

**MAKERERE UNIVERSITY**  
**BUSINESS SCHOOL**

**OUTSOURCING MANAGEMENT AND VALUE FOR  
MONEY IN THE PUBLIC SECTOR: A CASE OF SELECTED  
CENTRAL GOVERNMENT ENTITIES IN UGANDA**

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**2004/HD10/2663U**

**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF A MASTER DEGREE OF SCIENCE  
(ACCOUNTING AND FINANCE) OF MAKERERE UNIVERSITY**

**SEPTEMBER, 2012.**

## DECLARATION

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I, Aheebwa Moses do declare that, this dissertation is my original work and has not been published and/or submitted for any award in any other University before.

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## APPROVAL

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This dissertation has been submitted with my approval as the University Supervisor

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## ACKNOWLEDGEMENT

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First and foremost I thank the almighty God for giving the wisdom and strength that enabled me reach this level of education. I am greatly indebted to my Supervisors Dr Nkote Nabeta and Mr. Elvis Khisa whose guidance and continuous encouragement during preparation of this work has enabled me reach its rightful conclusion. Similarly, I do appreciate Prof. J. C. Munene, Dr S.K.Ssejjaka and Dr J.Ntayi for their valuable lectures on research methods.

My sincere thanks go to all the respondents in the various entities who sacrificed time from their busy schedules to respond to my questionnaires, without them this study would have been impossible to undertake. I am also grateful to the Msc Accounting & Finance Class of 2004/2005 for their advice, special thanks go to Mr. Daniel Nangalama for standing with me in all my struggles, my dear wife Oliver, my son Daniel and Nimrod, for tolerating my constant absence when they needed me most. Further more I thank Prof. Charles Kwesiga the Executive Director Uganda Industrial Research Institute for the support and encouragement extended during this study and my Pastor James Mugobansonga for Continuous prayers that have sustained me during the course of this study.

Lastly to my parents Mr. Byarufu M. Mudaki and Dolica Myandu (Mrs.) for the Parental care, guidance, love and material support extended to me right from my child hood, without you I would not have reached this level of education.

For all these groups and individuals I owe this achievement and I will remain forever grateful.

May God bless you all.

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## DEDICATION

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To my dear wife Oliver, my son Daniel, Nimrod, and Timothy

## LIST OF ABBREVIATIONS

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ANOVA	:	Analysis of Variance
BBA	:	Bachelor of Business Administration
CHOGHUM	:	Common Wealth Heads of Government Meeting
GOU	:	Government of Uganda
OECD	:	Organization for Economic Co-operation and Development
IASIA	:	International Association of Schools and Institutes of Administration
PGD PSCM	:	Post Graduate Diploma in Procurement and Supply Chain Management
PDE	:	Procuring and Disposing Entity
PPDA	:	Public Procurement and Disposal of Public Assets Authority
UDBS	:	Uganda Diploma in Business Studies
UPPC	:	Uganda Printing and Publishing Corporation
USE	:	Universal Secondary Education
VFM	:	Value for Money
3 E's	:	Economy Efficiency and Effectiveness

## ABSTRACT

Managers in the Public sector are under constant pressure to improve on quality of services delivered and achieve value for money from the resource under their control. To meet this public demand they have adopted new public management practices and outsourcing of public services is one of these management practices that have been adopted by Central government entities in Uganda. However although its widely believed that outsourcing improves on value for money in the public sector, most central government entities in Uganda experience difficulty in realizing value for money, this puts the management of outsourcing contracts , provider competence and provider behavior in question.

The study examined the relationship between outsourcing management and value for money in the public sector, the relationship of provider competence and provider behavior were tested as modifiers in the model as an extension of previous literature, which suggests that those variables influence the strength of the relationship. It was a cross-sectional study with quantitative methods of data collection that was conducted mainly in Kampala and neighboring districts. Stratified random sampling was used to select 91 central government entities' out of a population of 116 central government entities. Two respondents were purposely selected from each entity sampled making a total of 182 respondents. The Data was collected using a pre-tested self-administered questionnaire.

The findings revealed that there exists a significant positive relationship between outsourcing management and value for money. The relationship between outsourcing management and Provider competence are also significantly and positively related. Further the results revealed that there exists significant positive relationship between outsourcing management and Service provider behavior. Similarly Provider competence and behavior was also observed to be positively related to the Value for money. It was also found out that variables studied contribute 30.6 % of variance in value for money.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

In many developed and developing countries, outsourcing is increasingly sought as a management tool to foster value for money in public sector. This is due to increasing pressure by tax payers exerted on managers of public institution to achieve value for money in service provision (Kakabadse and Kakabadse, 2001). The study by Blondal (2005) on use of market type mechanism in the provision of public services across 30 OECD member countries revealed that, outsourcing is the most common market-type mechanism employed by governments in the World.

In Uganda according to background to budget 2008/09 fiscal year, there is emerging role of outsourcing in public sector. It is said to play an important role especially in the area of infrastructure development, in road construction, Industrial park development, energy generation, mineral and oil exploration. This is partly attributed to high technical and financial demand required by such investment, and inadequate in-house capacities within traditional public service. It's also believed that outsourcing can increase the level of funds available for investment and improve the quality of services provided (GOU 2008 Pg 52).

Basheka (2008) affirmed that, use of outsourcing in provision of public services in central government entities that is; central government ministries, commissions, hospitals and parastatal in Uganda is on increasing trend. The private contractors/service providers are increasingly used in construction of roads, schools and dams; provision of security guard services, medical services, cleaning services, management of taxi parks, revenue

collection and of recent education services where government has outsourced the teaching to private school under universal secondary education (USE) program.

The outsourcing proponents who often have roots in public sector economics, champion outsourcing as a way to reduce service costs through competitive efficiencies and economies of scale as private contractors operating in competitive markets are under constant pressure to keep costs down often through innovative service delivery (Donahue, 1989). It is also argued that governments have embraced outsourcing in pursuit of policies focused on reforming the “overblown” public sector in order to deliver increased value and improved service quality to tax payers thus Value for money (VFM) (Broadbent & Laughm, 2003; Froud, 2003).

The Uganda’s Public Procurement and Disposal of Public Assets Act 2003 and related Regulations, requires central government entities to conduct outsourcing in the manner that promotes transparency, accountability, fairness, and achieve value for money. Also the Uganda’s Public Finance and Accountability Act 2003 require the Auditor General to conduct the value for money audit to ascertain the economy, efficiency and effectiveness in the operation of public entities.

In Uganda, the various reports on the Value for Money Audits conducted by the Auditor General, the media and reports from other oversight organizations and development partners including PPDA, IGG and World Bank reveals the poor performance of Public sector in the area of outsourcing. The Uganda Government is facing serious problems in achieving value for money from outsourced services as a lot of money is lost through mismanagement, corrupt practices, poor quality and substandard services provided and

projects encountering heavy cost over runs and prices hiked. Many cases of incomplete physical infrastructure, those collapsing after commissioning and hundreds of procurement related complaints to the Inspectorate of Government and to Parliament have been reported in the media and to parliament of Uganda (*The New Vision* 10<sup>th</sup> November 2003, 6<sup>th</sup> June 2008, *The Monitor*, 25<sup>th</sup> November 2008, May 14 2008).

The World Bank report revealed that 20% of the Value of public procurement (process under which outsourcing is conducted) contract is lost to corrupt practices and with cost, quality and quantity being heavily affected (Among 2008). The cases that indicate failure to achieve value for money include; management of Nakesero market, renovation of Chogm roads, maintenance and construction of roads and schools, cleaning services for Mulago hospitals, management of taxi parks (PPDA 2007, IG 2006, *The New Vision*, and Friday June 6<sup>th</sup> 2008), provision of agriculture inputs and advisory services under NAADS Programme (Ahimisibwe: Opolut, 2009). This makes the effectiveness of management of the outsourcing process, competence and behavior of providers to be a suspect which needs to be investigated.

Despite the increased trend in use of outsourcing and Various Challenges the central government entities in Uganda are facing in managing outsourcing contracts and achieving Value for money, the academic literature on management of outsourcing in developing countries with special emphasis on Uganda is very scanty. Most of the studies in this field have been undertaken in developed countries. Given the unique nature of Uganda's environment and economy, there is need to undertake specific study on outsourcing management and its effect on value for money thus the call for this study.

## **1.2 Statement of Problem**

Although several studies on outsourcing reveals that it enhances value for money in the public sector (McIvor 2001; Jensen & Stonecash, 2005; Gupta, Herath and Mikouza, 2005). According to the various media reports and queries raised by oversight Organization like IGG, Office of Auditor General, Parliament of Uganda, Public Procurement & Disposal of Public Assets Authority (PPDA) and Development Partners like World Bank, indicate that Central government entities in Uganda still face a lot of challenges in realizing value for money from outsourced services. This situation prompted President Yoweri Kaguta Museveni of Republic of Uganda to suspend funding for provision of agriculture inputs and advisory services under NAADS Programm, until management issues were settled (Ahimisibwe: Opolut, 2009).

