

Bridging the Gap - Contractor and Bureaucrat Conceptions of Contract Management in Outsourcing

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Abstract Perceptions of bureaucrats and contractors and their contractual relationship underpin contracting success. They are important phenomena but have not been fully explored in the current contracting literature, particularly in a highly politicalized context, namely Hong Kong. Using the principal-agent theory and the transaction cost theory as the theoretical framework, this study examines the perceptions of the key stakeholders, conceptualizes five attributes of effective contract management, and offers recommendations on bridging their perceptions for success of contract administration in Hong Kong. The study helps readers comprehend the dynamics of contract management, and its implications of Hong Kong's politicalized background.

Keywords Contract management · Civil service training · Stakeholder analysis · Transaction cost theory · Principal-agent theory · Outsourcing

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Introduction

The New Public Management (NPM) movement calls for a range of reforms inspired by the idea that private sector management techniques and market mechanisms increase public sector efficiency (Samaratunge et al. 2008). Grounded on acceptance of the supremacy of the market as an all-encompassing institution for a functioning society, and a highly viable and functioning institution of the economy (Farazmand 2002), the ideology of privatization in all forms including contracting out and outsourcing seeks to have specific human resource functions performed by private organizations rather than government agencies (Ricucci 2012). Outsourcing is “a business arrangement between a government agency and a private entity” where “the private entity promises, in exchange for money, to deliver certain products or services to the government agency or to others on the government’s behalf” (Kelman 2002, p. 282). Outsourcing has become popular in the public sector because of the perception that governments are intrinsically inefficient (Huque 2005), and that the private sector is more economic, efficient and effective than the public sector (Amagoh 2009). The assumption is government can learn from the private sector, and it is able to achieve efficiency and effectiveness when public sector activities are exposed to market mechanisms, despite contextual differences that there are benefits in terms of efficiency and effectiveness by reinventing government machinery, and exposing public sector activities to market mechanisms, and that government can learn from the private sector despite contextual differences (Larbi 2006). Goldsmith and Eggers (2004) state that through private sector alliances, government can better adapt to the changing circumstances. For instance, the contract should feature the flexibility for government to make frequent changes, that is, to “add or subtract partners or services, broaden or shrink its scope, incorporate missing elements, allow and share unanticipated successes, collaboratively manage unplanned failures, [and] revise performance goals” (Goldsmith and Eggers 2004, p. 74). Nonetheless, such flexibility in government contracts is in fact far from common. Public managers and contractors can spend a significant amount of time reconciling disagreements about which party is responsible for delivering a particular service, and such disagreements can dampen efficiency. As Momme (2001) points out, outsourcing is therefore a process of establishing and managing a contractual relationship where government-contractor relationship can either enable or thwart the efficient provision of public services.

The contracting literature (Grover et al. 1996; Williams 2015; Zaidi et al. 2011) has implicitly considered outsourcing success concerning service quality, and cost reduction, but few have attempted to link the perceptions of bureaucrats and contractors to success of outsourcing management (Huque 2005; Kelman 2002; Kettl 1993; Sclar 2000; Seidl 2007; Van Slyke 2006). In fact, the perceptions of major stakeholders affect marketplace success (Robertson et al. 2010). The literature proposes that major stakeholders having different expectations tend to evaluate the success or failure of outsourcing differently (Bozeman and Kingsley 1998; DeHart-Davis 2000; Feeney and Bozeman 2009). For instance, implementation of government rules and regulations about contracting are intended to ensure control and accountability by bureaucrats, but such rules and regulations are often perceived as red tape by contractors (Bozeman and Feeney 2014). Whereas bureaucrats focus on cost reduction, other stakeholders are concerned about other factors such as service excellence (Lacity and Willcocks 2001).

There are two major questions regarding outsourcing public goods and services: (1) what kinds of public services are suitable to be outsourced, and (2) how to manage the outsourced contract effectively and efficiently. The second question has two sub-questions from the perspective of human resource management and process management: the (1) how to motivate contractors to accomplish contracts in the best interests of the principal; and (2) how to implement contracts effectively and efficiently. This paper particularly considers the perceptions of bureaucrats and contractors, and takes a holistic view of the dynamics of contractual relationships to evaluate the success of outsourcing in the public sector. As the strategic stakeholder management model argues, “attention to stakeholder concerns may help a firm avoid decisions that might prompt stakeholders to undercut or thwart its objectives” (Berman et al. 1999). Hence, the efficacy of the contractual relationship has paramount influence on the overall success of outsourcing as perceived by bureaucrats and contractors (Seidl 2007).

In this paper, this study seeks to fill the literature gap by arguing that the perceptions of bureaucrats and contractors influence the efficacy of contractual relationships, which determine the success of outsourcing in the public sector. This study focuses on the stakeholders’ perceptions in the context of Hong Kong. Being among the big spenders on public sector outsourcing, Hong Kong is regarded as one of the most experienced in outsourcing public sector processes to achieve efficiency and reduce operating costs (Accenture 2003; Cheung 2006; Mutiangpili 2010). Besides, the unique socio-political relationship between Hong Kong and mainland China has a profound impact on Hong Kong’s policy-making experience including public procurement decisions. In the recent years, there have been controversies in the civic society over whether state control plays a part in Hong Kong’s public procurement decisions. This shall be covered in the section “The Situation of Public Procurement in Hong Kong.” In addition, outsourcing in Hong Kong has transformed from a colonial trustee-type bargain to an agency-type bargain” (Burns et al. 2013, p. 131). Questions, such as whether this trend will continue and in what direction the reform will proceed, are important to the Hong Kong government, its people, the market, and other governments being confronted with a similar situation.

This study has seven sections. **Outsourcing & Contract Management Capacity** Section explores the relationship between outsourcing and contract management capacity. **Theoretical Underpinnings of Outsourcing** Section outlines theoretical considerations and a literature review of public sector outsourcing. **The Situation of Public Procurement in Hong Kong** Section analyzes the situation of public procurement in Hong Kong in its politicalized context. **Methodology** Section covers the research methods and approaches used to analyze the research data. **Results, Discussion & Recommendations** Section presents the empirical results, discussion and policy recommendations. **Limitations of the Study** Section discusses the limitation of the study. And **Conclusion** Section presents our concluding remarks.

Outsourcing & Contract Management Capacity

Outsourcing is an activity that transfers the conduct of (social) services, by way of contracting-out, commissioning etc., to outside (self-standing) providers (Wollmann 2012). Other than being merely a contractual arrangement, outsourcing requires

proactive management of contracts if complex relationships between the buyer and the supplier are to function well (Huque 2005; Yang et al. 2010). With more contracting out and other forms of privatization, there is a stronger need for market regulation and contract management (Farazmand 2002). Contract management can improve service delivery or it can lead to a disaster, depending on the underlying market conditions and management efficacy (Brown et al. 2006). One fundamental challenge of public sector outsourcing is to devise strategies to ensure that the service provider will behave in accordance with the interests of government. The goal of contract management is to ensure that the contractor meets government's requirements for quality and completeness, at the cost, and within the timeframes established by the contract (The U.S. Merit Systems Protection Board 2005).

