

## Chapter 8

### CONTRACTUAL GOVERNANCE MECHANISMS, DYNAMIC CAPABILITIES, TRANSACTIONAL SPECIFIC RELATIONSHIPS AND SUPPLIER PERFORMANCE IN UGANDA

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#### INTRODUCTION

The Public Procurement and Disposal of Public Assets Authority (PPDA) were established in Uganda in 2003 to promote public interest by regulating and monitoring public procurement processes of Procuring and Disposing Entities (PDEs). As part of routine compliance monitoring, the Public Procurement and Disposal of Assets Authority (PPDA) has been conducting annual procurement audits since 2005. In 2012, PPDA conducted 329 audits in 221 procuring and disposing entities. Findings of these Audits coupled with a stream of research continue to reveal poor supplier performance evidenced in terms of deviations from the contractual obligations e.g. cost, delivery time, deliveries not conforming to specifications and poor quality of products, services and works (Ntayi, Eyaa, Zeija & Rooks, 2011).

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Worse still, suppliers continue to think less of end users and shirk their contractual obligations (Ntayi, Rooks, Eyaa & Zeija, 2013; Inspector General of Government, 2010; Inspectorate General of Government, 2015). Whereas a budding number of researches propose insightful explanations for supplier performance, theory testing, data limitations, and absence of comprehensive studies drawn from various contexts still restrain against across-the-board generalizations (Mugabi, Otengei, Kasekende & Ntayi, 2015). The main purpose of the study is to test the extent to which the dynamic capability theory explains supplier performance. The study employs a cross sectional research design using a sample size of 120 Central Government Procuring and Disposing Entities (PDEs) in Kampala and 240 service providers (suppliers). Results reveal that Transaction Specific Relationship and dynamic capabilities were significant predictors of supplier performance explaining 14.9% of the variance. However, contractual governance mechanisms was not a significant predictor of Supplier Performance. These results have implications for theory and practice, which we discuss in the chapter.

## BACKGROUND

Public Sector Procurement is a key area used for growth and socioeconomic transformation (Brookshaw & Teriovski, 1997; WTO, 2013). Globally, the public procurement spends for many countries has continued to increase, signifying the role public procurement plays in a country's economic growth and development. Efficient and effective public procurement may promote rapid economic growth while keeping both unemployment and inflation low. Additionally, governments can promote public interest by using procurement as a macro-economic tool (Revised PPDA Act, 2014; ICAEW, 2012). Locally, Uganda spends more than 65% of her budget on public procurement (Background to the Budget, 2012; Background to the Budget, 2015). Scholars have argued for the implementation of sound public procurement policy (Mujabi et al., 2015) in order to bring immediate and tangible macroeconomic benefits, where more cost-effective procurement relaxes budgetary pressure and creates fiscal space.

Despite the introduction of PPDA Act in 2003, the government of Uganda has not effectively and efficiently utilized procurement as a macro-economic tool, yet procurement can have a substantial role to

play in achieving the growth of the economy. Government inefficiencies can be traced in failure to articulate the concept of public interest, weak contractual governance mechanisms, dynamic capabilities, unclear transactional specific relationships to mention but a few. These issues have become of utmost necessity to pay attention to, since the Procuring and Disposing Entities (PDEs), regulators, suppliers and others interact in the course of going about their own business either in pursuit of “their own interest” or “public interest”. In order to perform procurements, PDEs use a number of procurement methods e.g. Open International Bidding, Restricted International Bidding, Open Domestic Bidding, Restricted Domestic Bidding, Request for Quotations, Micro Procurement and Direct Procurement. These procurement methods define the size and degree of participation for foreign or local suppliers in public procurement. Whereas, local suppliers are recognized as vital drivers of growth and innovation, their participation in public procurement remains low. For example, a small proportion of SMEs are able to effectively tender for work and win contracts leaving a much larger proportion of firms unable to successfully integrate tendered contracts into their revenue streams (Access to the Public Procurement Market, March 2011). Most of the SMEs that have managed to access public procurement have done so through Micro Procurement, Restricted Domestic Bidding and Request for Proposal.

