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# Improving performance in for-profit contracts: a study of buyer-seller communication and red tape

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**Abstract:** The use of for-profit contracts remains a popular privatization choice for public sector organizations in the United States. However, challenges with quality service delivery ensue prompting a better understanding of how best to deliver services. Based on the results of a study of 58 buyer (public sector)-seller (private for-profit sector) dyads, the findings suggest that the seller's level of communication quality is positively related to end-user consumer's level of customer satisfaction. However, the presence of red tape in the seller's organization has a moderating and negative impact. Discussion of the findings provides insight into how private sector business organizations can improve performance outcomes with its important public sector customers.

**Keywords:** information exchange, red tape, buyer-seller dyad, privatization, for-profit contracts, performance outcomes.

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## Introduction

During the latter part of the 20<sup>th</sup> century privatization was promoted worldwide as a popular strategic choice for the transfer of the provision of government/state-owned operations (referred to in the remainder of this paper as public sector) to for-profit private sector (referred to in the remainder of this paper as private sector) organizations. Rationales varied depending on the contextual setting from efforts to make developed economy nations more efficient to the provision of an economic structure to replace the fall of socialist nations (Fazamand, 2001). The overarching philosophy was that the private sector organization offered a better operational model compared to the purported deficiencies in the public sector ownership and control. In its broadest sense, privatization was considered to be the transfer of *any* measure that increases the role of the private sector in the public sector organizations (Ramamurti, 2000). The method of transfer varied greatly from the outright sale of a public sector business to the private sector, to more complicated arrangements of contracting operational units or entering into public-private partnerships in which the public sector retains a degree of ownership and control. Privatization occurred in all industry segments and at all government levels (Ramamurti, 1999). Overall, post privatization outcomes at the end of the

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20<sup>th</sup> century were mixed and did not appear to exhibit a consistent pattern; in part, difficulties may rest in the extent to which there are differences between public sector and private sector organizational characteristics (Voges, 2003).

Over time more pragmatic privatization efforts evolved in the United States (Hefetz and Warner, 2012). Delivery choices became more sophisticated to include a wider range of relationship types from public-private partnerships (PPPs) in which there is a long term mutual exchange of risk and resources between public and private sector to outsourcing-contacting relationships in which internal organizational functions are handled by outside interests (Gabris et al., 2013). These contracts are secured not only with for-profit private sector organizations, but also with non-profit and other governmental agencies (Hefetz and Warner, 2012). Yet, despite the fracture of delivery methods to be more aligned with government need, the delivery method of *for-profit contracting* remains a popular choice. For example, in 2007, 20% of city/county service delivery cases in the United States were secured with a for-profit contract placing second to the direct provision of services at 51% (Girth et al., 2012). At the federal level, the use of contracts to deliver goods and services has increased from \$337 billion in 2011 to \$412 billion in 2013 with plans to increase the usage based on the projected efficiencies derived from this type of procurement practice (U.S. GSA Annual Report, 2013).

In all, public sector organizations continue to offer for-profit businesses a valuable market opportunity. However, while this organizational sector provides a significant market opportunity in the 21<sup>st</sup> century there remain unique challenges particularly at the operational level (Wang and Bunn, 2004). For instance, 61% of local government respondents cited bringing services back in house because of unsatisfactory service delivery (ICMA, 2007). And, survey results from for-profit contractors to the federal government indicate a significant decline in the quality of their relationship with the public sector contracting officers (Thornton, 2011). These examples illustrate the need to develop a richer understanding of how best to improve performance outcomes of the for-profit contract. Thus, the research question of interest is not of identifying *what* suitable criteria can be used to facilitate the choice for the best delivery method, but of finding *how* to facilitate performance success in the frequently chosen for-profit contact.