The contracting literature displays broad agreement that management and performance are so connected (Dilulio 1989; Ingraham and Donahue 2000) that contract management capacity is a necessary antecedent to performance (Donahue et al. 2000), and therefore the contracting party ought to develop strong contract management capacity to manage outsourcing contracts effectively (Brown and Potoski 2003a). Contract management capacity refers to the contracting party's intrinsic capacity to marshal, develop, direct, and control its human, physical, and information capital to support the discharge of its policy directions (Ingraham and Donahue 2000). According to Brown and Potoski (2003b), three management capacities are required for effective contract management: (1) feasibility assessment capacity — to assess whether to make or buy a good or service; (2) implementation capacity — to implement the contracting process from bidding, review, negotiating and enforcing contracts; and (3) evaluation capacity — to monitor and evaluate the contractor's performance against specific deliverables and timeline. Two theories relevant to buyer-supplier relationships are employed in analyzing this study: principal-agent theory and transaction cost theory.

Theoretical Underpinnings of Outsourcing

This paper provides a conceptual framework based on the integration of constructs derived from the principal-agent theory and the transaction cost theory. The theories have been widely adopted as a theoretical lens for analyzing inter-organizational relationships (Cannon et al. 2000; Claro et al. 2003); understanding the determinants and causes of the efficiency loss created by the divergence between self-interested behavior, environment and behavioral uncertainty, and human asset specificity; and for analyzing and understanding the implications of the control measures for mitigating efficiency losses. In this section, the research questions mentioned above are to be elaborated based on these theories and guidelines are to be developed for the interview questions.

Transaction Cost Theory

What kinds of public services are suitable to be outsourced? According to Williamson (1985), the transaction cost theory entails an examination of the comparative costs of planning, adapting, and monitoring task completion under alternative governance structures. Transaction costs refer to the effort, time, and costs incurred in searching, creating, negotiating, monitoring, and enforcing a service contract between buyers and

suppliers (Coase 1937; Williamson 1975). Williamson (1989) remarks that the organization of transactions, or “governance structure,” affects transaction costs. According to the theory, firms try to minimize the transaction cost of exchanging resources with the external environment and the cost of carrying out activities in-house, and compare the costs before deciding whether to engage in production in-house or to outsource activities to the external environment (Hirschheim et al. 2007). Transaction costs can erode comparative advantages in production costs of vendors. When a firm has to incur substantial costs in supervising, coordinating, and monitoring the activities of the vendor, external sourcing may not be viable. Accordingly, the firm may opt for internal sourcing when it perceives transaction diseconomies to override any production cost advantages in market exchanges (Hirschheim et al. 2007).

Transaction cost theory suggests that outsourcing is justified when complexity of tasks and specificity of resources used are low. When the conditions are the reverse, outsourcing is discouraged. For highly frequent transactions and investments in moderately specific assets, Williamson (1989) recommends a hybrid form of governance. However, at some point, a good or a service may be so difficult to measure that the costs of identifying and implementing effective performance measures outweigh their benefits. Under such circumstances, public managers may benefit from developing a thorough understanding of the process the contractor undertakes in order to evaluate whether the contractor is performing in accordance with contract provisions.

In pursuing the research questions (Table 1), transaction costs can then be classified into three: (1) information costs—data gathering on potential partner; (2) bargaining costs—negotiating and drafting contracts; and (3) enforcement cost—control mechanisms, conflict resolution, and contract renegotiation (Sclar 2000).

Principal-Agent Theory

How can contractors be motivated to accomplish contracts in the best interests of the principal? A principal-agent relationship exists when the government (the principal) contracts the supplier (the agent) for production or delivery of goods or services in which the supplier has expertise (Brown et al. 2006; Finkle 2005; Halachmi 2000; Larbi 2006). The principal hires the agent to perform tasks on his or her behalf requiring some delegation of decision-making authority (Jensen and Meckling 1976). This is covered by at least three basic assumptions under the principal-agent theory: (1) both the principal and the agent are rational, self-interested utility maximizers; (2) the agent is more risk-averse than the principal because the agent has fewer options and resources; and (3) the principal and the agent are engaged in cooperative behavior, but have differing attitudes toward risks (Balago 2014; Boston 2011; Eisenhardt 1989). Central to the assumptions is a belief that the agent does not share the principal’s goals, and therefore will not accomplish them adequately if left to its own devices, a behavior referred to as “shirking” (Amagoh 2009).

In the process of outsourcing and contract management, the major challenge to bureaucrats is to control the hidden behavior of the agent, guide the principal and the agent in structuring a relationship that ultimately achieves the goals of the principal. Under the same arrangement, the bureaucrats addresses shirking and other

Table 1 Theoretical framework and guideline for interviews

Theories	Research questions		Interview questions
	Level 1	Level 2	
Transaction-Cost Theory	1. What kinds of public services are suitable to be outsourced?	1.1 information costs	What are your opinions about the effectiveness of contracting out? (1.1) (1.2) (1.3) (2.4)
		1.2 bargaining costs	How do you define your relationship with the contractor (partner, buyer/seller, customer or supplier) (1.2) (2.5)
		1.3 enforcement costs	Does proper two way communication exist among the bureaucrats and contractors? (1.1) (1.2) (2.5)
Principal-Agent Theory	2. How to manage the outsourced contract effectively and efficiently?	2.1 conflicts of goals and desires	What are major problems encountered when managing outsourced contracts in Hong Kong? (2.2)
		2.2 difference attitudes toward risk and difference preference of risk sharing	How bureaucrats handle disputes with service providers? (2.1)
		2.3 supervision and performance evaluation	What kinds of skills the bureaucrats think are needed for improving contract management? (2.3)
		2.4 mutual opinions about accomplishing the contract efficiently	Does the government department have a clear monitoring system to assess the performance of the contractors? (2.3)
		2.5 approaches to reach for agreement	What are the key factors that might enhance or hinder effective performance and outcomes in the public and private partnerships entailed in public service outsourcing? (All) What do you think would be the future trend of contract management in Hong Kong? (All)

Numbers in brackets in Colum 4 indicate the numbers of research questions of Level 2 in Colum 3

performance-related problems that compromise delivery targets, efficiency quota, sound risk management, and evaluation mechanisms.

The principal-agent theory outlines five key attributes of outsourcing contract management (Table 1: (1) whether the goals and desires of the bureaucrat conflict with those of the contractor; (2) whether the bureaucrat and the contractor have different attitudes toward risks and risk sharing; (3) means taken to supervise and evaluate the performance of the contractor; (4) whether the bureaucrat and the contractor share mutual opinion over the efficient way of achieving the contract goal: and (5) approach for the bureaucrat and the contractor to reach an agreement.

The Situation of Public Procurement in Hong Kong

Outsourcing was initiated in 1980s in Hong Kong. With the introduction of direct elections in 1991, the Legislative Council has taken on a more active role in overseeing the performance of the government. In the pre-1997 period, Hong Kong was advanced and wealthy, and as its people were increasingly aware of their roles in civic participation. This inspired the development of civil society that demanded better public services and greater accountability, responsiveness and efficiency from the government. Following Hong Kong's handover to China in 1997, there has been greater reliance on public-sector organizations outside the civil service, outsourcing, and public/private partnerships to deliver goods and services (Scott 2010). The Asian financial crisis between 1997 and 1998, which brought Hong Kong's economy to a new low and marked by a record-low unemployment rate, pushed further the imperative of public-private partnership.