On several occasions outsourced services are characterized by substandard services, Shoddy work, delays, inflated cost and loss of funds (The New Vision 2003, 2008; The Monitor 2008). More than often it has been attributed to poor outsourcing management, lack of provider competence and unethical conduct (poor behavior) of providers. It's for this reason that that the researcher embarked on this study to establish whether there is a relation between outsourcing management, provider competence, provider behavior and value for money in central government entities in Uganda

## **1.3 Purpose of the Study**

The purpose of the study was to examine the relationship between outsourcing management, provider competence, provider behavior and value for money in public sector a case of selected Central Government Entities in Uganda.

#### **1.4 The Objective of Study**

- i) To establish the relationship between outsourcing management and value for money in public sector.
- ii) To investigate the relationship between outsourcing management and provider competence.
- iii) To examine the relationship between Outsourcing management and provider behavior.
- iv) To establish the relationship between Provider competence and value for money in the public sector.
- v) To establish the relationship between Provider behavior and value for money in the public sector.

#### **1.5 Research Questions**

The research was guided by the following research questions;

- i. What is the relationship between outsourcing management and value for money in public sector?
- ii. What is the relationship between outsourcing management and service provider Competence in public sector?
- iii. To what extent does Outsourcing Management influence Provider behavior?
- iv. Is there any relationship between Competence of outsourcing service provider and value for money in the public sector?
- v. Is there any relationship between behaviors of outsourcing service provider and value for money in the public sector?



## **1.6 Scope of Study**

### **1.6.1 Subject Scope**

The study focused at establishing the relationship between outsourcing management, provider Competence, provider behavior and, value for money in public sector.

### **1.6.2 Geographical Scope**

The study was conducted at the headquarters of the 91 selected Central government entities Viz ministries, parastatal organisations, Hospitals and commissions Located in Kampala and neighboring districts.

## **1.7 Significance of the Study**

Research on management of outsourcing is relatively new in Uganda; hence there are few country specific studies that have been conducted. This study adds to the existing body of knowledge or literature in the area of the public sector outsourcing management, Provider behavior, provider competence and value for money in central government entities.

The study will be very useful to policy makers, practitioners, scholars and training institutions as reference material in issues of outsourcing. Policy makers in the area of outsourcing may use the research findings to design appropriate policies. The study will provide information to central government entities for use in formulation of outsourcing processes, regulations, procedures and guidelines. Therefore the findings will enable central government entities enhance value for money.

## 1.8 Conceptual Framework

According to the diagram below (Figure 1), it's conceptualized that Value for money (the dependent Variable) is influenced by outsourcing management (independent Variable), This relationship is modified by the presence of intervening variables; the providers competence and providers behavior, they themselves being influenced by outsourcing management.

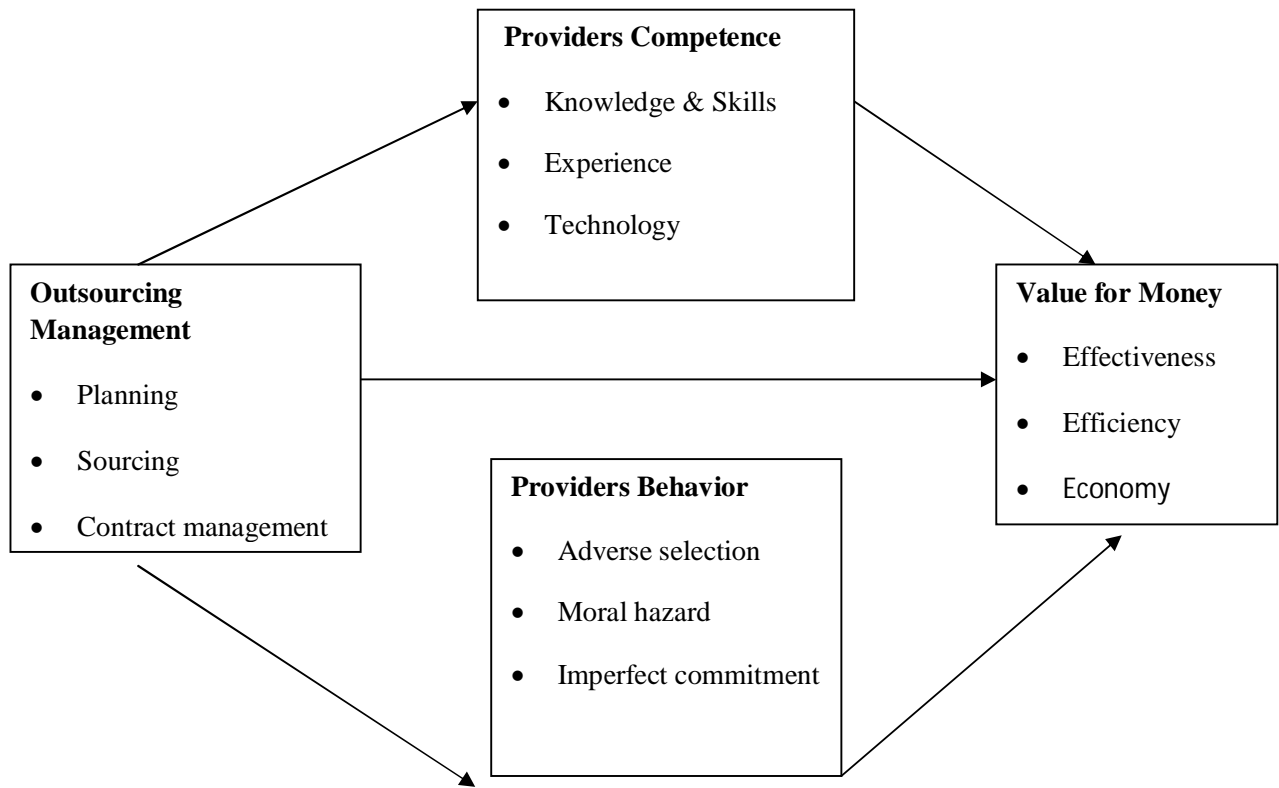
Value for money is composed of three elements; effectiveness, efficiency and economy. Economy measures the cost of providing service with due consideration of quality. The key indicators of economy included the unit cost and whole life cost such as the direct and indirect cost of acquiring, running and disposing assets or resources.

Efficiency measures the productivity by considering the planned versus actual delivery milestones. This entails comparison of contract price with, the estimated cost in procurement plan and market rates, Effectiveness measures outcome of the service, the extent to which the organization achieved the objective of outsourcing (Chris, Julian etal 2010).

The outsourcing management as independent variable was measured by an assessment of three constructs; planning, sourcing and contract management have been well managed.

The service provider competence as measured by skills and knowledge, work experience and technology (McIvor 2000) and behavior measured by adverse selection, moral hazard and imperfect commitment (Rebernic & Bradač, 2006).

**Figure 1: Conceptual Model**



**Source** Adopted from literature review on studies of Brown, Potoski & Slyke (2006); Jensen & Stonecash (2005); Rebernic & Bradač (2006); & McIvor (2000).

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.0 Definition of Key Terms**

#### **2.1.1 Outsourcing**

According to Drucker (2004) outsourcing is a “company, or a government agency turning over an entire activity to an independent firm that specializes in that kind of work .The American Management Association defines outsourcing as having an outside agency supply a service. Outsourcing involves a long-term investment in a relationship with a third party that should be mutually beneficial to both parties. Dunkle, defined, outsourcing as accessing expertise and resources from an external organization to supplement or take full responsibility for a function that was previously accomplished in-house. Elliot & Torkko, (1996) defined Outsourcing as a conscious business decision to move internal work to an external supplier. Different terminology is used in different countries, including competitive bidding, tendering, contracting and contracting out. The term outsourcing will be used in this study.

#### **2.1.2 Value for Money**

Value for money (VFM) is a term used to assess whether or not an organization has obtained the maximum benefits from the goods and services it both acquires and provides within the resources available to it. VFM does not only measure the cost of goods and services but also takes into account the mix of quality, cost, resource use, fitness for purpose ,timeliness, and convenience to judge whether or not together they constitute good value.

VFM is also explained in terms of the 3Es of economy, efficiency and effectiveness (Broadbent and Laughlin, 1999). Glynn (1985, p.29) defines economy as “acquiring resources of an appropriate quality for the minimum cost”. It is concerned with minimizing the cost of resources acquired or used, having regard to appropriate quality (Hyndman and Anderson, 1995; Kloot, 1999). Efficiency is ensuring that “maximum output is obtained from the resources devoted, or conversely, that a minimum level of resources is devoted to a given level of output” (Glynn, 1985, p.29). Effectiveness is “ensuring that the output from any given activity is achieving the desired results” (Glynn, 1985, p.30).

### **2.1.3 Outsourcing Management**

The principle tasks of outsourcing management vary between organizations, but the common ones are; the decision and choice of activities to be outsourced, selection of vendor and, managing service delivery under contract. Outsourcing management in public sector is governed by public law and organization arrangements which set boundaries within which public managers must operate (Brown, Potoski and Slyke, 2006).