By definition, the provision of services by way of a for-profit contract involves a medium to long term relationship between a for-profit private sector organization (the seller) and a public sector organization (the buyer) to provide goods/services to end-using customers and citizens (Gabris et al., 2013). This definition suggests that an appropriate focal point to improve performance outcomes is to study the relationship that develops between key actors in the buyer-seller relationship. Through the utilization of a middle range theory approach (Merton, 1968) which integrates relevant theoretical literatures found in both management/marketing disciplines and public administration disciplines a richer understanding of this unique organizational relationship is possible. It is from this platform that the research presented in this paper is

based. The presentation of the paper begins with a brief discussion of relevant theoretical contributions from both disciplines to present the framework for the research objectives of interest. Second is a presentation of associated hypotheses statements to address the study's research objectives. The presentation in the paper progresses to discuss the research study and its methodology, followed by a discussion of results and implications. The paper concludes with a brief discussion of study limitations and suggestions for future research.

### **Theoretical background**

#### *Management literature*

Management literatures argue that the buyer-seller dyad plays a significant role in organizational success ((Barnes et al., 2007; Celuch et al., 2006; Kirca et al., 2005; Perrone et al., 2003; Smith, 1998; Zaheer et al., 1998). Findings indicate that in the dyad each actor's individual behavior is related to organizational success (i.e., Perrone et al., 2003). Furthermore, appropriately matched facilitating behaviors or 'connectors' between the dyad have been found to result in increased customer satisfaction (Cannon and Perreault, 1999). In the for-profit contract relationship, which is the organizational arrangement of interest in this study, the role of the *information exchange* connector is suggested to be especially influential in the development of customer satisfaction (idem).

Information exchange is based on an expectation of the transparent sharing of timely and useful information across organizational boundaries. In channel performance literatures, information exchange is aligned with the construct of communication quality which is a holistic evaluative indicator of the quality of interaction between actors over time (Mohr and Sohi, 1995). Through the building of trust and commitment, communication quality is the 'glue' that binds a dyadic relationship together (Mohr and Nevin, 1990) and has been found to be related to satisfaction with supplier performance (Mohr and Spekman, 1994). Research findings further suggest that each side of the buyer-seller dyad may have different expectations and perceptions regarding the extent to which the information exchange is effective. These differences are in part related to the vast array of dimensions (e.g. complexity of the product or service supplied, length of contract, certainty of results) which distinguish the buyer-seller relationship (Cannon and Perreault, 1999; Lawther, 2002; Wang and Bunn, 2004).

#### *Public administration literature*

Public administration literatures have noted differences between public and private sector managers particularly in the areas of decision making processes and the development of strategy (Antonsen and Jorgenson, 1997; Coursey and Bozeman, 1990; Nutt, 1999; Nutt, 2000). The center of the debate asserts that inherent organizational context differences exist between public and private sector organizations (e.g., Aharoni, 1986; Emmert and Crow, 1988; Nutt and

Backoff, 1993; Ring and Perry, 1985). Organizational context differences have been attributed to multiple sources with note of two primary approaches 1) a *core approach* which is based on the simple distinction of legal form of ownership - that is, government/state-owned versus private business owned organizations, and 2) a *publicness approach* which is based on a continuum of dimensional variations including not only the legal form of ownership, but also dimensions such as stakeholder and clarity of performance expectations, and presence of market conditions (Bozeman, 1987; Nutt and Backoff, 1993; Rainey, 1989 in Voges, 2003).

A measure often used to distinguish public from private sector organizations is reflected in the extent to which red tape is present in the organization (Boyne, 2002; Pandey and Scott, 2002; Rainey and Bozeman, 2000; Rainey et al., 1995). In general, red tape is defined as burdensome administrative rules and procedures that have a negative effect on the effectiveness of an organization (Bozeman, 1993). This in turn can have a negative effect on organizational outcomes (Scott and Pandey, 2000). Red tape is found in both organizational types (e.g., Buchanan, 1975). However, the study of its influence has been largely confined to the study of public sector organizations. In this regard, the malaise serves as a core driver of popular literature which portrays public sector organizations as 'bureaucratic' and its actors as possessing a 'bureaucratic personality'. Notably, ridding the public sector organization of red tape has been a driving argument for privatization.