From that period, government bureaux and departments (B/Ds) have increasingly hired external service contractors to deliver public services. According to OECD (2016), public procurement generally accounts for a substantial portion of the taxpayers' money (approximately 12% of GDP, and 29% of government expenditure in OECD member countries). However, unlike other OECD member countries, Hong Kong has a relatively modest share of government procurement to GDP. The total government procurement by Hong Kong only ranged from 3.9% to 5.8% during 2010–13, reflecting the city's *laissez-faire* approach to economic activities (WTO 2014). Over 82% of the goods purchased in 2013 were imported (WTO 2014).

As it is stated on the website of the Financial Services and the Treasury Bureau (FSTB) of Hong Kong, the government's procurement policy is to obtain goods and services at the best value for money, and award contracts for supplying goods and services through open, fair, competitive, and transparent tendering procedures. Procurement officials are responsible for managing the services procured, observing and upholding the culture of compliance with the requirements set out in the Stores and Procurement Regulations (SPR), supplemented by financial circulars issued from time to time (OECD 2004).

According to the SPR, when goods or services exceed HK\$1.43 million, B/Ds shall seek approval from particular tender boards/consultant selection boards before entering into any contract. These boards are composed of at least three government officials appointed by the Financial Secretary to decide independently on the acceptance of tenders. According to WTO (2014), the SPR allows for three types of tendering procedures: open tendering, selective tendering, and restrictive tendering (including single tendering). Government procurement of a value exceeding HK\$1.43 million (for goods and general services) and HK\$4 million (for construction and engineering services) is generally subject to open and competitive tendering procedures so as to achieve best value for money. Invitations to tender are published in the Government Gazette, local press, internet and/or in relevant overseas journals. The tender notice must specify whether the intended procurement is covered by the World Trade Organization Government Procurement Agreement (WTO GPA). Selective tendering may be used when the nature of a contract (e.g. demanding high-tech skills, proven reliability, or time-critical) requires that tenders be invited from pre-qualified suppliers/contractors. Restricted and single tendering ("limited tendering" under the

GPA) are only allowed under specified, exceptional circumstances that do not permit open tendering, which include extreme urgency, interest to protect intellectual property rights, or meet interchangeability and interoperability requirements with previously procured products or services. Invitations to tender are sent to one or a few suppliers/contractors approved by the Permanent Secretary of FSTB or the Director of the Government Logistics Department, the government's central procurement agency. During 2010–13, a total of 1680 government procurement contracts (above the thresholds specified in the SPR) were awarded—68% through open tender procedures, 26% through selective tendering, and 6% through restricted or single tendering (WTO 2014). Thus, for the sake of flexibility, the government allows B/Ds to determine their own procurement requirements based on service needs and budget, and to establish “white-lists” containing prequalified contractors/suppliers for particular services or articles that only they can perform or provide (OECD 2004).

Public procurement in Hong Kong is subject to scrutiny of the Independent Commission Against Corruption (ICAC) of Hong Kong, which is independent of the civil service and answerable directly to the Chief Executive of Hong Kong. ICAC has a statutory duty to examine the practices and procedures of government departments and public bodies, secure revision of procedures that are prone to corrupt practices, and facilitate public procurement based on standards to eliminate suspicion of bias (Lember et al. 2014).

However, according to Audit Commission of Hong Kong (2014), several B/Ds made use of single tenders on a continuous basis to acquire goods and services, such as health screening services for visitors at the airport, development of student assessment programs, and provision of venue cleansing and supporting services. The SPR stipulates that limited (single or restricted) tender procedures shall only be used in circumstances when open competitive tendering would not be an effective means of obtaining the requisite stores or services. B/Ds justify that adopting repeated tenders ensure consistency in service quality considering the expertise of the single contractor in the industry. WTO (2010) reports that most procurements contracts have been awarded through selective or prequalified tendering procedures rather than more transparent open tenders, even if Hong Kong is party to the plurilateral WTO GPA and APEC's Transparency Standards on Government Procurement. WTO (2010) explains that restricted and selective tendering procedure does not make the city's procurement procedures as open and fair as they are claimed.

Hong Kong's self-assessment report (OECD 2004) also reveals that selection and award criteria are not prescribed by law, but are decided by individual B/Ds according to tender specifications under the SPR, assessment criteria in the tender documents, conflict-of-interest regulations, and the Civil Service Regulations. Asian Development Bank (2006) adds that Hong Kong has not defined procurement-specific criminal offenses but apply particularly harsh sanctions for fraudulent practices in procurement. As Gao (2007) and Wang (2010) remark, instead of a court hearing bid challenges, Hong Kong prefers an independent review body, the Review Body on Bid Challenge which is governed by a set of non-statutory rules, to review all the government procurement decisions. But this review body is only an advisory body created by government to oversee its compliance with the WTO GPA; hence its decisions are non-binding and are “no more than recommendations binding on the conscience only, like a gentleman's agreement” (Wang 2010, p. 189).

Interestingly, Hong Kong’s procurement decisions are guided by three principles: public accountability, value-for-money, and open and fair competition. But Lember et al. (2014) point out those basing tenders on prices alone makes small and medium-sized enterprises (SMEs) less competitive compared with larger, incumbent firms, and this “conspires to favor large, well-established companies...” (Lember et al. 2014, p. 181). Being a Chinese city, there is also debate on whether mainland China influences the public procurement decisions of Hong Kong. Wang (2010) cites a recent controversy involving the high-speed railway project between Hong Kong and Guangzhou, the capital city of Guangdong Province in China, where, despite cost overruns and repeated delays, additional funds of HK\$19.6 billion were allocated in March 2016 to complete the project. Since the function of budget approval is with the legislative branch, the transparency and justification of planned expenses using public funds depend on a democratic political system and a society with press freedom, which are absent in China. Wang (2010) adds that with the Chief Executive not elected by popular votes, and with only half of the Legislative Council elected through direct election, Hong Kong is a rule of law region with limited democracy; hence the question on whether transparency in public procurement is achievable in Hong Kong.

To assess the utilization rate of outsourcing as a strategy in public procurement in Hong Kong, the Efficiency Unit (EU) conducted biennial surveys of the government’s outsourcing trends from 2000 to 2012. Covering the 2012 outsourcing situation, EU (2013) administered the survey to 81 government departments and 3497 service providers with active outsourcing contracts with the government. Survey results revealed a significant increase in both number of contracts and total contract value of 26% and 22%, respectively, compared to data in 2010. Figure 1 shows an annualized outsourcing expenditure of HK\$31.7 billion in 2000. This amount almost doubled to HK\$62.9 billion in 2012, with 66% of the government outsourcing contracts involving capital works and construction, and building and property management services. Figure 2 shows an increase in the total contract value in 2012 over 2010, attributed mainly to start off major capital works projects, such as the Hong Kong-Zhuhai-Macao