Outsourcing has become more common and politically palatable public managers have come under increasing pressure to be smart buyers and smart managers of outsourcing service provision (Cooper 2003). The key skills and capabilities required for successful outsourcing include ability to determine which process and activities to be outsourced, risk management, monitoring performance, selection of service providers, managing the transfer of resources to the service provider and contingency management (Kakabadse and Kakabadse, 2001).

#### **2.1.4 Provider Competence**

According to McIvor (2000) competence are the skills, knowledge and technologies that an organization possesses on which its success depends. Although an organization need to reach a certain threshold level of competence in all activities which it undertakes, it is likely that only some skills are core competence (Johnson & Scholes 1998).

Core competence is the unique set of skills and technologies a company employs to provide special value to a customer. These core competencies underpin the ability of the organization to outperform and nurture. Collins (1991) asserts that core competencies are concerned with those resources that are fundamental to a company's strategic position. Hoecht and Trott (2006) Describe firm competence as the ability of the firm to use its assets to perform value creating activities. They argue that knowledge or technology in its self does not mean success but firms must be able to convert intellect, knowledge and technology into offering what the customer wants.

#### **2.1.5 Provider Behavior**

According to Rebernik and Barbara, Bradač (2006).The common attributes of agents optimistic behavior that occur in outsourcing relations are Adverse selection, moral hazard and imperfect commitment. The adverse selection develops when the principal cannot observe the characteristics of the agent and cannot verify his claims. Failure to deal adequately with adverse selection will make it difficult for the client to choose the right supplier. This is attributed to the fact that all potential agents have the tendency to claim superior expertise and all other signals must be considered. To avoid adverse selection the principal has to collect information that reveals the true nature of his claims.

The moral hazard occurs when the principle and agent cannot observe the agents behavior at no cost. Instances of moral hazard are cheating, shirking, free-riding, cost padding, exploiting, and carelessness. In spite of control and trustiness, the agent can always claim on poor performance, unpredictable circumstances, or bad input from principle. The most manifestation of moral hazard is a reduction in the level of effort by agent, resulting in lower service quality. But unless performance has been contractually specified, less effort is expected. But even when performance targets have been specified, outsourcer performance will depend on the quality of its measurement and on its verifiability (Aubert *et al* ,2003). To guard against moral hazard both participant should use performance standards, benchmarking and performance based payment.

Imperfect commitment exists when the principal and agent are tempted not to keep their promises and commitment. A serious consequence of imperfect commitment is that it weakens transaction specific investment. The agent, who makes transaction specific investment, can become vulnerable and subjected to opportunistic behavior of principle. Therefore agent may not want to commit to such relationship. To guard against imperfect commitment the public managers need to use metrics and incentives to keep the two companies interests tightly aligned and to support deep, continuing commitment to reaching their joint aspirations. This means establishing enterprise-level metrics, crafting a set of incentives, and using lower level metric to manage interim progress (Linder, 2004).

## **2.2 Outsourcing Management and Value for Money**

Barton (2006) argued that value for money should always be an objective of government policy, and sound management practices are required to bring it out. The same idea was

echoed in the study by Rebernik and Bradač (2006) which identified the three main clusters of reasons driving outsourcing as; reducing cost, improving operational performance and developing competencies which are all pre-requisite for attainment of value for money in public sector. Researchers studying outsourcing recognize that successful government outsourcing is largely dependant on how effectively public officials manage contracts and monitor provider's performance: Sclar (2000). Weimer and Seuring (2007) assert that governing and controlling the outsourcing provider is essential for successful outsourcing engagement. According to OECD (2005) the evidence for outsourcing to secure efficiency gains is substantial but the decision to outsource particular service needs to be made case by case and specific design instruments are critical for the successful application.

Crowley (1999) found that the more planning is done for risk factors before implementing outsourcing, the higher the probability of success for that implementation. Outsourcing when properly planned and controlled is expected to produce benefits such as reduced cost, improved service quality, increased efficiency and innovation. In other words, the outsourcing results in improving the strategic triangle of an organization; quality, costs, and time (Gapta, Herath and Mikouza, 2005). The Transaction Cost Theory suggests that the costs which include initial planning, and vendor selection, contract writing and management, negotiation of contractual terms; and performance monitoring, which are associated with managing and monitoring an outsourced task can out weigh whatever benefits outsourcing may initially offer to the government . According to this theory the company should choose the transaction mechanism which is cost effective. This theory calls for management of the basic factors causing transaction



difficulties which include bounded rationality, opportunistic behavior, small bargaining and information asymmetry (Mcivor,2005; Rebernik, 2002 and; Cullen and Weinberger, 2003).

In the Industry Commission (1996) report, they found evidence of both improvements and reduction in service performance levels following outsourcing. They concluded that reduction in quality appeared to be caused by poor specifications and inadequate performance monitoring, which suggests that quality –shading may be a problem of contract design or implementation, and is therefore preventable (Domberger and Jensen, 1997).

According to Cubberley and Skrzewski, (1999), Outsourcing is a complex Undertaking, If not done well, can lead to significant financial and personnel problems and a drop in the quality of the outsourced functions. Managing an outsourcing program effectively takes training and experience. The personnel involved in the outsourcing projects must be adept at writing contract specifications, negotiating and managing contracts and monitoring performance. The study by Kakabadse and Kakabadse (2001), revealed that the organizations that were successful in outsourcing, had senior managers who were adequately prepared to rearrange ways of working as a result of embarking on outsourcing, able to integrate current areas of outsourcing and activities already outsourced, and able to apply quality controls by benchmarking against established standards.

### **2.3 Outsourcing Management and Provider Competence**

The outsourcing management in central government entities in Uganda entails selection of outsourcing service provider which is guided by public procurement laws and regulations which requires selection based on set criteria prior to bidding. The ability of public managers to articulate the competence required to perform the particular task and translate it into selection criteria has greater impact on the provider selected and therefore competency level (PPDA 2003). The environment (free, fair and transparent) and selection method under which supplier selection process is conducted can affect the supplier selected (Brown, Potoski and Slyke, 2006; Pavel 2006). Freeney, Lait & Wilcox (2005) argued that there exists array of potential suppliers with comparatively low labor costs and ability to apply sophisticated management techniques and technology and the challenge, is for the client to understand their own requirements and identify providers whose capabilities and objectives are best aligned with their particular needs. This implies that central government entities need to have deeper understanding of their organization, activities and ability to articulate critical competence required to perform the task to be outsourced.

According to the resource based view theory, the firm is a unique whole assets and resources that could create competitive advantage. The firm's internal resource is principle driver of firm profitability and strategic advantage (Penrose, 1959; Barney, 1991). On the basis of this theory the public sector institution should have mechanism or processes that will ensure that the provider selected to provide services has core competencies in the same field. According to Webb and Laborde (2005) most outsourcing contracts do not succeed because the expectation of the client and the

abilities of the vendor are not realistically established at the on set of the relation. Fully defining the expectations and abilities of both parties and thereby laying to rest idealistic or misunderstanding expectation is critical to the success of a client/ outsourcer relationship.

#### **2.4 Outsourcing Management and Provider Behavior**

The relationship between the outsourcing management and provider behavior can be traced from Agency theory which contend that a firm's goal of profit maximization may conflict with the principal's overall objectives. Therefore according to this theory public managers should put in place mechanism to guard against the agent optimistic behavior like tendency put in less effort than the public sector would wish (shirking) or finding ways of diverting the resources to their own end (rent extraction), this is consistent with Transaction cost theory which assume that vendors operate opportunistically, pursuing their self-interest with guile (Brown & Potoski. 2005; McIvor. 2000).

Game theory (as cited by Urquhart, 2002) applied to outsourcing uses the idea that it may make sense for one party to cheat on other, but whether this is successful strategy in the long-term depends on the reaction of the client. The game theory is a reminder that it is not necessarily in partner's best interest to co-operate with each other. The strategies of players (Client/Supplier) depend on their beliefs concerning the motives of the other, but information game may be asymmetric in that one can cheat on the other. Adam Smith (as cited by Barton 2006) conceived a concept of the invisible hand to explain why firms and consumers pursuing their own self-interests, who operate in competitive market, could enhance both economic and social welfare of community. He demonstrated that competition between firms prevent any one firm from exploiting its position and ensured

good market performance which benefited consumers and enabled efficient firms to continue operating. However, it should be emphasized his theory relies on producers and consumers being fully informed so that they can all make rational decisions to enhance their reward (Barton 2006). According to this concept, it can be deduced that firms which are selected through competitive bidding are likely to generate value for money and public sector managers should be well informed when selecting outsourcing service providers.

## **2.5 Provider Competence and Value for Money**

Literature reviews seem to suggest that provider competencies influence provider's ability to perform the outsourced services and consequently value for money. Kakabadse and Kakabadse (2000) contend that the quality of both parties' respective skills and resources is highly important for final outcome of outsourcing contract.

