary depending on prevailing circumstances for example on the nature of outsourced resources, the value attached, and the level of certainty of outcomes (Lioliou et al., 2014), previous experience with the partner (Panda et al., 2020), and duration of the partnership (Howard et al., 2019; Ngah & Dekker, 2024). The study provides guidelines for managing outsourcing in Uganda hotels. Since the two outsourcing governance mechanisms do not fully substitute each other in the hotel context, hotel managers should continue to employ both in managing outsourcing relationships. Hotel managers should be keen to identify the points of weakness of a given outsourcing management mechanism and flexibly substitute or complement it with another for sustainable relationships. The study demonstrated the role of transaction cost economics theory, agency theory, and relational contracts theory in outsourcing governance in the hotel context. This was achieved by extending the hierarchical component modeling methodological approach to outsourcing relationship management. The study thus tried to provide input to the calls of previous scholars who advocate for the use of higher-order constructs with underlying lower-order constructs to generate more information (Crocetta et al., 2021; Qian et al., 2021). This kind of modeling has been lacking in previous studies.

### Limitations and Recommendations for Future Research

Outsourcing relationships in this study were approached from the perspective of hotels, in this case, buyer firms with little consideration of the suppliers. This approach could have impacted the completeness of the collected information. The future research implication, thus, is that the current study can be replicated in the same context but considering both the buyer and vendor in capturing the attributes. It is also acknowledged that relationships grow over time (Panda *et al.*, 2020; Selviaridis & Spring, 2018; Ngah & Dekker, 2024)). Contractual and relational governance qualities tend to be mutually constituted over time (Howard *et al.*, 2019). The growth over time is

due to partner interaction through mutualism, commensalism, or competition (Fischer *et al.*, 2012) and their time-based dynamics (Panda *et al.*, 2020). The scope of this current study, which was cross-sectional in its design, could not allow testing for time variation, which could have affected the outcome. A longitudinal study can be carried out to capture variations due to time for more information.

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