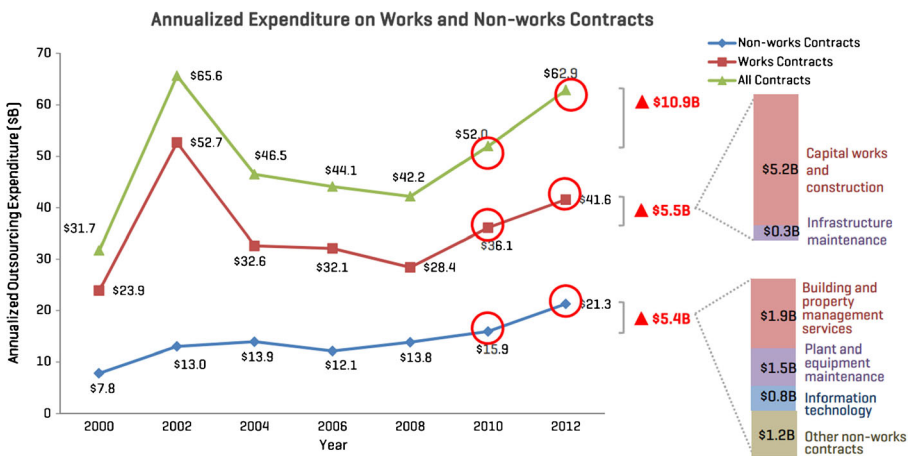


Fig. 1 Trends in government outsourcing activities. Source: Efficiency Unit. (2012, p. 21). Report on 2012 survey on government outsourcing. Retrieved from <http://www.eu.gov.hk/en/our-work/management-consultancy/doc/survey2012.pdf>

Service Categories with the Highest Annualized Expenditure

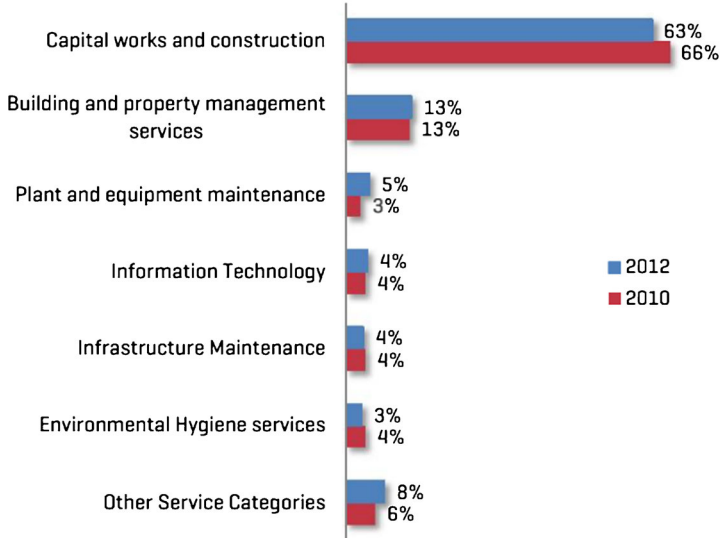


Fig. 2 Distribution of annualized expenditure by outsourcing service category. Source: Efficiency Unit. (2012, p. 22). *Report on 2012 survey on government outsourcing*. Retrieved from <http://www.eu.gov.hk/en/our-work/management-consultancy/doc/survey2012.pdf>

Bridge Hong Kong Link Road. EU (2013) adds that the increase in the total number of contracts in 2012 over 2010 is largely due new IT projects and the procurement of more IT services, replacing non-civil service contract staff. In terms of contract management, all departments have adopted various mechanisms to monitor performance of contractors. They confirm that the procured services met their objectives for outsourcing; 99% of the departments were satisfied with the quality of the contracted service.

To private service providers, secure payments were a major consideration in obtaining government contracts. Most of them indicated that both contract value and average contract duration for government contracts were about right, and they were satisfied working with government. But contractors expressed concern that too much weight was placed on the price factor in tender evaluation. They also lament lack of flexibility for changes during contract period and in the reporting requirements. On the part of government departments, a survey conducted in 2012 also noted that they experienced a number challenges, particularly in preparing and evaluating tenders and managing contractors' performance. B/Ds are also looking for more capacity-building, including skills training for contract managers on business analysis, negotiation, and contract management.

Methodology

Within the context of a highly politicized Hong Kong, this study seeks to identify how the processes and outcomes of contract management are understood and conceptualized by public managers as the principal and by contractors as the agent. This paper employs the qualitative approach in examining the perceptions of the

stakeholders and devising strategies to bridge their perceptions of success of contract administration in Hong Kong. Qualitative research is an empirical inquiry in research (Yin 1994), such as identifying key factors of contract management in outsourcing, which is a hypothesis-generating process rather than a hypothesis-testing process. The topic of the research is complex and social in nature. It involves the perceptions and expectations of effective contract management from the stakeholders in different institutional spheres. A qualitative approach enables the researchers to handle social processes and relationships (Denscombe 1998), particularly between senior public managers and private contractors.

The phenomenographic approach is also adopted to analyze how the stakeholders experience, perceive, conceptualize, and comprehend the implementation and outcomes of contract management. Developed by Marton (1986), phenomenography as a qualitative research methodology is a “research method adopted for mapping the qualitatively different ways in which people experience, conceptualize, perceive, and understand various aspects of the world around them....” (Marton 1986, p. 31). This study is interested in identifying how contract management is perceived by stakeholders, and whether variations in perception is derived from different roles in the contractual relationship. The contracting literature has largely employed the principal-agent theory and the transaction cost theory to address the contractual relationship between government and private contractors. However, key concepts of the theories, such as self-interestedness of the agent as a utility maximizer, risk aversion, opportunism and information asymmetry as in the principal-agent theory; bounded rationality and contract incompleteness as in the transaction cost theory, are linked to human behavior, and they form perceptions of stakeholders (Tables 2 and 3).

This study combines face-to-face interviews and archive research (academic journals, books, and monographs) on the causes, strategies, and consequences of public procurement. The data collection was conducted in late October to end of December 2014. Tables 4 and 5 show the background information of the interviewees and the coding of their identities. Systematic review methodology was used to map out areas of uncertainty, identify gaps (Petticrew and Roberts 2006), and focused reviews of international and local contracting literature and documentation were done. Snowball sampling was adopted to collect qualitative data, and solicit the views of the major stakeholders in the contracting process—public managers and private service providers.

This qualitative study seeks to produce situational, rather than demographic, representativeness, so a situationally representative sample was identified, composed of 20 bureaucrats and 25 contractors (Tables 4 and 5). The participants were selected through theoretical sampling. Bureaucrats were front-line contract administrators holding senior and executive positions responsible for outsourcing services in government. This study focuses on them instead of procurement officials because of their decision-making capacity and their familiarity with contract performance and availability of contractors. Private contractors were screened for the interviews depending on their experience in working with the Hong Kong government. Most of them had five to 10 years of experience handling government contracts, and nearly all of them engaged in government contracts for an average duration of three to five years. Contractors working in different areas were selected to diversify our research findings. Most of them engaged in provision of HRM services, and building and property management services.