Elmuti and Kathawala (2000) argue that outsourcing partner should be selected based on their expertise in the operations being outsourced; they also attribute most outsourcing failure to poor selection of a provider who lacks competence to execute the contracts.

## **2.6 Provider Behavior and Value for Money**

Reberneck and Bradac (2006) contend that due to information asymmetry in outsourcing relationship, service providers develop optimistic behavior which if poorly managed derails value for money in public sector. The adverse selection which they termed as pre-contractual or ex-ante optimistic behavior, the tendency of providers to disclose less information or disclose fictitious information that leads to selection of wrong provider consequently value for money. Similarly, Krugman (2002) argued that it is very common

for a private contractor to bid low to get business then push their prices up once government workforce has been disbanded. Jensen and Stonecash, (2005) assert that while private providers of public services may have a stronger incentive to keep down costs, some cost savings may be achieved by reducing the quality of the service delivered more especially if quality is difficult to measure and define in a contract which can serve as the basis for legal action.

## **CHAPTER THREE: METHODOLOGY**

### **3.0 Introduction**

This section presents methods that were used in conducting the study. It includes the Research Design, Study Population, Sampling Design & Sample Size, Sources of Data, Instruments of Data Collection, Measurement of Research Variables, Measurement of Reliability of Research Instrument and Data Analysis.

### **3.1 Research Design**

The study was cross-sectional in nature. It also adopted a correlation survey designs. Pretested self administered questionnaires were used to collect data about the outsourcing management, provider competence, provider behavior and value for money.

### **3.2 Study Population.**

The targeted population of the study was individual entities, whereby the Procuring and Disposal Entity was considered as a unit of analysis. The study population comprised of 116 central governments entities listed by Uganda's Public Procurement and Disposal of Public Assets Authority as Procuring and Disposing Entities by December 2008. The strata comprised of Commissions, Hospitals, Ministries and Parastatal of Uganda.

### **3.3 Sample size**

The sample comprised of 91 the different central government entities obtained from a total population of 116 Uganda's Procuring and Disposing Entities registered by Public Procurement and Disposal of Public Assets Authority as shown in Table 3-2. This sample size was determined basing on Krejcie and Morgan (1970) Table for Determining Sample Size from a Given Population

According to the table the population of 116 lies between 110 and 120 giving sample sizes of 86 and 92 respectively. By Linear interpolation the Sample size ( $Y_2$ ) **91** PDEs was derived as below.

$$Y_2 = \frac{(X_2 - X_1)(Y_3 - Y_1)}{(X_3 - X_1)} + Y_1$$

$$Y_2 = \frac{(116 - 110)(92 - 86)}{(120 - 110)} + 86$$

$Y_2 = 90.8$  Approximately 91

Where  $Y_1 =$  Sample Size series

$X_1 =$  Population Size series

$Y_2 =$  Required Sample Size

Two respondents were purposively selected from each entity sampled making a total number of targeted respondents to be 182. The distribution of table of sample size is shown in Table 3-1 below

**Table 3-1: Summary of the Sample Size**

<b>Entity/Strata</b>	<b>Population</b>	<b>Sample</b>	<b>Number of respondent Per entity</b>	<b>Total Number of Respondents</b>
Commission	14	11	2	22
Hospitals	12	9	2	18
Ministry	21	17	2	34
Parastatal	69	54	2	108
<b>Total</b>	<b>116</b>	<b>91</b>		<b>182</b>

**Source:** PPDA (2008).

### **3.4 Sampling Design and Procedure**

The population chosen for the study was first stratified into Groups (stata) commissions, hospitals, ministry and parastatal. Then proportionate stratified random sampling method was used to determine the number of entities to be sampled from each category.

Then simple random sampling was used to select the organization sampled. This method was preferred because it gave each organization an equal chance of being selected.

Then two respondents were purposely selected from each organization sampled. This was to ensure that the persons selected had some knowledge of outsourcing and or have ever participated in outsourcing process in their respective organization. The two respondents selected included one procurement officer based on the fact that they are responsible for managing the entire procurement process and one staff of user department who are responsible for planning, initiating requirement, drafting terms of reference, participate in bid evaluation and contract management in accordance with PPDA 2003 Acts and Regulations.



### **3.5 Data Sources**

**Primary Data:** The Primary data was obtained from the respondents using self administered questionnaire to get data on study variables

**Secondary Data:** The Secondary data about the study variables was got from journals, reports and publications of relevant agencies dealing with public agencies and development of public sector.

### **3.6 Data Collection Instrument**

Questionnaire was used by research to collect data on researcher to collect primary data on research variables which were outsourcing management, provider competence, provider behavior and value for money.

### **3.7 Validity and Reliability Tests:**

For the validity, experts in the field were consulted about the content of the instruments, ambiguity of question items and their relevancy. The reliability of the instrument was established by computing the Cronbach Correlation Coefficient using a computer programme known as “Statistical Package for Social Scientists”. The results showed that alpha coefficient of the factor ranged from 0.6423 to 0.9631 well above the minimum of 0.50 considered acceptable as indicator for basic research (Nunally, 1967). This indicates that the instrument used to collect data from respondents was dependable and can yield similar results at all time (See table 3.2 below).

**Table 3-2: Reliability Analysis**

<b>Variable</b>	<b>Anchor</b>	<b>Cronbach Alpha Value</b>
Outsourcing Management	5 point	.9631
Competence of Outsourcing Provider	5 point	.8475
Behavior of Outsourcing Provider	5 point	.6423
Value for Money	5 point	.9622

Source: Primary Data

### **3.8 Measurement of Study Variables**

Five-point likert scales ranging from strongly disagree to strongly agree and itemized scale was used to measure the variables. The four main variables that were measured in this study include: outsourcing management, provider competency provider behavior and value for money.

**Outsourcing management;** as an independent variable, was measured by use of likert scale on the perception of the respondents on the degree of effectiveness in managing outsourcing with critical analysis of constructs of planning, sourcing (provider selection) and, contract management (Kakabadse and Kakabadse, 2001).

**Provider competence;** the study measured the perception of outsourcing managers on the competence of providers. The constructs of provider competence measured include skills and knowledge, experience and technology (McIvor. 2000).

**Provider behavior;** the constructs used to measure the behavior of provider before contract is offered like giving fictitious information or (adverse selection), construct used to measure behavior of provider after signing contract like shirking (moral hazard) and imperfect commitment was used in the study to measure the perception of respondents on behavior of outsourcing providers (Rebernic & Bradač, 2006) .

**Value for Money;** the study adopted the three indicators used to measure value for money in public sector Viz; The pricing ratio which measures the cost of providing successful service, Performance over range indices which evaluates the quantity, quality and cost of delivery and finally performance against planned which measures the extent the organization has been able to achieve the desired objectives within agreed financial target and time ( Manson 2006).

### **3.9 Data Analysis.**

The data was cleaned, edited, classified. Data was categorized to bring out a frequency which was used to describe both the independent and dependent variable. While the quantitative data was analyzed using the statistical packages for social scientists (SPSS) Computer program. The relationship between independent and the dependent variable was tested using correlation and regression analyses.

## **CHAPTER FOUR: RESULTS & FINDINGS OF THE SURVEY**

### **4.0 Introduction**

This chapter contains the results and the interpretation of the data which was gathered from the field by the researcher. The presentation was made as per the research objectives and the statistics are thus a reflection of what it takes to address the research objectives. In the beginning of the chapter are the sample characteristics that reflect the characteristics of the individual respondents followed by the characteristics of the Institutions. Statistics such as Charts, Cross tabulations, correlations and the Analysis of Variance (ANOVA) were used to generate the results for this chapter. The presentation was guided by the following research objectives;

- i) To establish the relationship between outsourcing management and value for money in public sector.
- ii) To investigate the relationship between outsourcing management and provider competence.
- iii) To examine the relationship between Outsourcing management and provider behavior.
- iv) To establish the relationship between Provider competence and value for money in the public sector.
- v) To establish the relationship between Provider behavior and value for money in the public sector.

#### 4.1 Response Rate

The expected number of respondents was 182 however, the researcher only managed to receive some 122 respondents that could be used in the analysis and thus attained a response rate of 67%.