Supplier performance in Uganda remains a big challenge for public sector (Matovu, 2013; Ntayi, Eyaa, & Semukono, 2012). Available evidence reveals that most suppliers display opportunistic behavior by failing to fulfill their contractual obligations (Ntayi, Rooks, Eyaa, & Qian, 2011). Charging high prices for shoddy or none existent products and/or services supplied, poor quality services and products and late deliveries are a common phenomenon. Worse still, suppliers think less of end user (Ntayi, Namugenyi & Eyaa, 2010) and display high levels of contract violations (Office of Inspectorate of Government, 2010). This state of affairs is changing the landscape of PDE’s perception towards local suppliers and shifting preference for contracting big serious suppliers in order to reduce costs, increase flexibility, access better expertise, and improve quality and delivery (Ahimbisibwe, 2014). Whereas a budding number of researches propose insightful explanations for supplier performance, theory testing, data limitations, and absence of comprehensive studies drawn from various contexts still restrain against across-the-board

generalizations. The main purpose of the study is to test the extent to which the resource based, dynamic capability and transaction cost theories explain supplier performance.

The *Access to the Public Procurement Market Report* (2011) cites resource constraints and lack of capacity as constraints to supplier performance. However, we note that some of the suppliers exhibiting poor performance have considerable resources at their disposal to execute their contractual obligations. This perspective doesn't explain how resources help the supplying firms to survive in the dynamic environment. Besides, anecdotal evidence suggests that their procurement personnel have gone through 'continuous professional development'. This makes us to question as to whether the observed poor supplier performance is a function of resources or lack of dynamism in the available resources. A dynamic capability refers to "the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments" (Teece, Pisano, & Shuen, 1997, p. 516) while "organizational competencies" refers to "patterns of current practice and learning" (Teece, Pisano, & Shuen, 1997, p. 518), through which "firm-specific assets are assembled in integrated clusters spanning individuals and groups" (Teece, Pisano, & Shuen, 1997, p. 516). The present configuration of resources in the supplying firms may be responsible for the increased pre and post transaction costs. As noted by Helfat and Peteraf (2003), firms aiming at better supplier performance need to continuously alter their resource base to take advantage of the attractive arenas in the wider supplier market. Adaptive capabilities in public procurement include but not limited to abilities to network, negotiate, use information to one's advantage, innovative bidding. This could open new strategic alternatives or "paths" for the firm through improvements in transaction specific relationships. This is possible because Eisenhardt and Martin (2000, p. 1107) have noted that dynamic capabilities are "the firm's processes that use resources ... to match and even create market change." When dynamic capabilities are looked as processes it includes product development routines, alliance and acquisition capabilities, resource allocation routines, and knowledge transfer and replication routines.

Since SMEs supply PDEs in a highly regulated public procurement environment, SMEs that focus on dynamic capabilities can modify an organization's operating routines to outperform those that do not

(Zollo & Winter's, 2002). This is consistent with Kant (1878-1949) who notes that "everything in nature works according to laws." However, humans differ from other parts of nature in that humans alone can accord principles. Thus; Kant (1878-1949) recognizes the rationality and dynamism of human beings. Humans are rational in having a "conception of laws," or principles. The foregoing discussion suggests a link between contractual governance mechanisms and dynamic capabilities. Despite Kant's observation (1878-1949), Helfat et al. (2007, p. 3) have noted that "Not all dynamic capabilities, however, act upon operating routines. This is supported by Teece, Pierce, and Boerner (2002), who underscore the significance of information processing capabilities that may enable the firm to identify the nature of the changing market environment and sense opportunities that it holds. In this study we conjecture that firms that possess dynamic capabilities will experience better buyer - supplier relationship and supplier performance.