Table 2 Conception building results

Key attributes of outsourcing contract management						
Conceptions	Main focus	Human resources	Communication	Information transparency	Monitoring system	Compliance with requirements
Conception 1: Bureaucrats' perspective	Achieving divestment of non-core government functions	Training and searching for contract managers with skills and expertise	Establishing an open, efficient two-way communication channel	Assessing the capacity of service providers in the selection of contractors	Implementing monitoring in accordance with the nature of the service and the contract length	Ensuring the outsourced services follow the requirements as the bureaucrats are still held accountable
Conception 2: Contractors' perspective	Providing outsourced services to government under fair competition	Providing service as specialists with sufficient knowledge of government rules and procedures to deliver service effectively	Updating any contract requirements that help to avoid frequent adjustments in contracts	Providing complete knowledge of contract details that guarantee a better foundation for the negotiation of contract values	Arranging proper frequency of checks that do not affect their provision of services	Obtaining secured returns from the government while providing a financial deposit to secure completion of service
Conception 3: Values of Contract Management perceived by bureaucrats and contractors	Efficiency of service delivery in short run; sustainability of service provision in long run	Building up the capacity of commercial expertise in the public sector	Maintaining mutual trusted relationships that generate consensus on accountability	Evaluating outsourcing budgets and plans, risk management, and stability of service provision	Ensuring the effective control of financial budgets	Offering wider choices of service providers, improving schedule maintenance, and generating competition among contractors.

Table 3 Interview questions

#	Questions	Bureaucrats	Contractors
1	What are your opinions about the effectiveness of contracting out?	√	√
2	How do you define your relationship with the contractor (partner, buyer/seller, customer or supplier)	√	√
3	Does proper two way communication exist among the bureaucrats and contractors?	√	√
4	What are major problems encountered when managing outsourced contracts in Hong Kong?	√	×
5	How bureaucrats handle disputes with service providers?	√	×
6	What kinds of skills the bureaucrats think are needed for improving contract management?	√	×
7	Does the government department have a clear monitoring system to assess the performance of the contractors?	√	√
8	What are the key factors that might enhance or hinder effective performance and outcomes in the public and private partnerships entailed in public service outsourcing?	√	√
9	What do you think would be the future trend of contract management in Hong Kong?	√	√

Table 4 Background information of interviewees (Bureaucrat)

Interviewees	Background information	Interview date
BTS1	Bureaucrat (B), Civil Service Training and Development (T), Senior Official (S), Interviewee 1 (1)	23rd October 2014
BHS2	Bureaucrat (B), Housing Authority (H), Senior Official (S), Interviewee 2 (2)	25th October 2014
BFS3	Bureaucrat (B), Food and Environmental Hygiene Department (F), Senior Official (S), Interviewee 3 (3)	29th October 2014
BBDE04	Bureaucrat (B), Building Department (BD), Executive Officer responsible for Outsourcing Services (EO), Interviewee 4 (4)	31st October 2014
BEE05	Bureaucrat (B), Electrical and Mechanical Service Department (E), Executive Officer responsible for Outsourcing Services (EO), Interviewee 5 (5)	5th November 2014
BEBE06	Bureaucrat (B), Education Bureau (EB), Executive Officer responsible for Outsourcing Services (EO), Interviewee 6 (6)	7th November 2014
BIS7	Bureaucrat (B), Immigration Department (I), Senior Official (S), Interviewee 7 (7)	8th November 2014
BSWE08	Bureaucrat (B), Social Welfare Department (SW), Executive Officer responsible for Outsourcing Services (EO), Interviewee 8 (8)	11th November 2014
BTDS9	Bureaucrat (B), Transport Department (TD), Senior Official (S), Interviewee 9 (9)	13th November 2014
BLS10	Bureaucrat (B), Leisure and Cultural Services Department (L), Senior Official (S), Interviewee 10 (10)	15th November 2014

Another 15 bureaucrats were willing to talk but requested not to disclose any identity thus their information has been kept confidential

Table 5 Background information of interviewees (Contractor)

Interviewees	Background information	Interview date
CHR1, 12, 25	Contractor (C), HR Services - 8 years' experience respectively with Government Contracts (HR), Interviewee 1 (1); 12(12); 25(25).	18th November 2014
CPM2, 11, 20	Contractor (C), Property Management Services - 6 years', 2 years' and 5 years' experience respectively with Government Contracts (PM), Interviewee 2 (2); 11 (11); 20 (20).	20th November 2014
CHR3, 14, 18	Contractor (C), HR Services - 6 years', 1 year and 2 years' experience respectively with Government Contracts (HR), Interviewee 3 (3); 14 (14), 18 (18).	22nd November 2014
CES4, 16, 17	Contractor (C), Educational Services - 10 years', 3 years' and 2 years' experience respectively with Government Contracts (ES), Interviewee 4 (4); 16 (16); 17 (17).	26th November 2014
CTd5, 15	Contractor (C), Training and Development - 8 years' and 3 years' experience respectively with Government Contracts (Td), Interviewee 5 (5); 15 (15)	29th November 2014
CBC6, 13	Contractor (C), Building and Construction - 8 years' and 1 year experience respectively with Government Contracts (BC), Interviewee 6 (6); 13 (13).	2nd December 2014
CBM7, 24	Contractor (C), Building Management Services - 6 years' and 2 years' experience respectively with Government Contracts (BM), Interviewee 7 (7); 24 (24).	4th December 2014
CHR8, 22, 20	Contractor (C), HR Services - 10 years', 2 years', 1 year experience respectively, with Government Contracts (HR), Interviewee 8 (8); 22 (22); 20 (20).	10th December 2014
CIT9, 23	Contractor (C), Information and Technology - 5 years' and 2 years' experience respectively with Government Contracts (IT), Interviewee 9 (9); 23 (23).	13th December 2014
CCT10, 21, 19	Contractor (C), Construction and Transport - 11 years', 1 year and 3 years' experience with Government Contracts (CT), Interviewee 10 (10); 21 (21); 19 (19).	17th December 2014

Bureaucrats were asked nine open-ended questions, while contractors were asked six open-ended questions. The interview questions (Table 3) focused on how they perceived the effectiveness of government outsourcing, monitoring mechanism, and two-way communication; and their roles in the contractual relationship. The bureaucrats were asked to spell out problems encountered and offer suggestions on enhancing contracting effectiveness. The questions were designed to elicit respondents' experiences and perceptions in ways that allowed them to choose "the dimensions of the question they want to answer" (Marton 1986, p. 42). Their responses were then analyzed following four stages: (1) grouping interview ideas through content analysis and framing major themes; (2) identifying different perspectives as to what contract management entails systematically; (3) reorganizing data to reveal relationships between "three conceptions" and "five attributes" of contract management identified in earlier stages; and (4) cross-checking each conception for consistency across the five attributes.

Results, Discussion & Recommendations

The interviews demonstrate quite diverse views from the bureaucrats and the contractors toward the following attributes that shape effective contract management, revealing their own private goals, interests and values: (1) Human resources equipped with the skills to handle contracts (human resources); (2) Good communication in the contractual relationship (communication); (3) Transparency and reliable information to assess the capacity of service delivery (information transparency); (4) An effective monitoring system (monitoring system); and (5) Compliance with contract requirements (compliance). Table 2 summarizes the perceptions from the perspectives of bureaucrats in charge of contract management (Conception 1), the private contractors (Conception 2), and the perceptions commonly shared by the two parties (Conception 3).

In this section, the research findings are to be discussed through the theoretical lens of the principal-agent theory and the transaction cost theory. For each attribute, recommendations are to be proposed on how to bridge their perception gaps, and align their goals for success in managing their contractual relationship.