**Table 2 -1 Response Rate**

<b>Expected Number of Respondents</b>	<b>Received</b>	<b>Response Rate</b>
182	122	67%

#### 4.2 Respondents Characteristics

##### 4.2.1 Gender of Respondents

Reflecting the gender of respondent's majority (54.9%) of respondents was male while 45.1 % were female as show in Table 4-2 below. This shows that the findings of this study represent the views of both genders

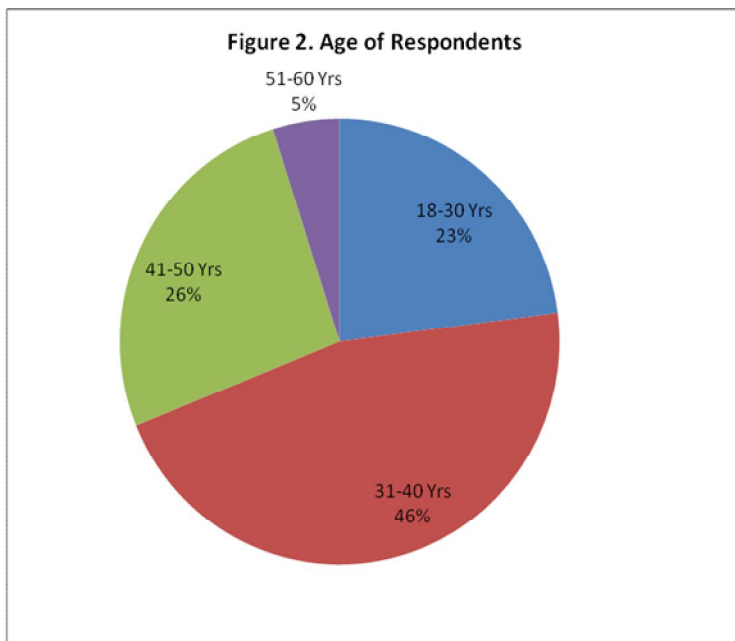
**Tabel 4-2 Gender of Respondents**

<b>Sex</b>	<b>Frequency</b>	<b>Percentage</b>
Male	67	54.9
Female	55	45.1
<b>Total</b>	<b>122</b>	<b>100</b>

Source: Primary data

#### 4.2.2 Age of Respondents

According to findings shown in figure 3 below, majority (46%) of respondents are within 31-40 years, this shows that the majority of respondents were mature. The results also show that other age groups were also represented. This implies that the finding contained the views of all the age group who were targeted respondent of this study.



Source: Primary Data

#### 4.2.3 Experience in the Organisation

Information was sought about the period the respondent had spent with their current organization to assess whether the respondent has stayed with the firm for a reasonable period of time to be able to understand and assess their organization. The results in table 4-3 below shows that majority (40.2%) of respondents had worked for their institutions for a range of 1-3 years followed by those with 4-7 Years (33.6%). This means that the

majority of respondents has stayed with these entities for some time and has knowledge of past experience of their organization on outsourcing and their views are reliable.

**Table 4-3: Experience with Current Organization**

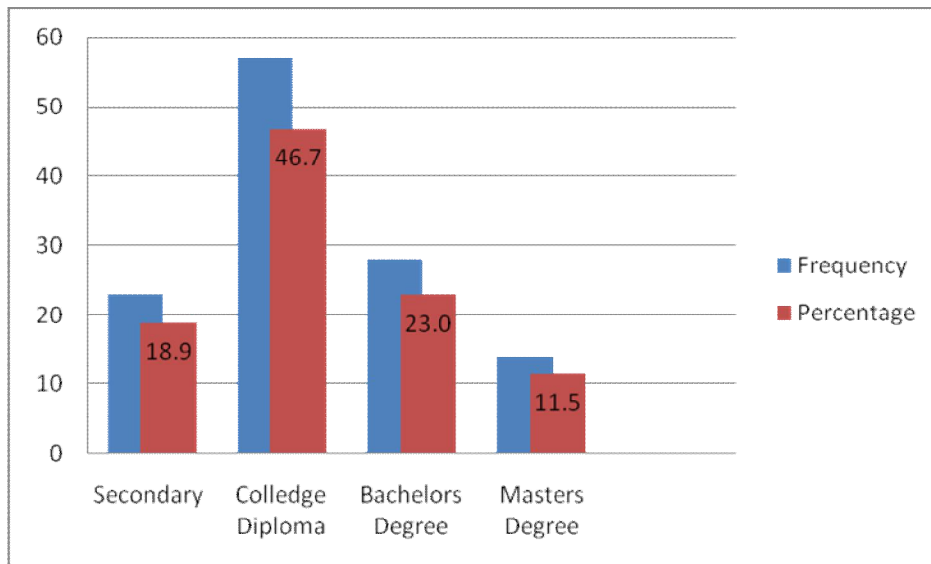
Duration	Frequency	Percentage
Less than 1 Yr	13	10.7
1-3 Yrs	49	40.2
4-7 Yrs	41	33.6
8-10 Yrs	13	10.7
Above 10 Yrs	6	4.9
<b>Total</b>	<b>122</b>	<b>100.0</b>

Source: Primary Data

#### 4.2.4 Education Level

Information on academic qualifications of the respondents was sought using the questionnaire. The results are presented on Fig 3 below;

**Figure 3. Highest Education Level of the Respondent**



Source: Primary Data.

The finding in Figure 3 above show that majority (46.7%) of the respondents had college Diploma as their highest level of academic qualification, followed by Bachelors degree

holders (23%). This implies that the respondents had capacity to answer the questionnaire and their views can be relied on.

#### **4.2.5 Distribution of the Experience in Handling Outsourcing Assignment by Employment Terms**

The results in the table 4-4 below revealed that the majority of the respondents had been handling outsourcing related Assignments (42.6%) for some 1-3 years while only 4.1% of these respondents had been handling these assignments for Over 10 years. It was further noted that among the staff on the contract basis of employment, there are none that have handled the outsourcing related Assignments for over 10 years.



Table 4-4: Distribution of the Experience in handling Outsourcing Assignments by Employment Terms

			Employment Terms			Total
			Permanent	Contract	Others	
Period of handling outsourcing related Assignment	Less Than 1 yrs	Count	10	8	1	19
		Row %	52.6	42.1	5.3	100.0
		Column %	11.0	26.7	100.0	15.6
	1-3 yrs	Count	46	6		52
		Row %	88.5	11.5		100.0
		Column %	50.5	20.0		42.6
	4-7 yrs	Count	26	5		31
		Row %	83.9	16.1		100.0
		Column %	28.6	16.7		25.4
	8-10 yrs	Count	4	11		15
		Row %	26.7	73.3		100.0
		Column %	4.4	36.7		12.3
	Above 10 yrs	Count	5			5
		Row %	100.0			100.0
		Column %	5.5			4.1
Total		Count	91	30	1	122
		Row %	74.6	24.6	.8	100.0
		Column %	100.0	100.0	100.0	100.0

Source: Analyzed Data

#### 4.2.6 Distribution of the Organisational Age by the Category

**Table 4-5: Distribution of the Organisational Age by the Category.**

			Organisational Category					Total
			Central Government Ministry	Commission	Hospital	Parastatals	Others	
Organisational Age	Less Than 5yrs	Count	2	1	1	4		8
		Row %	25.0	12.5	12.5	50.0		100.0
		Column %	8.3	11.1	8.3	5.5		6.6
	5-10 yrs	Count	2		2	21	1	26
		Row %	7.7		7.7	80.8	3.8	100.0
		Column %	8.3		16.7	28.8	25.0	21.3
	11-15 yrs	Count	1	2		12	2	17
		Row %	5.9	11.8		70.6	11.8	100.0
		Column %	4.2	22.2		16.4	50.0	13.9
	16-20 yrs	Count	4	4	2	19		29
		Row %	13.8	13.8	6.9	65.5		100.0
		Column %	16.7	44.4	16.7	26.0		23.8
	Above 20 yrs	Count	15	2	7	17	1	42
		Row %	35.7	4.8	16.7	40.5	2.4	100.0
		Column %	62.5	22.2	58.3	23.3	25.0	34.4
Total	Count	24	9	12	73	4	122	
	Row %	19.7	7.4	9.8	59.8	3.3	100.0	
	Column %	100.0	100.0	100.0	100.0	100.0	100.0	

The results in the table 4-5 showed that overall, the Central Government Ministries, Commissions, Hospitals, Parastatals and Other Institutions of similar attributes comprised 19.7%, 7.4%, 9.8%, 59.8% and 3.3% respectively of the sample. Among all these organisations, it was revealed that the Central Government Ministries (35.7%) dominated the category of the institutions that had been operating for over 20 years. It was the commissions (4.8%) and the other categories of the organisations (2.4%) that had the least proportion among these oldest institutions.