## LITERATURE REVIEW

### **Governance Mechanisms and Supplier Performance**

Much of the prior research suggests governance as a cost minimising tool which protects against known exchange hazards (Williamson, 1985). Many scholars acknowledge that relational governance and contractual governance mechanisms are essential to achieving supplier performance (Macneil, 1978; Dyer, 1997; Meryem, 2011). Contractual-based governance involves the use of a formalized, legally-binding agreement to govern the relationship while relational governance literature argues that relationships are shaped by the structure of social relations (Gulati & Gargiulo, 1999). In support, several authors suggest that when both governance mechanisms are used, higher performance is achieved (Poppo, & Zenger, 2002; Goo, Kishore, Rao & Nam, 2009). Therefore, organizations need to choose governance structures that reduce the transaction costs efficiently. The transaction cost theory presumes that in absence of formal governance mechanisms, opportunism and uncertainties increase significantly (Williamson, 1981). Contracts are considered as an ex ante governance tool used in monitoring transactions through contractual clauses. Therefore, suppliers with formal contracts are likelier to make investments to support the agreement and perform consistently to keep good relationships with

buyers (Williamson, 1985). This is attributed to the fact that possession of the contract is an assurance to the supplier of the buyers' commitment (Kulwani & Narayandas, 1995). However, they are associated with high monitoring and enforcement costs and may indicate mistrust.

### **Dynamic Capabilities and Supplier Performance**

Today, most businesses ignore the dynamic aspects of business environment that greatly affect performance. In this sense, performance can only be achieved if firms develop and apply their resources and capabilities (Eisenhardt & Martin, 2000). Grant (1991) embraces the idea that suppliers are resources enabling firms to consolidate in-house competencies that they lack. Superior supplier performance is achieved if their capabilities for innovation and learning are increased (Helper, 1991). The Resource based view explains an existence of a relationship between performance and firm-specific resources, which are valuable, rare, imperfectly imitable, and imperfectly substitutable (Amit & Schoemaker, 1993). It is assumed that firms that possess the strategic resources have a competitive advantage which is a source of superior performance. In support, the dynamic capabilities view of the firm suggests that the ability to achieve a competitive advantage depends on deployment of its internal resources to the external environment (Teece, Pisano, & Shuen, 1997).

Dynamic capabilities are defined as a firm's capacity to integrate, build, and reconfigure internal and external resources, using organizational processes to respond to changes in the competitive environment and to design new value creating strategies (Eisenhardt & Martin, 2000; Teece, 2007). This promotes timeliness, expedited action, and efficiency of the firm's response to the market environment (Tiantian, Yezhuang & Qianqian, 2014). Absorptive capability represents a firm's capacity to recognize, develop and utilize external knowledge to create valuable new knowledge (Lane, Koka & Pathak, 2006). Adaptive capability explains the firm's ability to quickly reconfigure and coordinate its resources in response to rapid environmental changes (Gibson & Birkinshaw, 2004). And lastly, innovation capability is the firm's ability to come up with a new way of doing things for example a new good or a new quality of good; a new method of production; a new source of supply; or a new

organizational structure (Adeniran & Johnston, 2012). We therefore hypothesize that

H1: Dynamic capabilities and supplier performance are significantly and positively related.