Nearly all the bureaucrats interviewed admitted that goods and services were procured through outsourcing, regarding outsourcing as a successful strategy. The contracts covered building and property management services, capital works and construction, human resources management (HRM), and staff training. In terms of their contractual relationship with contractors, a vast majority of them found it satisfactory. However, the relationship between bureaucrats and contractors did not seem to be an equal one. Almost all of the public managers shared with the contractors' views that the government was in a position of advantage when negotiating with contractors.

The bureaucrats perceived outsourcing as a tool for facilitating divestment of non-core functions, achieving cost effectiveness, and offering B/Ds wider choices of service providers. Several bureaucrats referred to outsourcing as a way for them to "shift the responsibility to private providers, holding the other party accountable for the work undertaken." The view of outsourcing non-core activities is consistent with the literature. Compared to core competences that tend to be kept in-house their strategic objectives and high actual/potential value, non-core activities are not related to high strategic goals or high returns (Quinn 2000). Outsourcing non-core activities could enhance managerial capacity, helping an organization focus more on the core competencies with concentrated resources and human management (Van Slyke and Hammonds 2003).

Human Resources Equipped with the Skills to Handle Contracts (Human Resources)

The contract administrators from the public sector indicated that the transaction costs incurred in outsourcing were nearly always ignored. These costs pertained to the resources required for arranging comprehensive trainings for public officials on contract management — developing, maintaining and monitoring contracts. Without hands-on experience in managing contracts, most of the bureaucrats resorted to self-learning, and made decisions based on personal experience. Operating in strained resource environments, the administrators found their capacity to provide adequate oversight and contain opportunism severely challenged. Contractors, on the other hand,

stated that they were not informed of government rules and provisions, procedures, practices, and regulatory and government auditing standards and requirements, causing them inadvertently violate them without their knowledge. To avoid the risks, they had to exhaust additional resources to study government rules and regulations. To public managers, additional controls are required when contractors are unfamiliar with regulatory requirements.

As mentioned in Table 2, both the bureaucrat and the contractor agree on the necessity of improving professional techniques and skills of the contractor; however, both blame the other side for insufficient information or inadequate training. The bureaucrat expects the contractor to be equipped with knowledge of government rules, the necessary skills, and initiative to keep up with progress through self-learning as described below:

“I often rely on my own judgment and experience ... I can assure that none of my peers has been given any relevant training, even though they are handling contracts (BTS1, 23rd October 2014)”.

“Those dealing with contractors are just petty administrators wearing strait-jackets. Even if there is two-way communication, it does not guarantee good service standards. [T]here is no way that this complex process (of contracting out services) can be carried out in the absence of proper communication (between contractors and contractees) (BEBEO6, 7th November 2014)”.

However, the contractor expects more assistance from the government in understanding the rules and protocols in the contract (e.g., explicit explanation about details in the contract). Clear guidance from the government would save the contractor time and effort from guessing and trailing by mistakes. Represented opinions are as described below:

“We would appreciate basic training on the composition, practice and style of the government departments. This type of awareness and familiarization session is absent in Hong Kong (CPM2, 20th November 2014).”

Based on the transaction cost theory, organizations compare costs between internal and external delivery modes before deciding on outsourcing activities. Thus, transaction costs related to managing contracts effectively should be taken into consideration because such costs can lower the net benefit of contracting out. Transaction costs in outsourcing include the resources required to develop, maintain, and monitor contracts (Sclar 2000). Developing and conducting training programs for public managers is a kind of transaction cost required to maintain and facilitate execution of contracts. While developing training programs require transaction costs, the same is an investment needed to build the contract management capacity of public administrators. Contract management capacity is a necessary antecedent to performance, and so government ought to develop strong contracting capacity to manage outsourcing contracts (Brown and Potoski 2003a, b; Donahue et al. 2000). In addition, by investing in contract management capacity, governments may be better positioned to harness the promise of effective contracting, while avoiding the pitfalls (Brown and Potoski 2003b).

Offering public managers the necessary tools will also help them mitigate contracting risks, stave off and correct incomplete and even failed contracts (Brown and Potoski 2003b). As Brown and Potoski (2003b) point out, any increase in the percentage of public goods contracted increases the likelihood that governments will invest in contract management capacity. Ongoing contract management training may be provided during induction as well as regular refresher training for bureaucrats to assist them in dealing with other stakeholders.

On the bureaucrats' side, EU is conducting training programs with the Civil Service Training and Development Institute for public contract managers on design and management of outsourcing contracts. Since civil servants rotate regularly in different B/Ds, training programs also have to be arranged accordingly. On the contractors' side, it will be preferable to acquaint them with government rules and regulations. Such rules and regulations may be distributed to them before contracts begin, in form of handbooks, work manuals, etc.

Communication in the Contractual Relationship (Communication)

Both bureaucrats and contractors identified a lack of effective communication in the contracting process. The bureaucrats recognized the importance of communication in enhancing transparency, helping contractors compete, evaluate risks, and deliver stable services.

“Accountability is a double-edged sword. It can enhance or hinder service performance and outcomes. Sharing the right mindset amongst all parties involved, i.e. the government administrators, service providers, members of the public, etc., is the most important (BSWEO8, 11th November 2014).”

Despite the importance public managers put on communication with contractors, they have been unable to achieve desired benefits. Contractors describe their communication with the bureaucrats as largely limited to reporting work progress or submitting deliverables.

“Owing to the privacy issue of the government, some important issues are not disclosed and communicated clearly. Hence, this makes our position difficult (CES4, 26th November 2014).”

The contractors were also frustrated at the failure of government to communicate their expectations and changes in contract requirements. As a result, some incurred losses. They also reported inconsistencies in the requirements across different B/Ds. EU (2008) explains that because of insufficient communication, different district offices may have adopted different practices and yardsticks even when similar services have already been outsourced in other districts. Most of the contractors also found the government's performance assessment system inconsistent and lacking of transparency:

“[These problems could] cost us our reputation even though it is not our fault. Government interference results in project delay, which ultimately costs us a lot. Instead of making profits, we end up facing losses (CBM7, 4th December 2014).”

Majority of the contractors did not think that government contracts offered openness, fairness, and transparency. Obtaining information from government in the pre-contractual period and throughout the contracting process was difficult, even if the information requested was crucial for contractors to determine the extent to which they can fulfill the contract. With limited information “essential for determining the scope of bargains,” the contractors lamented inability to draw up competitive offers.

Such reluctance to release information by the government is a kind of bureaucratic culture. Civil servants may consider it risky because civil service rules make improper disclosure a disciplinary offense (World Bank 2013). Official secrets laws criminalize unauthorized disclosure, placing the onus on the civil servant to prove that the disclosure has not harmed national interests (World Bank 2013). Public sector managers are also not clear on their discretion to release information; hence the inclination to avoid risks of irregular disclosure.

In the interviews, the contractors were more concerned about the sustainability of their contractual relationship with the government and the presence of a fair, competitive environment for future tendering. Some contractors were wary of a new contract bidding system that would limit their access to government contracts, contradicting government’s claim of fair competition. However, when asked if the highly political environment would make government contracts unattractive, some found the pressure from the public and the government encouraging of quality. They appreciated the intense pressure as it would help them sharpen their competitive edges and further improve their reputation as quality service providers, eventually acquiring a bigger market share. Hence, the contractors’ primary desire is for stability in the requirements of the government, with limited space for the government to intervene in order to minimize uncertainty (Hritier and Schmidt 2000).