#### 4.2.7 Nature of services Outsourced and Organisational Category distribution

**Table 4-6: Distribution of the Organisational Category and the Nature of Services Outsourced**

			Organisational Category					Total
			Central Government Ministry	Commission	Hospital	Parastatal	Others	
Nature of services Outsourced	Mainly Core	Count	1			2		3
		Row %	33.3			66.7		100.0
		Column %	4.2			2.7		2.5
	Core	Count	3		2	8	2	15
		Row %	20.0		13.3	53.3	13.3	100.0
		Column %	12.5		16.7	11.0	50.0	12.3
	Equally Core & None Core	Count	2	2	2	15		21
		Row %	9.5	9.5	9.5	71.4		100.0
		Column %	8.3	22.2	16.7	20.5		17.2
	None Core	Count	9	3	5	25	1	43
		Row %	20.9	7.0	11.6	58.1	2.3	100.0
		Column %	37.5	33.3	41.7	34.2	25.0	35.2
	Mainly None Core	Count	9	4	3	23	1	40
		Row %	22.5	10.0	7.5	57.5	2.5	100.0
		Column %	37.5	44.4	25.0	31.5	25.0	32.8
Total	Count	24	9	12	73	4	122	
	Row %	19.7	7.4	9.8	59.8	3.3	100.0	
	Column %	100.0	100.0	100.0	100.0	100.0	100.0	

**Source:** Primary Data

The results in the table 4-6 above showed that most of the organisations mainly outsource None Core services (35.2%) while only 2.5% reported that they outsource the Mainly Core services. In addition, among those organisations that outsource mainly None Core services, it was revealed that the majority of these are Parastatal organizations (57.5%), 7.5% hospitals and only 2.5 % fall in other categories.

### 4.3 Inferential Findings

#### 4.3.1 The Relationships among the Variables

The study aimed at establishing the relationships between the variables; Outsourcing Management, Provider Competence, Provider Behavior and Value for Money in public sector. A Pearson (r) correlation coefficient which is a measure of the correlation between two variables was used to establish the relationship between variables in the study. The results are shown in (Table 4.7) below.

**Table 4-7: Relationship between Variables**

	Outsourcing Management	Provider Competence	Provider Behavior	Value for Money
Outsourcing Management	1.000			
Provider Competence	.628**	1.000		
Provider Behavior	.554**	.509**	1.000	
Value for Money	.549**	.354**	.440**	1.000

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

Source: Analyzed Data

#### 4.3.2 The Relationship between the Outsourcing Management and the Value for Money

The results in the table 4-7 above revealed that there exists a significant and positive relationship between the Outsourcing management and the value for money ( $r = .549^{**}$ ,  $p < .01$ ). The results show that the level of effectiveness in management of outsourcing process determines the extent the value for money shall be achieved.

#### 4.3.3 The Relationship between the Outsourcing Management and Provider Competence

Furthermore, it was revealed that Outsourcing management and Provider competence are also significantly and positively related ( $r = .628^{**}$ ,  $p < .01$ ). These results showed that if

the outsourcing process is well managed (competitive and transparent selection of provider) then high caliber service providers will be hired.

#### **4.3.4 The Relationship between the Outsourcing Management and Provider Behavior**

On a further note, the results revealed that there exists a positive relationship between the outsourcing management and the Service provider behavior ( $r = .554^{**}$ ,  $p < .01$ ). These results further support the fact that the more professionally the Outsourcing management is handled, the greater the chances of realizing the desired service provider behavior when the organisations are transacting business with them.

#### **4.3.5 The Relationship between Provider Competence and Value for Money**

Provider competence and Value for Money in the public sector were also observed to be positively and significantly related ( $r = .354^{**}$ ,  $p < .01$ ). These results show that the service provider competence attributes including skills, knowledge and technology impacts on ability of service provider to execute the assignment and consequently value for money.

#### **4.3.6 The Relationship between Provider Behavior and Value for Money**

Provider behavior on the other hand was also observed to be significantly and positively related to the Value for money ( $r = .440^{**}$ ,  $p < .01$ ). In other words, the more the service provider behavior conforms to the terms of the agreement that governs the relationship between the contractors or the client, the more likely the organisation or the client will be able to realize value for the money.

### 4.3.7 Regression Model

Regression model is a statistical model that relates the dependent variable to one or more independent variable. This is used to establish the aggregate effect of the independent variable on the dependent variable in the study.

The prediction or regression model in table 4-8 below was generated in order to examine the extent to which the predictors Outsourcing Management, Provider Competence, Provider Behavior can explain the dependent variable; Value for Money so as to make reasonable justifiable conclusions and recommendations.

**Table 4-8: Regression Model**

Regression Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Dependent Variable: Value for Money	
Model	B	Std. Error	Beta			R Square	Adjusted R Square
(Constant)	1.517	.385		3.942	.000		.326
Outsourcing Management	0.505	.124	.452	4.057	.000		.306
Provider Competence	0.020	.091	.023	.217	.829		.000
Provider Behavior	0.151	.078	.196	1.929	.057		

The results in the table 4-8 above showed that the predictors can explain up to 30.6% of the variance in Value for Money (Adjusted R Square = .306). In addition, Outsourcing Management (Beta = .452) emerged as the most powerful variable at predicting the Value for Money. The regression model was also significant (sig. = .000)

#### 4.4 Analysis of Variance (ANOVA) Results

##### 4.4.1 ANOVA Results for Organisational category by Variable

An ANOVA test was carried out to establish the difference in perception on study variables; outsourcing management, provider competence, provider behavior and value for money among the respondents from both categories of PDE's. The results in the table 4-9 below show the results for organizational category by Variable.

**Table 4-9: ANOVA Results for Organisational category by Variable**

		Mean	Std. Deviation	Std. Error	F	Sig.
<b>Outsourcing Management</b>	Central Government Ministry	4.10	0.45	0.09	3.93	.005
	Commission	3.74	0.62	0.21		
	Hospital	4.08	0.53	0.16		
	Parastatal	4.24	0.41	0.05		
	Others	3.64	0.43	0.22		
<b>Provider Competences</b>	Central Government Ministry	4.03	0.56	0.12	1.72	.150
	Commission	3.55	0.41	0.15		
	Hospital	4.00	0.42	0.13		
	Parastatal	4.14	0.68	0.08		
	Others	3.95	0.25	0.13		
<b>Provider Behavior</b>	Central Government Ministry	3.73	0.65	0.14	6.08	.000
	Commission	3.34	0.66	0.23		
	Hospital	3.33	0.69	0.21		
	Parastatal	4.08	0.62	0.08		
	Others	3.42	0.23	0.11		
<b>Value for Money</b>	Central Government Ministry	4.03	0.37	0.08	4.67	.002
	Commission	3.64	0.69	0.24		
	Hospital	3.93	0.78	0.25		
	Parastatal	4.25	0.45	0.06		
	Others	3.51	0.34	0.20		



The results in the table 4-9 above showed that the organisations differ significantly on Outsourcing Management, Provider Behavior and value for Money ( $p < .050$ ). On the Value for Money, the results showed that the Parastatals (Mean =4.25) were observed to rank higher than the Central Government Ministry (Mean =4.03), Commission (Mean =3.64), Hospitals (Mean =3.93) and the other institutions of similar attributes (Mean =3.51)

#### **4.4.2 ANOVA Results for Organisational Age by Variable**

An ANOVA test was carried out to establish the difference in perception on the study variables by respondent from different age group of organization sampled. The 4-10 shows the results of the findings.

**Table 4-10: ANOVA Results for Organisational Age by Variable**

		Mean	Std. Deviation	Std. Error	F	Sig.
<b>Outsourcing Management</b>	Less Than 5yrs	4.19	0.58	0.20	0.96	0.43
	5-10 yrs	4.29	0.55	0.11		
	11-15 yrs	4.13	0.44	0.11		
	16-20 yrs	4.07	0.53	0.10		
	Above 20 yrs	4.08	0.36	0.06		
<b>Provider Competence</b>	Less Than 5yrs	4.03	1.20	0.43	2.92	0.03
	5-10 yrs	4.40	0.64	0.13		
	11-15 yrs	3.96	0.50	0.12		
	16-20 yrs	4.00	0.51	0.10		
	Above 20 yrs	3.91	0.49	0.08		
<b>Provider Behavior</b>	Less Than 5yrs	4.16	0.89	0.31	4.35	0.00
	5-10 yrs	4.18	0.63	0.12		
	11-15 yrs	4.01	0.67	0.16		
	16-20 yrs	3.78	0.60	0.12		
	Above 20 yrs	3.56	0.63	0.10		
<b>Value for Money</b>	Less Than 5yrs	3.98	1.08	0.41	0.23	0.92
	5-10 yrs	4.18	0.61	0.12		
	11-15 yrs	4.07	0.41	0.10		
	16-20 yrs	4.12	0.51	0.11		
	Above 20 yrs	4.10	0.39	0.06		

Source: Primary Data

The results in the table 4-10 above showed that on organizational age the institutions differ significantly on Provider Competence and Provider Behavior ( $p < .05$ ). However, on the Outsourcing Management and Value for Money, there were no significant differences among the Institutions as far as Institutional age is concerned ( $p > .05$ ).

## **CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATION**

### **5.0 Introduction:**

The concepts of outsourcing management, provider competence, provider behavior and Value for money have gained prominence in the public sector outsourcing today. However, markedly little studies have been done to determine the effects of outsourcing; management, Provider competence and provider behavior on value for money in public sector. This study set out to explain the effects of outsourcing management on value for money, the effect of outsourcing management on the competence and behavior of outsourcing service provider and the relationship between provider competence and behavior of service provider on value for money. A conceptual model was developed that explains how outsourcing management, provider competencies and behavior can affect value for money. This chapter discusses the findings, draws conclusions and provides recommendations for policy implementation and further areas of research. The findings and discussions have been done as per the research questions and objectives set at the beginning of the study.