### **Transaction Specific Relationship and Supplier Performance**

Suppliers' performance affects buyers' outcomes on several dimensions. The prices influence firm profitability while quality of purchased items affects final quality of end products and its reputation with customers (Degraeve & Roodhooft, 2001; Lane, Salk, & Lyles, 2001). Research however, indicates that supplier performance can improve if business-oriented relationships are created (Zaheer, Mmcevily, & Perrone, 1998). This is because their abilities are influenced not only by internal activities, but also by suppliers' activities. Morgan and Hunt (1994) assert that partners who demonstrate superior performance are highly valued. Other firms commit to establishing, developing and maintaining strong relationships with them. As a result, delivery times shorten and costs reduce, while influencing longer-term performance by helping firms develop new capabilities (Dyer & Nobeoka, 2000). There is scanty research that relates dynamic capabilities and relationships in achieving superior performance. Firms can manipulate various resources over which they have direct control to generate competitive advantage with superior performance outcomes (Rijamampianina, Abratt, & February, 2003). Some scholars argue that interorganisational relationships are a viable option for creating a competitive advantage through complementary resource combination (Pierce, Boerner, & Teece, 2002). This is because transaction specific relationships built on trust and information sharing influence behavior that leads to positive outcomes (Dwyer, Schurr & Oh, 1987). Firms are compelled to agree to combine their resources which can improve performance (Barney, 1991). In addition, proponents of the dynamic capability suggest that dynamic capabilities are assets which are firm specific, created over time and based on exchanging information (Amit & Schoemaker, 1993) or a set of abilities that enable firms in a relationship to respond quickly to new opportunities, and quickly rejuvenate and integrate firms' resources (Adeniran & Johnston, 2012).

Research indicates that supplier integrative capabilities can be utilized by buyers to sense changes in the supply environment by sharing information, seizing opportunities and making long-term changes to existing processes (Vanpoucke, Vereecke, & Wetzels, 2014). Walter, Auer and Ritter (2006) assert that by building relationships, dynamic capability enables a firm to connect its own resources to those of other firms to improve performance. Therefore, in order to manage the complex relational sets efficiently, organizations must develop: the ability to absorb competencies from others and the ability to generate new knowledge (Henderson & Cockbur, 1994). However, the mechanisms by which dynamic capabilities and transaction specific relationships affect supplier performance are not fully understood (Zott, 2003). In spite of this, it is appreciated that they indirectly affect performance by reconfiguring resource positions (Eisenhardt & Martin, 2000), operational routines (Zollo et al., 2002) and operation capabilities (Helfat & Peteraf, 2003). Possession of dynamic competencies leads to high response capability, reduced time to market and innovative capability (Shin, Collier & Wilson, 2000). We therefore hypothesize that

H2: Improvements in Transaction specific relationship lead to improved supplier performance.

### **Contractual Governance Mechanisms and Supplier Performance**

It is suggested that firms can be successful and effective if they know how to manage their suppliers and commit resources to this activity (Kale, Dyer, & Singh, 2002). Suppliers can be managed through the use of contractual governance mechanisms to control and monitor opportunism (Williamson, 1979) and improve performance. Recent research by Ntayi, Namugenyi and Eyaa (2010) indicates that there is poor supplier performance in the public sector. This is exemplified by late deliveries, high prices, and failure to match specifications and poor quality goods and services delivered. Most suppliers tend to hold key information regarding their products, quality and cost which helps them to pursue their own interests at the expense of a buyer (Wathne, & Heide, 2000). According to the Transaction cost theory, numerous hazards in exchanges require the drawing up of explicit legal contracts (Williamson, 1985; Dyer & Singh, 1998; Poppo & Zenger, 2002). Formal contracts signify that the exchange is important to both parties (Ahimbisibwe, 2014). Contracts involve Service Level Agreements (SLA) which specifies the

responsibilities that build trust between partners and reduce supplier opportunism over time (Goo et al., 2009). They also provide for administrative procedures explaining ways of how to manage the relationship in cases of changes in specifications, effects of economy such as inflation, conflict arbitration and penalties (PPDA, 2003). We acknowledge that well designed contracts enable joint planning, open communication and information sharing (Goo et al., 2009). However, for them to be effective they should be monitored (Ntayi, Rooks, Eyaa & Qian, 2010). We therefore hypothesize that H3: Governance mechanisms would result in improved supplier performance.