For public managers, however, the uncertainties and risks shouldered by private contractors are not of their primary concern. Instead, they aim to expand their flexibility to react to the performance of private contractors (Miller and Whitford 2006) by including provisions for contract exclusions and renewals. But these are provisions that more than half of the contractors in the interviews strongly opposed as it would make the contracting process more bureaucratic and complicated than it already is.

Given conflicting objectives, public managers and private contractors respond differently to pursue their own goals. Public managers as the principal tend to interfere with the contracting process by amending or modifying the contract requirements, with the budget and service completion timeline unchanged to make themselves sanction-free. Majority of the contractors confirmed government interference in the contracting process, specific to how contracts should be implemented. To mitigate the risks associated with poor performance or substandard products or services, bureaucrats will also be tempted to explore additional contractors, giving rise to costs attendant to search of information about products and services, prices and inputs (Hobbs 1996). To the contractors, this creates more uncertainty over the efficient way of producing the outputs desired by the principal. As agents are driven by the profit motive, contractors may seek to maximize private gains by exploiting loopholes in contracts and behaving opportunistically (Wise 1990). Such agency relations are problematic because the principal and the agent pursue conflicting goals, and this could to efficiency losses to the principal.

The communication discrepancy is attributed to separate, incompatible systems adopted by the bureaucrats and the contractors to communicate, which result in poor

collaboration. Lack of constant and current communication channels also lead to failure in immediately arresting problems and potential crises.

Transparency and Reliable Information to Assess the Capacity of Service Delivery (Information Transparency)

Transparency is another issue to be dealt with. The bureaucrats in the interviews were concerned about the price-based principle in evaluating bids and tenders. They suggested developing a system to help them track previous service records of tenderers, plan financial resources and estimate expenditure. According to the SPR, in Hong Kong, departments may consider adopt a marking scheme in the tender evaluation only for contracts where the quality of service or product is of paramount importance and needs to be taken into account in the tender evaluation (FSTB). Otherwise, Hong Kong's public procurement decisions are only directed by prices. Hence, while the capabilities of contractors and their previous service records can be crucial to suitability in being granted an outsourcing contract, such factors are not taken into account in the tender evaluation stage. Contractors are also not required to disclose certain background information in the pre-contractual period, so they are not known to the bureaucrats until the contract begins. Public managers shared that some contractors may offer extremely low prices to win the contract (adverse selection), but eventually exhibit opportunistic behaviors, offering substandard goods or services during the post-contractual period (moral hazard). These immoral behaviors of contractors fall into the category of opportunism or shirking, which stem from goal incongruence and information asymmetry between the principal (bureaucrats) and the agent (contractors). Asymmetric information occurs when bureaucrats have less information about the contractors and their previous records than what they are made to expect (such as their previous service records) compared to the bureaucrats in the transaction. Because of information incompleteness, contractors can take advantage of the lack of knowledge of bureaucrats, and act opportunistically. As one bureaucrat mentioned:

“In order to win the contracts, contractors have to offer extremely low prices, making it difficult for them to keep up with the quality of services promised. Moreover, the attraction of contracts can result in corruption (between government employees and contractors) (BIS7, 8th November 2014)”.

Findings confirm immoral behaviors before and after transactions. The opportunistic nature of these behaviors results in higher transaction costs on both sides of the principal and agent, compromising the quality of the outsourcing decision. This further highlights the importance of drawing up complete contracts. Crocker and Masten (1991) and Crocker and Reynolds (1993) suggest that the degree of contract completeness is an optimizing decision that reflects a trade-off between ex ante contract design costs and ex post potential for opportunism. Transaction cost analysis explains the duration of a contract as reflective of an underlying trade-off between the marginal cost of writing longer agreements, and the marginal benefits of mitigating opportunism by extending the agreement for an additional period (Crocker and Masten 1991; Crocker and Reynolds 1993). Williamson (1991) states that when a contract contains many clauses, the ex post transaction costs are high because of the expenses involved in

ensuring that the contractor fulfills all the contractual requirements (i.e. monitoring costs), and in enforcing all contractual clauses (i.e. enforcement costs). Hence, when the contract is more complex, it will be more costly for the bureaucrat to manage his or her relationship with the contractor. To align the goals of the two parties in respect to transparency, Madu and Kuei (2012) suggest including incentives in the contract to increase the willingness of the agent to be transparent and abide by the contract, and consequently, fulfill the goals of the principal. Empirical evidence suggests that when government builds proper incentives into contracts as precautions against poor contractor performance, for-profit contractors tend to produce superior results than other types of vendors (Behn and Kant 1999).

In the interviews, the contractors recognized the importance of motivators such as payment bonuses and compensation, which they claimed would offer them incentive to perform better.

An Effective Monitoring System (Monitoring System)

Majority of the bureaucrats in the interviews considered it essential to establish detailed service standards to facilitate their assessment of contractors' performance. But due to lack of skills, they cited difficulty in designing and carrying out outsourcing programs for optimal results and measuring contractors' performance. To make up for this, government officials hire consultants and experts in information systems (IS) management, a cost concern that bureaucrats try to minimize. Bureaucrates step up monitoring of contractors by requesting regular operational performance measures from contractors, frequent meetings with them to review progress of outstanding projects, and independent auditors to review benchmarks and internal controls (Davis 1999). But while public managers may undertake performance evaluation, they may not have the expertise or professional knowledge of the relevant domains to assess contractors.

The principal-agent theory seeks to determine the most efficient contract under different levels of outcome uncertainty, risk aversion and other variables. The question is whether behavior-oriented contracts (e.g. hierarchical governance) are preferred to outcome-oriented contracts (e.g. transfer of property rights, market governance). When information is complete, the principal will monitor the agent by way of behavioral contracts (Vibert 2000). When information is incomplete, the principal will cope with the agency problem, fearing opportunistic behavior in the form of moral hazard or adverse selection on the part of the agent (Vibert 2000). In this situation, the principal is poised to oversee the performance of the agent through market-related contracts based on the outcomes of the agent's behavior, or hierarchy related investments in IS, such as budgeting systems, reporting procedures, boards of directors, separate layers of management (Davis 1999; Goldsmith and Eggers 2004). IS benefits bureaucrats as it reduces internal management costs and agency costs to oversee contractors' performance. Bureaucrats may also make use of IS to produce information-rich documentation for ease in monitoring (Davis 1999):

“[C]ontracting out helps shift the responsibility to private providers, holding the other party accountable for the work undertaken”, and stated that the “public will be happier as a result of timely and efficient services(BFS3, 29th October 2014).” Bureaucrates expressed concern over the length of contracts, which hold implications

on both market and effective monitoring. Long contracts could come with greater risks of inadequate performance, and reduce the policy flexibility available to them..

“Addressing contract-related problems is a very demanding task. Enforcing performance against the standard service levels is impossible to measure in certain cases. [I]f the contract is too long, it will make contractors highly monopolistic (BLS10, 15th November 2014).”

“[A] shorter government contract is a possible solution to monopoly because it is likely we can more closely monitor services by contractors (BEE05, 5th November 2014).”