### **5.1 Discussion and Interpretation of the Findings:**

The results show that there is a strong correlation among all the constructs responsible for determining value for money, namely; outsourcing management, provider competencies and provider behavior and this is supporting research objectives one, two, three, four and five. The Pearson correlation coefficient showed consistently a significant positive correlation. This implies that a high level of any of the components will lead to

enhancement in another component. An effective outsourcing management influences the competence and behavior of behavior of service provider which in turn impact on value for money.

### **5.1.1 The relationship between the Outsourcing Management and Value for money**

The findings revealed a strong positive correlation between outsourcing management and the value for money in public sector thus confirming the first research objective. These findings are in line with the works and views of prior scholars; Scalar (2000) concluded that successful government outsourcing is largely dependent on how effectively public officials manage contracts and monitors provider's performance. Weimer and Seuring (2007) asserted that governing and controlling the outsourcing provider is essential for successful outsourcing engagement. Similarly, Crowley (1999) found that the more planning that is done for risk factors before implementing outsourcing, the higher the probability of success for that implementation. All these imply that outsourcing management has a big role to play in the value for money in public sector. It also means that central government entities should adopt and promote best outsourcing management practices in order to achieve value for money.

### **5.1.2 The Relationship between the Outsourcing Management and Provider Competence**

The findings revealed a strong positive correlation between outsourcing management and the provider competence thus confirming the second research objective. These findings are in line with the works of Freeney, Lait & Wilcox (2005) who argued that there array of potential suppliers with comparatively low labor costs and ability to apply sophisticated management techniques and technology and the challenge is for the client to understand their own requirements and identify providers whose capabilities and

objectives are best aligned with their particular needs. Similarly Brown, Potoski and Slyke, (2006) and Pavel (2006) found out that the environment (free, fair and transparent) and selection method under which supplier selection process is conducted can affect the supplier selected consequently their competence. The study implies that the best matches exist between provider competence and competency required to execute the assignment when there is effective management of supplier selection process.

### **5.1.3 The Relationship between the Outsourcing Management and the Provider Behavior**

On a further note, the results revealed that there exists a positive relationship between the outsourcing management and the Service provider behavior thus confirming the third objectives. The findings imply that the behavior of service provider is influenced by the ability of the outsourcing institution to monitor, guard and detect the optimistic behavior of service provider. These findings are in line with the work of Brown & Potoski (2005), McIvor (2000) who argued that according to agent theory that a firm's goal of profit maximization may conflict with the principal's overall objectives and therefore the firm may engage in optimist behavior.

### **5.1.4 The Relationship between Provider Competence and Value for Money**

The provider competence and value for money was found to be significantly positively related thus addressing the fourth research objective. This imply that the extent to which central government entities are able to achieve value for money from outsourcing contracts depends on match between the competence of service provider and competence required to perform the assignment effectively. The finding also implies that the best outcome of outsourcing contract can be attributed to the right competence level of service

provider and the reverse is true. The findings are supported by works of Kakabadse and Kakabadse (2000) who contend that the quality of both parties' respective skills and resources is highly important for final outcome of outsourcing contract.

#### **5.1.5 The Relationship between Provider Behavior and Value for Money**

Provider behavior on the other hand was also observed to be significantly and positively related to the Value for money thus addressing fifth research objective. The findings are in line with views of Jensen and Stonecash(2005) who argued that due to strong incentives by service providers to keep down cost , some cost saving may be achieved by reducing quality more especially if performance measures are not clearly stated in contract. The finding of this study is also in consistence with the works of Reberneck and Bradac (2006) who found out that due to information asymmetry, service providers tend to disclose less information or fictitious information during sourcing period that may lead to selection of wrong providers who may later on fail to deliver the services to required quality and time after the contract has been awarded and consequently value for money. This finding is further supported by works of Krugman (2002) who contend that private contractor tend to bid low to get business then push prices up once government workforce has been disbanded and consequently value for money.

Further the findings are also supported by Agency theory which affirms that a firm's goal of profit maximization may conflict with the principal's overall objectives. Therefore service provider may engage in optimistic behavior like shirking, rent extraction which in turn adversely affects value for money (McIvor 2000).

## 5.2 Conclusions

A significant positive correlation existed between outsourcing management and value for money in public sector. This means that outsourcing management strongly impacts on value for money and the best outsourcing management practices like effective planning, Risk analysis and control, effective supplier selection process, use of skilled and experienced contract managers, effective contract supervision and proper contract design with performance parameters and clauses that motivated positive supplier behavior are prerequisites for value for money in public sector. Therefore it can be concluded that firms that adopt and promote best outsourcing practices are more likely to realize Value for money than those that do not.

A significant positive relationship existed between the outsourcing management and provider competence. This means that outsourcing management strongly influences competence of service providers, and therefore organizations that employ best outsourcing management practices are more likely to hire service providers with right competencies to execute the assignment. This can be achieved through effective planning and analysis of services to be outsourced , offering of training programs to the leadership; and recruitment of knowledgeable, experienced and highly qualified staff, with right attitude to work; Transparent and competitive process of supplier selection and top management commitment.

The study established that there was a significant positive correlation between outsourcing management and behavior of service provider. This means that outsourcing management influences the behavioral attributes of service provider and if the central government entities leadership develops and practice the best management outsourcing

practices, like close monitoring and supervision of service providers, having key performance indicators clearly stipulated in the contract and setting systems, incentives that promote positive behavior attributes of outsourcing service providers they would be able to guard against optimistic behavior of service providers.

Findings revealed the positive relationship between provider competence and value for money in public sector. This implies that the competence of service providers determines the ability of the provider to offer services that meets expectation of outsourcing organization. It can be concluded that organization that hire service providers with competencies that match the competence levels required to execute the assignment are more likely to realize value for money than institution that outsource to service providers without requisite competencies. The finding further implies that skilled contract managers are essential ingredients to a successful outcome for both the agency and the company providing the service.

The study also found the positive relationship between provider behavior and value for money in public sector. This implies that optimistic behavior of service provider like tendency to put in less effort than the public sector would wish (shirking) or finding ways of diverting the resources to their own end (rent extraction) greatly affect value for money in the public sector. This also means that organization that have effective systems, controls , incentives and penalties’ that promote positive behavioral attributes of service provider are more likely to realize value for money following outsourcing than those that don’t.



### **5.3 Recommendations**

The study findings show that outsourcing of public service provision has high potential for improving service delivery and value for money in public sector, but the ability of the institution to achieve value for money depends on how well the key outsourcing process is managed therefore the following recommendations are made;

Since there was a significant positive relationship between outsourcing management and value for money, its recommended that central government entities should adopt best outsourcing practices which entail effective planning, proper management of service providers selection process, effective contract management and building capacity of contract managers in outsourcing planning, contract design and administration.

Since there was a significant positive relationship between outsourcing management and provider competence and a significant relationship between provider competence and value for money, it's recommended that central government entities should adopt best outsourcing management practices, process, procedures and organizational arrangements that will enable the selection of supplier with the right competence. This calls for central government entities to conduct and manage supplier selection process in transparent and competitive manner.

Further more there was a significant positive relationship between outsourcing management and supplier behavior and a significant positive relationship between supplier behavior and value for money, its recommended that central government entities should put in place mechanisms to ensure proper management of outsourcing contracts. This should entail clear description of services to be offered and performance

indicators, contract being managed by competent persons of high integrity, proper contract designs with incentives and penalties to promote positive behavior attributes of service providers and guard against optimistic behavior of service providers. The service provider should be requested to sign ethical code of conduct which should form part of contract.

#### **5.4 Limitation of Study**

Some respondents were reluctant to fill in the questionnaires and this was attributed to the fact that most of them were sensitive and had a lot of suspicion on making assessment of outsourcing management and value for money for their institution. The researcher had to seek for authority from heads of respective entities before distributing questionnaires in addition to constant follow ups and telephone reminders. The study was wholly funded by the researcher thus a financial burden. This necessitated reallocation of personal finances. Despite these limitations the quality of the research findings was not affected.

#### **5.5 Recommendations for further Research:**

The need to establish and adopt best outsourcing management practices is a vital way forward for the central government entities that would like to achieve value for money from outsourcing services. The studies aimed at establishing best management practices and models for managing outsourcing contracts is highly recommended

The scope of this study was mainly in central government entities located in Kampala. Further research should be done to cover the entire country and also to expand to other public projects and local governments.

The study shows that all variables; outsourcing management, provider competence, and provider behavior combined contribute only 30.6 % towards value for money. Future research should determine other factors that contribute to the remaining percentage. For example legal framework, regulations and procedures, the use of standard bidding documents.

Two respondents was selected from each entity sampled future study design should includes other key stake holders involved in outsourcing, this should include the Service Providers, Accounting Officers and Members of public.

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## Appendix 2. Sample Questionnaire

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Dear Respondent.