## METHODOLOGY

### Research Design, Population and Sample Size

This study employed a cross sectional research design involving data collected at a defined time. Cross sectional studies offer a snapshot of a single moment in time. The Cross-sectional study allowed us to compare many different study variables at the same time without any additional cost. The study utilized a population of 140 Central Government Procuring and Disposing Entities (PDEs) with 5,158 corresponding suppliers/service providers. The population of 140 PDEs excludes (foreign mission PDEs). A sample size of 120 Central Government Procuring and Disposing Entities (PDEs) and their respective service providers were chosen using a table of sample size determination by Krejcie and Morgan (1970). We obtained the updated list of the entities from the Public Procurement and Disposal of Public Assets Authority report, the body that is mandated with regulating public sector procurement in Uganda (PPDA, 2011) and selected a representative sample using simple random sampling. The PDU were requested to avail a list of their suppliers from which 3 suppliers were randomly selected. Data were collected using self-administered questionnaires. All questionnaires were delivered to the respondents (Procurement officers and suppliers) and retrieved after two weeks to allow the respondents ample time to answer the questions.

### Measurement of Variables

All measurement items were derived from previous studies and adapted to suit the study. All measurement items were anchored on a 5 point Likert scale with 1=strongly disagree and 5=strongly agree. All

Item scales were subjected to exploratory factor analysis prior to the final survey. All item scales with communalities less than 0.70 and factor loadings below 0.50 were dropped. All constructs produced a KMO measure of sampling adequacy above 0.70. Measurement items for Supplier Performance were derived from Ntayi, Namugenyi and Eyaa (2010) who operationalized the construct using supplier performance measures like quality, cost and price, delivery time, user complaints, customer satisfaction and others. Consistent with Nunnally (1978), the measurement items yielded an acceptable Cronbach Alpha Coefficient of 0.712 and a Content validity index of 0.727. Contractual governance mechanisms were measured basing on the measurement items developed by Goo et al., (2009) and Meryem (2011) while the measures for dynamic capabilities were derived from the scales developed by Wang and Ahmed (2007). The corresponding Cronbach Alpha Reliability Coefficients statistics ( $\alpha$ ) and Content validity (CVI) indices respectively were: Contractual Governance Mechanisms ( $\alpha = 0.702$ ; CVI = 0.750), Dynamic Capabilities ( $\alpha = 0.703$ ; CVI = 0.852). Item scales for transactional specific relationship were based on the dimensions of trust and information sharing as operationalized by Morgan and Hunt (1994) and Stefanie, Phillip, Kim, and Helmut (2010). The corresponding Cronbach Alpha coefficient and the CVI were all above 0.7.

### **Common Methods Bias, Data Management and Analysis**

Use of the questionnaire to collect data from the same source may generate biased data due to common method and single source variance inflation (Singleton & Straits, 1999). To solve this problem, data were collected from both the PDEs and suppliers. Data on supplier performance transaction specific relationship, dynamic capabilities and contractual governance mechanisms were collected from the PDEs while data on transaction specific relationship, dynamic capabilities and contractual governance mechanisms were collected from suppliers. The measurement items provide little systematic bias of their measures (Podsakoff, MacKenzie, & Jeong-Yeon, 2003). Data were entered in SPSS version 23 and cleaned prior to analysis. Data were edited for wrong entries and missing data. The Missing Data Analysis (MVA) revealed missing values of 1.2%. Data were missing completely at random therefore posing no serious threats to the study. We therefore filled all missing values using linear interpolation. We examined multicollinearity by examining

the Variance Inflation Factors (VIF). All independent variables produced VIFs of less than 2, in fact the highest VIF in the model was 1.48 meeting the suggested cut off point of 4 (Neter, Kutner, Nachtsheim, & Wasserman, 1996). We used the regression model with studentized residuals above two, to compute DFFITS and Cook's distance and found no threats with outliers. We examined the assumptions of parametric data and found that the data fulfilled all the assumptions of parametric data.