### Study framework

Thus, the framework for the study incorporates from management/marketing literatures the attribute of communication quality with the attribute of red tape found in public administration literatures to assess for-profit contract performance outcomes as exemplified by the level of customer satisfaction. Specifically, attention is drawn to the role that the key buyer-seller actors play in the contractual relationship. The study design which is dyadic in approach allows for the simultaneous capture of both buyer and seller responses. In all, the study approach provides an opportunity to explore the impact on organizational performance based on each actor's communication behaviors, as well as his/her relative organizational context.

The paper addresses three objectives. The first objective is to explore the relationship between communication quality as reported separately by the public sector actor (referred to as *buyer*) and the private sector actor (referred to as *seller*) and organizational performance (as portrayed by the level of *customer satisfaction*). The second objective is to explore the relationship between the buyer and seller's organizational context (as portrayed by the level of *red tape*) and the level of customer satisfaction. The third objective is to explore the presence of an interactive relationship between each actor's level of communication quality with his/her organization's level of red tape, and the level of customer satisfaction. The following section presents associated hypotheses statements to allow for an empirical examination of each study objective.

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**Hypotheses statements***Communication quality and customer satisfaction*

The construct of communication quality is defined as an individual's evaluative judgment of communication flows and is a holistic indicator of the nature of information exchanged in channel performance. Specifically, when communication flow is timely, accurate, adequate, complete and credible there is a higher quality in the exchange of information than when the flow is untimely, inaccurate, inadequate, incomplete and not credible (Mohr and Sohi, 1995). Noting that communication quality is an evaluative judgment, and in concert with decision making models (e.g., Child, 1972) an actor's judgment is influenced by the environment of which it is a member. That is, an individual has a limited capability to process information, such that judgment or perception is based, among other factors on an actor's boundaries or assumptions about his/her contextual setting (Simon, 1976). The level of communication quality in the for-profit contractual arrangement as reported by the buyer and seller may differ based on the influence of each actor's respective organizational association. In supply chain studies, results indicate that sellers tend to be more positive when queried about the quality of communication generated by the buyer (Barnes et al., 2007). Further, in buyer-seller relationships which involve the public sector, sellers may be less willing to provide information to their buyer counterparts. This is, in part, because sellers are concerned with the general orientation that public sector buyers are required to be more open and accountable to the public community that they serve. Sellers in turn are concerned that there is a risk of proprietary information becoming available to competitor interests (Wang and Bunn, 2004). Thus, it is expected that sellers will report higher levels of communication quality than the buyer counterpart. In this regard, the first hypothesis statement is merely oriented toward testing for a significant difference between the level of communication quality as reported by the buyer and seller in a for-profit contract and is as follows:

*H1: The level of buyer communication quality as reported by the seller will be higher than the level of seller communication quality as reported by the buyer in a for-profit contract.*

Communication quality has also been found to be an indicator of organizational performance such as customer satisfaction (Cannon and Perreault, 1999). Customer satisfaction is characterized as the extent to which the seller has engaged in a successful business exchange with the end-using consumer (Cannon and Perreault, 1999) and considers the price competitiveness, timeliness, overall quality and flexibility of the service provided (Zaheer et al., 1998). When the quality of the communication effort is positive there is a corresponding sense of openness and trust. As a result, information flows freely between actors enhancing the decision making processes, encouraging repeat business and benefiting the ability of the seller to address and meet customer expectations (Cannon and Perreault, 1999). However, as proposed in H1, organizational context differences for each actor

may influence the assessment of the communication effort suggesting a potentially different relationship with the level of customer satisfaction. Further, the intensity and significance of the communication quality and customer satisfaction relationship may in part rest on the influence or power that each actor has with the end-using consumer. Supply chain studies suggest that the more direct access an actor has with the end-using consumer the stronger the influence or power (Belaya and Hanf, 2013). That is, the ability to obtain relevant information in the buyer-seller relationship is expected to facilitate the ability to respond appropriately to end-using consumer needs. Thus, the second hypotheses statement is presented in two parts to allow for a separate examination of the relationship of the level of communication quality by each actor in the buyer-seller dyad with the level of customer satisfaction and is presented as follows:

*H2a: The level of seller communication quality is positively related to the level of customer satisfaction in a for-profit contract.*