Besides, the Public managers were also anxious that in limited competitive markets, long contracts would create a monopoly, causing contractors to control prices, which in turn would encourage them to charge monopoly prices. Eventually, the government would incur high costs of tendering, monitoring, evaluation to control opportunism, especially where the outsourcing activity is difficult to quantify.

“Contractors sometimes offer extremely low bids to get a contract, which gives rise to various contract complications. Developing a system for systemically recording their histories will be helpful for the selection of contractors in the future (BTDS9, 13th November 2014).”

“Opportunities will not be available for new contractors, which could hurt the government’s claim of fair competition in outsourcing (BHS2, 25th October 2014).”

On the other hand, contractors half-favored long contracts and preferred a number of small-scale and related contracts integrated into large-scale ones. Long and large-scale contracts offer better income opportunities, lower transaction costs, and more prospective planning:

“Competition and a limited contract period have made us assure quality and innovate service delivery approaches that help the government to get the best from us. Since contracts are governed by a definite contractual procedure with proper competitiveness ensured in the bidding process, it also seeks to protect the public against waste of public funds and prevent abuses such as preference and wastefulness (CHR1, 18th November 2014).” Our findings are consistent with the existing literature on contract duration. The empirical literature on contract duration states that contract length is positively related to physical asset specificity. Contract duration varies with the benefits of outsourcing. It is therefore suggested that when there is a high degree of external uncertainty, shorter contracts are preferred because they will help public managers avoid being trapped in a bad long-term natural contract (Crocker and Masten 1988); when there is a low degree of external uncertainty, longer contracts are preferable because they can deal with specific assets and external uncertainty, provided that they contain adequate clauses such as pricing, incentives, and penalties (Barthelemy and Quelin 2001). Public managers should therefore compare ex post (based on actual results rather than forecasts) transaction costs with the costs of carrying

out activities internally when they are being faced with high ex post transaction costs. However, Lacity and Hirschheim (1993) point out those activities may be outsourced based on specific assets even if the degree of asset specificity is high, so long as the contract is specific enough to accommodate contingencies. By doing so, public managers can focus on their core competencies without having to divert resources to non-core activities.

To bridge the gaps between the bureaucrats and the contractors over contract duration and contract flexibility, EU (2006) recommends that B/Ds have flexibility in their pricing models by allowing quantitative changes in services and payment of services based on performance. For long contracts, it is appropriate to have price adjustment systems to reflect changes due to other factors such as inflation. This helps avoid overestimates or underestimates of the risk associated with inflation/deflation, which should produce lower tender bids. Furthermore, an option for sharing of efficiency savings may also be explored to encourage innovation from contractors in delivery of services.

Compliance with Contract Requirements (Compliance)

To verify contractors' compliance with the contract provisions, government officials conduct regular and spot-check inspections. Contractors, however, resist openness and transparency, preferring to minimize costs of compliance. They indicated in the interviews that they did not favor spot-check inspections during the contracting process as they would be caught unprepared. Spot-check inspections refer to out-of-routine check that is carried out in the normal course of audit, which are intended to ascertain whether a system of internal control operates effectively. They preferred being informed of both details and frequency of monitoring and inspections in advance.

Another part of the compliance verification mechanism is to have private service provider complete specific reports on work progress. Contractors are usually required to conduct regular (e.g. monthly) and specific inspections and report them to prove fulfillment of the contract to the bureaucrat. The bureaucrat has the right of final inspection. Inspection reports include problems encountered, corrective action taken, and proof that accomplishments are according to the requirements of the contract. Contractors were upset to spend a great deal of resources completing numerous reports and mentioned:

“Government contracts may involve more paper work and formalities, but working with the government is secure in nature. We have become trustworthy contractors since being endorsed by the government (CHR8, 10th December 2014)”.

Spot-check inspections and regular reports and returns help bureaucrats track the progress of the outsourcing contracts. To ensure compliance and enhance transparency, the government can offer incentives to encourage voluntary adoption, or impose sanctions for non-compliance. Some jurisdictions encourage contractors to self-audit themselves by offering reduced penalties and technological audit resources (Madu and Kuei 2012). For discentives, according to the Hong Kong government (Legislative Council Panel on Public Service 2011), contract breaches are monitored through a

service-wide Demerit Point System and contractors can be barred from joining future government bidding.

Limitations of the Study

This study builds on a limited sample size caused by the difficulty in accessing the right population of interviewees, and the heavy requirement of time and resources involved in interviewing and collecting qualitative data. The research data were based on interviews with the senior and front-line public managers with extensive contract management experience, as well as the contractors with extensive contracting experience with the Hong Kong government. However, due to the perceived sensitivity of the information required by some interview questions, majority of the civil servants invited to participate in the survey declined, further limiting access to quality respondents. In addition, the findings of this study are based on the perceptions of the interviewees; therefore they may not be generalizable. The sample undertaken for this study was also limited to the senior contract managers, further reducing the population of the interviewees. Another challenge was selection bias, a common problem for snowball sampling when interviewing people who have relatively high homogeneity. Although previous interviewees were discouraged from discussing the research topic and questions with their referrals, the results of the interviews were still not as desired as those from random sampling. The sample undertaken for this study was limited to the senior contract managers, which further reduced the population of the interviewees that could be interviewed. The nature of the study is also inductive; the exact number of interviewees was not conclusive until the research was in process.

Conclusion

The success of contract administration in outsourcing depends largely on a two-way transparent relationship between bureaucrats and contractors. This kind of working relationship empowers both parties to ensure efficiency in the execution of the contract in the best interest of the public. In order to better carry out performance evaluation and facilitate quality delivery of contracted goods and services, public managers need to be receptive to divergent views, interests and values inherent in private service providers (Ferlie and McNulty 2004; Townley 2002). Incentive schemes that work around various interests, beliefs and values of contractors (Denis et al. 2005) also assist public managers in fulfilling the objectives of the contract.

There have been major contradictions spotted in this study with regard to how public managers handled outsourcing contracts in the midst of competing interests. In Hong Kong, key issues such as resource allocation, financial conditions and performance targets are laid down in centralized government rules. Control over policy and resource allocation is increasingly centralized within the Hong Kong bureaucracy. Our study reveals that while outsourcing reduces the role of government in delivering public services, government retains control over the contracting process. There appears to be more interest in downsizing the responsibility of government in this area over increasing efficiency and quality. Thus, even if bureaucrats lack the necessary training and

skills to effectively fulfill this particular role, Government intervention remains strong, from monitoring the movement of the contract process, implementation of its provisions correcting to adjusting outputs of private service providers—what contractors are not appreciative of. Their inability to address issues of transparency as regards contract requirements, background information and scope and date of inspection, among others, demonstrates failure on the part of public managers to reconcile their decisions and actions with the expectations of contractors.

The study posits that the issues surrounding the current outsourcing process in Hong Kong downplays government's claim of fair competition and the growing demand from civil society for accountability from government officials. It appears that Hong Kong can barely support the development of new roles and skills among bureaucrats. Bureaucrats still rely on a hierarchical control-based approach within a highly politicalized environment. Within a politicalized context where there are multiple actors and stakeholders with conflicting objectives, outsourcing then remains a severe challenge for public contract managers in Hong Kong.

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