## **RESULTS AND FINDINGS OF THE STUDY**

### **Characteristics of PDEs and Suppliers**

The response rate for both PDEs and suppliers was 86.96% and 51.39% respectively. Responding PDEs that had above 200 employees were 46.2%. This was followed by 35.0% of the PDEs that had 51-100 employees and 18.8% of the PDEs with 101-200 employees. The study revealed that 32.4% percent of the supplier firms employ employed between 11-50 employees followed by 31.9% that had 51-100 employees and finally only 0.5% suppliers had less than 10 employees. As regards organizational age, 81.1% of PDEs had been in existence for 20 years and above. 2.5 % of the PDEs had been in existence for 16-20 years while the remaining 16.4% had existed for a period less than 15 years. The percentage of suppliers' firms that had existed for 5-10 years, 11-15 years and 16-20 years respectively were 4.23%, 20.76% and 75% respectively.

### **Characteristics of the Unit of inquiry**

Analysis of gender composition revealed that 69.7% of the males constituted the respondents from the suppliers' firms as opposed to 68.8% from PDEs. The remaining 30.3% and 31.2% were females from suppliers and PDEs respectively. The average age of respondents for both PDEs and suppliers was 31-40 years of age. As regards their work experience, majority of procurement officers from the PDEs (61.1%) and the suppliers' firms (60.0%) had worked in these institutions for a period of 5-10 years constituting. This was followed by 38.8% of the employees that had worked for above 10 years in supplier firms and 29.2% in the PDEs. The remaining 1.2% had worked for 3-5 years in supplier firms and 9.7% for PDEs. The average education level for the respondents in both suppliers' firms (51.4%), and PDEs (73.8%) was a degree holder. This was followed by

diploma holders (23.2%, 13.8%) and lastly post graduates (19.5%, 8.8%) in both supplier firms and PDEs respectively.

### Relationship between variables

Table 1, presents the zero order correlations. The table reveals that there is a significant positive correlation between contractual governance mechanisms and Transaction Specific Relationship ( $r = 0.18, p \leq 0.01$ ), Dynamic Capabilities ( $r = 0.13, p \leq 0.05$ ) and Supplier Performance ( $r = 0.14, p \leq 0.05$ ). Similarly, Transaction Specific Relationship is significantly and positively correlated with Dynamic Capabilities ( $r = 0.16^{**}, p \leq 0.01$ ) and Supplier Performance ( $r = 0.35^{**}, p \leq 0.01$ ). There is a significant positive correlation between Dynamic Capabilities and Supplier Performance ( $r = 0.23, p \leq 0.01$ ).

**TABLE 1**  
**Zero Order Correlations**

	1	2	3	4
Contractual Governance Mechanisms (1)	1.00			
Transaction Specific Relationship (2)	.18**	1.00		
Dynamic Capabilities (3)	.13*	.16**	1.00	
Supplier Performance (4)	.14*	.35**	.23**	1.00

Notes: \*\* Correlation is significant at the 0.01 level (2-tailed);  
\* Correlation is significant at the 0.05 level (2-tailed).

### Prediction Model for Supplier Performance

Regression analysis was run to explore the extent to which Contractual Governance Mechanisms, Transaction Specific Relationship and Dynamic Capabilities predict Supplier Performance. Results are presented in Table 2. Contrary to Hypothesis 1, Contractual Governance Mechanisms was not a significant predictor for Supplier Performance. However, Transaction Specific Relationship and Dynamic Capabilities were significant predictors of Supplier Performance explaining 14.9% of the variance. The overall model was significant at 1%. The results suggest that suppliers who possess abilities to integrate, build, and reconfigure internal and external

competences to address rapidly changing environments, will experience better Supplier Performance. Additionally, if transaction specific relationships are improved and developed through information sharing and trust, PDEs will benefit from increased Supplier Performance.