*H2b: The level of buyer communication quality is positively related to the level of customer satisfaction in a for-profit contract.*

#### **Red tape and customer satisfaction**

Public sector organizations have classically been depicted as harbors of burdensome red tape or excessive administrative rules. Actors in the public sector are subject to more stringent and burdensome audit controls with procedures rooted in a maze of law and executive orders (McVay, 1991; Sheth et al., 1983). Conversely, attention in the private sector organization is typically simpler in that its attention is directed toward attaining competitive advantage and maximizing profit (Porter, 1985). In general, red tape is defined as burdensome administrative rules and procedures that have a negative effect on the effectiveness of an organization (Bozeman, 1993).

Although beyond the limits of this discussion, there are many types of red tape reflective of differences in organizational levels and functional areas (see Pandey and Scott, 2002 for a full discussion). However, although red tape has been aligned *a priori* (Rainey and Bozeman, 2000) with excessive procedures as a result of bureaucratic malaise, it is an attribute distinct from bureaucracy, which is defined as an organizational attribute intended to capture the extent to which organizational practices are guided by the application of rules and procedures in making decisions (Pandey and Garnett, 2006; Pandey and Scott, 2002). Thus, red tape is more aptly a presentation of the perception of negative organizational conditions, as opposed to a description of the actual nature of the organization itself (Bozeman and Scott, 1996). In this regard, it is not surprising that red tape although found to be at a lower level (Rainey et al., 1995) is also an attribute found in private sector organizations (Buchanan, 1975). In turn, red tape's impact as either a public or private sector organizational condition may be relevant to the level of customer satisfaction reported in a for-profit contract. Specifically, the presence of red tape has a negative impact on the level of customer satisfaction. Thus, the third hypothesis

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statement presented in two parts addresses separately the level of red tape in the buyer and the seller organization and the relationship with the level of customer satisfaction and is presented as follows:

*H3a: The level of red tape in the buyer organization is negatively related to the level of customer satisfaction in a for-profit contract.*

*H3b: The level of red tape in the seller organization is negatively related to the level of customer satisfaction in a for-profit contract.*

### **Contingent relationship**

In the study of organizations it has long been recognized that there is value in addressing the impact of variables on outcomes from a contingent perspective. That is, a suitable level of a construct may depend on the levels of other constructs (Schoonhoven, 1981). Key contingent constructs considered in the study of organizations include the organization's environment, structure and strategy (Dess et al., 1993). In applying a contingent approach, researchers such as Woodward (1965) have unlocked organizational mysteries such as the relationship between structure and technology.

In a similar fashion, I would expect that each actor's organizational context in the buyer-seller dyad would provide a contingent influence on the quality of the communication activity. Noting that red tape has been found to negatively related to organizational effectiveness, its influence would be expected to diminish the relationship between the level of communication quality and the level of customer satisfaction. Thus, the fourth and final hypothesis statement is presented in two parts again to allow for the separate address of the contingent influence that red tape has on the relationship between the level of communication quality and the level of customer satisfaction and is presented as follows:

*H4a: The level of red tape in the buyer organization will diminish the relationship between the buyer's level of communication quality and the level of customer satisfaction in a for-profit contract.*

*H4b: The level of red tape in the seller organization will diminish the relationship between the seller's level of communication quality and the level of customer satisfaction in a for-profit contract.*

### **Research methods**

#### *Sample*

The data used to test the hypotheses were derived from a comprehensive survey administered to buyer-seller dyads in for-profit contract arrangements. Although this type of data is difficult to obtain (see Barnes et al., 2007 for a discussion), the use of dyadic responses provides an opportunity for richer research results by examining both sides of the relationship (Heide and Miner, 1992). The respondent in each organization was identified as the key informant most knowledgeable regarding the operations of the for-profit contract. The respondent on the seller side was the local director; on the buyer side the respondent was the contract administrator. To control for industry and

contextual variations, the study was limited to a single established industry: contracted food services in publicly funded colleges and universities. This industry was largely established in the 1960s in response to burgeoning university enrollments (Wertz and Dreyfuss, 1995). Although there is a range of expectation regarding the types of service delivery and reimbursement, contracted university food services are, in general, long-term arrangements with renewal clauses. There are expectations that the seller will meet changing demands in its constituents' food preferences and participate in activities such as student committees to assure successful operations (NACUFS, 1999). The subjects of the survey were members of the National Association of University Auxiliary Services (NACAS) and their contract counterparts.