This questionnaire is from Aheebwa Moses a student at Makerere University Business School  
Studying Master of Science in Finance and Accounting Degree Course.

The questionnaire is about a study on outsourcing management and value for money in the public sector; a Case of Selected Central Government Entities in Uganda and it's purely academic. The information solicited for in this questionnaire will be used for academic purposes only. The survey is for a partial requirement for the award of Master of Science in Finance and Accounting Degree of Makerere University.

I kindly request you to spare a few minutes of your busy schedule to fill in this questionnaire.

Your honest and sincere responses are highly appreciated and shall have confidential treatment.

Thank you for your cooperation.

Yours Sincerely

**Aheebwa Moses**

**Section A: Personal Data**

Please tick the option that best relates to you

1. Gender: Female  Male

2. Your age bracket

18-30yrs  31-40 yrs  41-50 yrs  51-60yrs  61 and Above

3. Your highest level of education

Secondary Education  College Diploma  Bachelors degree  Masters  PhD

Others specify -----

4. How long have you been with your current organisation?

Less than 1yr  1-3yrs  4-7 yrs  8-10 yrs  above 10 yrs

5. In which functional area of outsourcing process in your organisation do you belong?

User Department  Member of Procurement Unit

6. Terms of your employment? Permanent  Contract  Others Specify .....

7. How long have you been handling outsourcing related assignment?

Less than 1yr  1-3yrs  4-7 yrs  8-10 yrs  above 10 yrs

**Section B: Organisational Data**

Please tick in the box the option that best describes your organisation

1. In which category does your organisation belong?

Central government ministry  Commission  Hospital  Parastatal

Others Specify.....

2. How old is your organisation

Less than 5yrs  5-10yrs  11-15yrs  16-20 yrs  above 20yrs

3. Does your organisation out source some services or activities? Yes  No  Don't Know

4. If yes in 3 above the nature of services outsourced in your organisation is: tick most appropriate

Mainly Core  Core  Equally Core and None Core  None Core

Mainly None Core

**Section C: Outsourcing Management**

The following statement relates to management of outsourcing process in your organisation please indicate the extent you agree or disagree with the following statements.

Tick SD= Strongly Disagree D= Disagree U= Uncertain A=Agree SA= Strongly Agree

NS	Description of item and operational label	SD	D	U	A	SA
1.	Outsourcing objective are set and made known to staff before decision to outsource is taken					
2.	Internal capacity to handle particular activity/service is analysed before decision is taken to outsource					
3.	We analyse the risk involved in outsourcing particular service and mitigating measures set before outsourcing.					
4.	In my opinion sufficient time and resources is committed to develop the outsourcing requirements in our organisation					
5.	The services /activities outsourced are clearly defined and understood by providers and our staff who manage the outsourcing contract					

NS	Description of item and operational label	SD	D	U	A	SA
6.	We first carry out analysis to identify those activities which are core					
7.	We outsource services /activities where we lack core competence					
8.	The decision to outsource is taken by top management					
9.	The decision to outsource is initiated by responsible staff					
10.	The outsourcing contracts are properly designed with performance measures /indicators clearly stated and understood by both our staff who manage and supervise contracts and our service providers					
11.	The staff who manage out sourcing process and contracts have requisite skills , expertise and experience					
12.	We always have back up plans in case contractor fails to do what is agreed					
13.	Outsourcing is done in accordance to current public procurement laws and regulation					
14.	The selection procedure is transparent and applied fairly to all bidders					
15.	All legible firms are given reasonable opportunity to bid					
16.	Outsourcing firms are usually selected through competitive bidding					
17.	Outsourcing contracts includes clauses for penalties for breach of contract					
18.	The assessment process is able to realistically match qualities of the bidder to qualities required to perform the assignment					
19.	We always conduct independent check to verify claims by service provider.					
20.	Periodic meetings are always held with our service providers					
21.	The deadlines are always stated in the outsourcing agreement					
22.	The contract manager effectively supervises outsourcing contract					
23.	There is effective communication with our service providers					
24.	We always trust our service providers					

### D Competence and Behaviour of Outsourcing Provider

Section D: The following statement offers the best description of Competence and behaviour of most outsourcing service providers in your organisation to what extent do you agree or disagree?

Tick SD= Strongly Disagree D= Disagree U= Uncertain A=Agree SA= Strongly Agree

NS	Description of item and operational label	SD	D	U	A	SA
1.	Our service provider has necessary skills required for their assignment					
2.	Our service provider offers services in accordance with agreed terms of contract					
3.	Our service providers exhibit high degree of professionalism					
4.	Our service providers always understand clearly what is expected from them.					
5.	Our service providers uses machinery and other technologies which were not available in-house					
6.	Our service provider has wider knowledge, experience and expertise in the field of outsourced services/activities					
7.	Our service provider provides services in most innovative ways					
8.	Our service provider works competently without pressure from organisation management					
9.	Our service provider sometimes exaggerates its need in order to get what it really wants from us.					
10.	Our service provider do not act in self serving manner					
11.	Our service provider has sometimes altered facts					
12.	Our service provider promises to do thing without actually doing them later.					
13.	Our service provider feels that honesty does pays when dealing with us					
14.	The document presented by service providers during the bidding process are always proved to be valid and reliable					
15.	Our service provider do not pass blame for errors					
16.	Proposes to give gifts /favours in exchange for preferential treatment					

17.	Responds to our request and inquiries in timely manner					
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**Section E: Value for Money**

The following statement describes the results of outsourcing in your organisation tick the extent you agree with the following statement

Tick SD= Strongly Disagree D= Disagree U= Uncertain A=Agree SA= Strongly Agree

NS	Description of item and operational label	SD	D	U	A	SA
1.	In my opinion outsourcing has resulted to better quality services					
2.	In my opinion outsourcing has led to timely delivery of services					
3.	In my opinion outsourcing has improved responsiveness to society needs					
4.	In my opinion outsourcing has improved our operational efficiency					
5.	In my opinion outsourcing has reduced the cost of services in our organisation					
6.	In my opinion outsourcing has enabled us fulfil our organisation mandate					
7.	We are satisfied with our overall benefits from outsourcing					
8.	Our organisation has achieved its objectives for outsourcing					
9.	Generally our organisation have realised value for money from outsourcing					

**Section F: Others**

For any of outsourcing initiative you consider to be successful in your organisation the following factors were responsible for it success to what extent do you agree or disagree.

Tick SD= Strongly Disagree D= Disagree U= Uncertain A=Agree SA= Strongly Agree

NS	Description of item and operational label	SD	D	U	A	SA
1.	The provider was competitively selected					
2.	Sufficient time and resources was allocated to plan					
3.	The clear description of services and performance indicator in contract					
4.	Close and effective supervision of service provider					
5.	Ethical behaviour of service provider					
6.	Contract awarded to competent service provider					
7.	The nature of services /activities was suitable for outsourcing					

8.	Provider had requisite machinery and expertise					
9.	The supervisor had requisite skills and experience					

In the space provided below list other factor that in your opinion are key to success of outsourcing

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For any of outsourcing initiative you consider to have been unsuccessful in your organisation the following factors were responsible for its failure, to what extent do you agree or disagree?

Tick SD= Strongly Disagree D= Disagree U= Uncertain A=Agree SA= Strongly Agree

NS	Description of item and Operational Label	SD	D	U	A	SA
1.	The provider was not competitively selected					
2.	Sufficient time and resources was not allocated to plan					
3.	No clear description of services and performance indicator in contract					
4.	No Closure and effective supervision of the service provider					
5.	Un ethical behaviour of service provider					
6.	Contract was awarded to incompetent service provider					
7.	Our supervisor did not have requisite skills and experience					
8.	The services was not suitable for outsourcing					
9.	Provider lacked requisite machinery and expertise					

In the space provided below list the causes of outsourcing failure in public sector

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In your opinion how do you think outsourcing should be improved in public sector in Uganda?

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Thank you

For any clarification contact: Aheebwa Moses Tel: 0772935194 E-mail: [aheebwam@yahoo.com](mailto:aheebwam@yahoo.com)

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### *Graduate and Research Centre*

December 5, 2008

TO WHOM IT MAY CONCERN

Dear Sir/madam,

RE: **AHEEBWA Moses** *REG No.2004/HD10/2663U*

The above named is a student of Makerere University Business School, pursuing studies leading to the award of Master of Science Accounting and Finance degree of Makerere University. He is undertaking research in partial fulfillment for the requirement of the award of the award of Masters Degree on the topic; **"Outsourcing Management and Value for Money in Public Sector." A Case of Selected Centralize Government Entities in Uganda**

Any assistance rendered to **AHEEBWA Moses** complete his research will be highly appreciated.

Yours Sincerely,

Flavia Naggayi  
Graduate and Research Centre

Email: [grc@mubs.ac.ug](mailto:grc@mubs.ac.ug)

Website: [www.mubs.ac.ug](http://www.mubs.ac.ug)