**TABLE 2**  
**Regression Model**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.243	.382		5.872	.000
Contractual Governance Mechanisms	.051	.047	.063	1.089	.277
Transaction Specific Relationship	.278	.051	.316	5.398	.000
Dynamic Capabilities	.258	.089	.168	2.887	.004
<b>Dependent Variable: Supplier Performance</b>					
R = .399; R Square = .159; Adjusted R Square = .149; Std. Error of the Estimate = .349; R Square Change = .159; F Statistic = 16.314; Sig. = .000					

#### DISCUSSIONS, CONCLUSIONS AND IMPLICATIONS

Dynamic Capabilities is a significant predictor of supplier performance thereby confirming H1. This finding supports the work of Teece, Pisano, and Shuen (1997) who assert that the suppliers' ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments result in better performance. Teece (2007) notes that dynamic capabilities enable business enterprises to create, deploy, and protect the intangible assets that support superior long-run business performance. This study has revealed that successful supplying firms that develop distinct supplier skills and reengineer their business processes are able to deliver their business promises on time. This is possible because of the supplier abilities to reconfigure capacities

required to meet PDE supplier requirements in a highly competitive environment. This could partly explain a growing trend of clusters of buyers coming together to procure services ('Monopsony') on the demand side and the creation of sophisticated 'Monopolies' who come together and 'compete' on the supply side in order to deliver a one stop shop of end to end services (Access to the Public Procurement Market report, 2011). Public procurement employees in PDEs and suppliers have a tendency to form strategic alliances and develop coping strategies in ways that often sidetrack or sabotage state policies or public interest, leading to systematic deviation from the original intention of these contracts.

Suppliers have developed adaptive behavior through innovation and collaboration with suppliers who provide ideas and materials required in meeting their contractual obligations. Supplying firms have through business process reengineering involved their executives and technical personnel in creating new method of operation aimed at meeting their buyers/PDEs. Suppliers design and reconfigure the process of coming up with solution even when the challenges have never been encountered before. Leadership of the supplying organizations resist the temptation to be high handed and decisive in every situation thereby giving room for staff to innovative. Continuous transformation and learning from mistakes are normally used as vehicles for learning. A strong sense of and commitment to share organizational purpose and associated organizational priorities is encouraged. Supplier interacts frequently with internal and external stakeholders in order to acquire new knowledge. They periodically organize special meetings and network with other suppliers to acquire new knowledge. A good environment for knowledge sharing amongst organizational members is created. Learning process is ongoing and suppliers have managed to evolve in to a pro-active way. Both staff and management participate in managing knowledge acquired. Suppliers' record and keep newly acquired knowledge for future reference.

Suppliers that perform better in PDEs tend to be retained and have better chances of being awarded contracts through Micro Procurement, Restricted Domestic Bidding and Request for Proposal. These established relationships represent a barrier for those suppliers who are not currently engaged with the public sector. Suppliers typically seek to be retained through improvements in

service, while PDEs aim at finding reliable suppliers with whom they can build effective working relationships. This may induce more collaborative learning, relationships and efficiency-enhancing knowledge of the partner's structure and routines (Kumar & Nti, 1998; Larson, Bengtsson, Henriksson, & Sparks, 1998). The foregoing imply that dynamic capabilities not only help firms to meet their contractual obligations but build their integrity and credibility thereby improving their chances of not being black listed by PPDA as stipulated in the PPDA Regulation 351(3). It is interesting to note that the PPDA has been blacklisting suppliers which are reported by Entities to have shirked their contractual obligations. These suppliers are prevented from participating in any procurement and disposal activities for specified periods of time.

Contrary to Williamson, Wachter, and Harris (1975), our findings reveal that dynamic capabilities developed in a buyer –supplier transaction specific may be of application outside of the supplier relationship in which it was developed. One possible explanation comes from the degree of homogeneity among public buyers. PDEs in Uganda are not highly specialized institutions. This finding puts to test the notion of asset specificity, which is beyond the scope of this study and introduces the superiority of dynamic capabilities. Suppliers that fail to develop dynamic capabilities fail to access and maintain business relationships with PDEs. The fact that limited access to market research has been listed as one of the main reasons for not winning contracts suggests that businesses need to develop dynamic capabilities aimed at accessing more market information.