After an initial screening to identify which individuals were considered to be the key informant associated with the daily operations of the food service contract, surveys were sent to both these individuals. The survey was pre-tested and administered according to the design method and pre-testing recommendations of Dillman (2000). The survey yielded 126 institutions that were willing to participate in the study. Of the 126 institutions, 56 usable matched-pair responses were returned for a yield of 42.8%.

### Measures

To address concerns with reliability, the constructs were, to the fullest extent possible, operationalized based on variables used in previous studies. The first independent variable construct of communication quality was derived from the works of Mohr and Sohi (1995) and was measured based on a five point semantic scale to answer the question, "To what extent do you feel that the communication with... your local food service contract representative (for the buyer)/the contract administrator, who is responsible for day to day oversight of the contract (for the seller) is 1) timely/untimely, 2) accurate/inaccurate, 3) adequate/inadequate, 4) complete/incomplete and 5) credible/ not credible". The measure was aggregated and averaged to reflect responses from both the buyer and the seller. The second independent variable construct of red tape was derived from the works of Rainey et al. (1995) and was measured based on a five point Likert scale response from both the buyer and the seller to a single item question "If red tape is defined as 'burdensome administrative rules and procedures that have negative effects on the food service company (for seller)/ university (for buyer) effectiveness', how would you assess the level of red tape in your organization?"

Based on the work of Zaheer et al. (1998), the dependent construct, customer satisfaction was modified to reflect the buyer's assessment of the seller's organization level of service for the end-using consumer. It is the buyer's responsibility to be well-informed about the overall extent to which his/her organization is satisfied with the services provided by a seller. Past researchers have indicated difficulty in obtaining reliable alternative respondents (Heide and John, 1990) and others have found the buyer response to be a reliable source for assessing overall satisfaction (Cannon and Perrault, 1999). The buyer responded



to a 5-point Likert scale (1 = very poor to 5 = excellent) to assess four items related to customer satisfaction: 1) competitiveness of pricing; 2) timeliness of food service delivery; 3) quality of food offered; and 4) flexibility of services provided.

**Results**

To address H1 a paired t-test was performed. The results presented in Table 1 were insignificant (average communication quality of seller as reported by the buyer was 4.09 versus the average communication quality of the buyer as reported by the seller level of 3.92). Thus, the first hypothesis was not supported.

**Table 1. Paired sample test**

Variable (n = 57)	Mean	sd	Paired t-value
Communication quality of seller	4.09	0.65	
Communication quality of buyer	3.92	1.03	1.234

**Source:** Author's own findings.

To examine the effects of seller and buyer communication quality and red tape on customer satisfaction hierarchical regression was used. First, means, standard deviations and intercorrelations are presented in Table 2. To check for the effects of multi-collinearity the variance inflation factor was examined. All values were less than the threshold of 10 (the highest value was 1.17); thus, the impact of related independent variables was not judged to be overly influential on regression results (Hair et al., 2005). Tenure overlap, a control variable was highly skewed and a log transformation normalized the distributions and skewness was reduced to be within acceptable limits.

**Table 2**

Variable	Mean	sd	1	2	3		
<i>For communication quality: Buyer response</i>							
<i>Regression analysis</i>							
1. Tenure (log)	0.49	0.40					
2. Communication quality of seller	4.09	0.65	0.38	**			
3. Red tape: Seller	2.89	0.86	-0.02		-0.28	*	
4. Customer satisfaction	3.88	0.66	0.36	**	0.58	**	-0.36
<i>For communication quality: Seller response</i>							
<i>Regression analysis</i>							
1. Tenure (log)	0.05	0.40					
2. Communication quality of buyer	3.92	1.03	2.42				
3. Red tape: Buyer	3.24	0.76	0.04		-0.05		
4. Customer satisfaction	3.88	0.66	0.36	**	0.24		0.16
* p < .05; ** p < .01							

**Source:** Author's own findings.

The associated regression models are shown in Table 3. Here, the regression equations are reflective of the hypotheses statements generated and are presented separately for the buyer and seller assessment of communication

quality of each respective actor and the level of red tape reported by that actor (i.e., the first set of equations considers the level of communication quality reported by the buyer would represent his/her assessment of the communication effort by the seller and the level of red tape reported by the seller). Each set of regression equations is presented in steps so that the unique variance explained by the predictor variables can be examined. The first step is to establish the contribution of the control variable. The second step adds the variable communication quality, the third step adds the variable of red tape and the fourth step adds the interactive variable of communication quality and red tape.

For the first regression equation set which examined the relationship of communication quality as reported by the buyer, the control models, as well as the three models are significant with values of  $p < .01$ . Further, all three models have a significant change in  $R^2$  with values of  $p < .01$ ;  $p < .05$  and  $p < .10$  respectively. Correspondingly the adjusted  $R^2$  is .32, .36 and .39. In model one communication quality of the seller is significant ( $p < .01$ ). In model two the communication quality of the seller and the red tape: seller is significant ( $p < .01$  and  $p < .05$  respectively). In model three the communication quality of the seller, the customer satisfaction and red tape: seller is significant ( $p < .01$  and  $p < .05$  respectively). Thus, hypotheses statements 2a, 3a and 4a are supported. That is, the communication quality of the seller as reported by the buyer is positively related to the level of customer satisfaction. Further, the level of red tape as found in the seller organization is negatively related the level of customer satisfaction. And, the presence of red tape in the seller organization diminishes the relationship of his/her communication quality and customer satisfaction in a for-profit contract. Thus, the presence of red tape plays a particularly detrimental role in assuring that the customer is satisfied.

For the second regression equation set, which examined the relationship of communication quality as reported by the seller, the control models, as well as the three models are significant with values of  $p < .01$  for the control model and  $p < .05$  for the three models. However, none of the three models had a significant change in  $R^2$ . Thus, hypotheses statements 2b, 3b and 4 b were not supported. That is, the communication effort of the buyer, as well as the level of buyer red tape do not appear to impact the level of customer satisfaction.

**Table 3.** Results of regression analysis for customer satisfaction

Predictors	Control Model		Model 1		Model 2		Model 3		
<i>Buyer Response</i>									
Tenure (log)	0.35	**	0.15		0.18		0.18	+	
Communication quality of seller			0.51	**	0.44	**	1.25	**	
Red tape: Seller					-0.23	*	1.30		
Communication quality x red tape							-1.54	*	
$R^2$	0.12		0.35		0.40		0.43		
Adj. $R^2$	0.11		0.32		0.36		0.39		
F	7.91	**	14.69	**	11.87	**	9.95	**	
change in $R^2$			0.23	**	0.05	*	0.03	+	
df	55		54		53		52		
<i>Seller Response</i>									
Tenure (log)	0.35	**	0.31	*	0.30	*	0.31	*	

Predictors	Control Model	Model 1	Model 2	Model 3
Communication quality of buyer		0.16	0.17	0.33
Red tape: Buyer			0.15	0.30
Communication quality x red tape				-0.22
R <sup>2</sup>	0.12	0.15	0.17	0.17
Adj. R <sup>2</sup>	0.11	0.11	0.12	0.11
F	7.91	**	4.77	* 3.69
change in R <sup>2</sup>		0.03	0.02	0.00
df	55	54	53	52
betas are standardized				
+ p, < .10; * p < .05; ** p < .01				

### Discussions

The purpose of this paper was to study in the role that communication efforts and organizational context play in the success of for-profit contract relationship. In general, the role of communication quality and its influence on organizational outcomes is largely unexplored; this gap in study is seen especially in organizational arrangements in which there are public sector actors (Pandey and Garnett, 2006). The first objective considered two facets of the communication process; 1) the level of communication quality as reported by the buyer and the seller, and 2) the relationship of communication quality reported by each to the level of customer satisfaction of the end-using customer.