The findings revealed that transaction specific relationships are significant positive predictors of supplier performance confirming H2. These findings are consistent with earlier studies which have revealed that transactional processes at the buyer-supplier interface are positively linked to companies' overall profitability (e.g. Joseph et al., 1995), the speed of new product developments (e.g. Dyer, 1997) and customer satisfaction (e.g. Gunasekaran, Patel, & Tirtiroglu, 2001). Meira, Kartalis, Tsamenyi, and Cullen (2010) have stressed that inter-firm relationships in general provide information flows and other competitive tools used to achieve performance in a dynamic and globalized business environment. A supplier's ability to best exploit relationship potentials within buyer-supplier relationships has become a critical success factor in securing and improving a

company's overall performance. Suppliers are continuously forced to find new ways of improving cross-company material and information flows which act a precursor to supplier performance (Perea et al., 2000). The move from a company-specific view on the buyer-supplier relationships to a more integrated perspective on the relationship has been emphasized by Lambert and Cooper (2000). This finding contributes to literature by answering the concerns raised by Toole and Donaldson (2002) calling for more studies that establish the link between business-to-business relationships and performance.

Contrary to H3, Contractual Governance Mechanisms is not a significant predictor of Supplier Performance. This finding is surprising since contracts govern business relationships and failure to meet contractual obligations may lead to increased litigation costs. Extant literature suggests that if contracts are explicitly written, evaluated and monitored regularly, supplier performance is significantly increased. Use of well-designed contracts influences supplier performance significantly. However, it is the role of PDEs to implement strategies of periodic contract monitoring (Ntayi, Rooks, Eyaa & Qian, 2010) to facilitate better results as regards to supply of quality products and services on time. This would imply that suppliers should be involved in contract management so that they are aware of the consequences in cases of breach of contract. The absence of the significant prediction between Contractual Governance Mechanisms and supplier performance could be attributed to the weak enforcement mechanism of the Contractual Governance Mechanisms. Collusion among Suppliers and PDE officials to defraud the PDEs has increased thereby making the enforcement of contracts difficult. The absence of a strong enforcement mechanism creates no incentives for respecting contracts thereby affecting supplier performance. Collusion among suppliers has become an informal but highly institutionalized practice (Ntayi, Semukono, & Eyaa, 2012)

### CONCLUSIONS

Generally, the study shows that the transaction specific relationships and dynamic capabilities are significant predictors of the Supplier Performance. Although results revealed that the contractual governance mechanisms are not significant predictors of Supplier Performance, a significant positive relationship existed with between the two constructs.

### **Theoretical, Policy and Managerial Implications**

This study contributes to literature by testing the dynamic capability theory to explain supplier performance. In a highly dynamic and competitive environment, suppliers would perform better if they redesign their internal processes with an aim of building relevant dynamic capabilities. All policy documents of supplying firms should emphasize the development of dynamic, adaptive and innovative capabilities. Special emphasis should be placed on developing transaction specific relationships especially through routine meetings and continuous communication during bidding and execution of procurements. Suppliers and buyers should be engaged in collaborative, cooperative and innovative processes that deliver value for quality procurements. PDEs and suppliers should create new systems and processes in procurement to increase their capabilities and competencies so as to improve supplier performance. This can be achieved through learning and adapting new methods of operation which are more efficient, encouraging continuous transformation of processes and systems in procurement, and implementing employees' ideas and suggestions. Special committees comprising of well experienced and competent individuals should be formed to write and manage contracts that are necessary to achieve better supplier performance.

### **Limitations to the Study**

The study suffers from the weaknesses of a cross sectional study. Item scales were derived from literature and adapted to suit the requirements of this study. It would have been better to use context specific item scales. The parameters of the study were confined to those already utilized in previous studies which implied that big sample sizes were needed to detect these relationships.

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