First, the level of communication quality of the seller as reported by the buyer was higher (4.09) than the communication quality of the buyer as reported by the seller (3.92). Although the difference was not significant, the finding that the seller displayed a higher level of communication quality compared to the buyer was of interest. There was an expectation that the seller would indicate a more positive response of the buyer's communication quality (Barnes et al., 2007). Further, in arrangements in which the buyer is a public sector actor it was anticipated that the seller would be more reluctant to share information (Wang and Bunn, 2004); implying that the seller's communication quality would be lower than the buyer's. The combination of these two conditions suggests that the buyer would display higher levels of communication quality. If the finding in this study of an insignificant difference were to hold with a larger sample size (i.e. it is recognized that the small sample size may be lack sufficient power to detect significance), a possible plausible explanation may be found in recognition of distinct characteristics of for-profit contract studied. In this study, the actors appear to enjoy an equal and seemingly high level of quality in the exchange of information (with an average of 4 out of a possible value of 5). One possibility is that over time differences in buyer and seller assessments tend to be less pronounced (Barnes et al., 2007). The median length of the contracts in this study was seven years suggesting that a long term relationship existed. Thus, the concern for caution by the seller to share potentially proprietary information may eventually give way to the development of trust in the buyer (Perrone et al., 2003). In all, there is an overall suggested implication that longevity in contractual arrangements creates value. Longevity in a relationship may serve the purpose of allowing

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parties to communicate more frequently; likewise longevity may prompt familiarity thus enabling a more open sharing information which can be especially meaningful to facilitate buyer-seller relationships in which the buyer is a public sector actor (Wang and Bunn, 2004).

The second facet considered under the first study objective is the relationship between the quality of the communication effort and the level of customer satisfaction. The hypothesis was based on the theoretical approach that long term contract arrangements require that there be collaborative interaction between the buyer and seller (Cannon and Perreault, 1999; Wang and Bunn, 2003). In turn, it was expected that both sides of the buyer-seller dyad would significantly influence reported levels of customer satisfaction. Separate analyses of buyer and seller responses were performed to evaluate the value that each actor's communication effort had on the level of customer satisfaction reported. As hypothesized, the seller's communication effort was significant and positively related to the level of customer satisfaction explaining 23% of the variance. However, the buyer's communication effort although positively related to customer satisfaction was found to be insignificant. Thus, while it is demonstrated that there is value in the quality of the communication effort in its enhancement of customer satisfaction, the nature of the relationship may not necessarily be reliant on influence from both sides of the buyer-seller dyad.

A plausible explanation may be found in consideration of research contributions from supply chain literatures. Belaya and Hanf (2013) found in a study of supply chain relationships that the actor closest to the end-using consumer is more aware of consumer preferences and in turn holds the most power or influence in the relationship. While this influence typically rests with the buyer, in some instances the influence may be attributed to the supplier position. In contracted food service arrangements while the contractor engages often with the contract administrator, the daily delivery of food service to the end-using consumer is direct. Thus, as opposed to the more typical seller (private sector actor)→buyer (public sector actor)→end-using consumer chain, the chain may be better displayed as buyer→seller→end-using consumer. In this scenario the importance of the seller's ability to effectively communicate would be considered the more influential condition. Further, the condition that both sides of the buyer-seller dyad in this study displayed a high level of communication effectiveness indicates that information exchange was not asymmetric and opportunistic behavior which would be detrimental to performance outcomes was mitigated (Williamson, 1975).

The second objective is to explore the relationship between organizational context as portrayed by levels of red tape on each side of the buyer-seller dyad and the level of customer satisfaction. The related regression analysis results indicated that it is the presence of red tape in the seller's organization (i.e. the private sector), not the buyer's organization that is influential. Two observations associated with this finding are of interest. First, given that red tape is the perception of burdensome administrative rules and was *a priori*

(Rainey and Bozeman, 2000) expected to be a more familiar condition for the public sector buyer, as opposed to the private sector seller suggests it is possible that there is a heightened sense of diminished value when the condition is not expected. The level of red tape as reported by the seller is significantly lower than the level reported by the buyer (2.89 vs. 3.24;  $t$ -value = 2.38;  $p < .05$ ). The result may also be a condition of organizational context conditions prevalent in the single industry studied. Early studies of the presence of red tape conducted by Buchanan (1975) support the notion that red tape is not limited to public sector organizations and its presence suggests organizational inefficiency because of hierarchy and size of any organization. Given that the contracted university food service industry in the United States at the time of the study was comprised of the five largest corporations commanding 65% of the market (Food Service Director, 2001), it is possible that this condition was revealed in the study.

The second observation of interest is that there was a negative and significant relationship between the seller's level of red tape and levels of customer satisfaction as opposed to an insignificant relationship between the buyer's level of red tape and levels of customer satisfaction. This observation together with the lower level of seller red tape suggests that customer satisfaction is especially sensitive to the dynamics of the seller's organizational context. As previously discussed this sensitivity may be a result of the degree of influence that actors in the supply chain have based on proximity to the end-using consumer. In regards to for-profit contract arrangements, the findings challenge the perspective that an inherent advantage of privatization is the provision of a more effective manner to offer services to citizens in a community. In a more general sense, the results of this study also suggest that long term relationships between any type of organization can experience the same diminishing effect on customer satisfaction when the one or both of the organizations in the buyer-seller dyad is hampered by the inefficiencies of red tape.

The third objective of the study was to test for the presence of an interactive relationship between each actor's organizational context and communication quality with the level of customer satisfaction. Organizational context matters (Perrone et al., 2003), and it was expected that the presence of red tape would have a diminishing impact on the relationship between communication effectiveness in the buyer-seller dyad and customer satisfaction. The significant and negative impact of the seller's organizational context on his/her communication efforts suggests that the condition holds in the for-profit contract arrangement. That there is a significant interactive condition between individual behavior and organizational context supports the argument that inter-organizational relationships are complex. A study of privatization efforts by Voges et al. (2009) found that despite an individual's previous work experience it was the organizational context (public sector vs. private sector) that was most influential in the performance success of the organization. In the private sector, Zaheer et al. (1998) and Mohr and Spekman (1994) encountered similar results of complex relationship patterns. Their

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study confirmed that the influence of organizational context can overshadow the relationship of individual behavior and performance outcomes. Zaheer et al. found that individual behavior “[...] plays a distinct, though subordinate role [...] when examined in conjunction with [...] organizational context in affecting performance outcomes” (1998, p. 156). The results in this study present that red tape in the seller organization was found to have a significant and diminishing impact on the positive relationship between the seller’s communication effort and customer satisfaction. In concert with other study findings, the implication is that achieving positive performance outcomes is critically dependent on the seller’s organizational context conditions despite the state of individual actor behavior.

All in all, the results of the study suggest two major areas of interest for private-sector business managers (seller) responsible for contract activity with public sector organizations (buyer). First, long term for-profit contract relationships are of value. In this regard, longevity is suggested to contribute to the development of higher quality communication resulting in improved levels of end-user customer satisfaction. Although establishing the contract term may not be in the direct control of the seller, the acknowledgement that longevity is of value for both parties could be used to gain favorable position in negotiation sessions.

Second, the business practices of the seller are influential in the extent to which for-profit contact performance outcomes can be successful. Specifically, three points are highlighted. First is the recognition that the seller’s key actor’s communication effectiveness is related to the levels of end-user customer satisfaction. Second, is that red tape is an organizational condition present not only in public sector organizations, but also private sector organizations. Of greater note is that based on the results of this study, it is possible that the presence of private-sector red tape may be an even more critically damaging condition as compared to its expected presence in the public sector organization. The final point is that despite an individual actor’s communication effort, it is the organizational context which has the overriding influence on performance success. While these findings may be contingent on a seller’s relational proximity to the end-using consumer, the fact that there is a significant relationship with levels of customer satisfaction warrants that business practices assure that 1) the key local actor(s) engage in open communication practices, and 2) even more importantly, managers in the seller organization conduct a truthful and critical assessment of the extent to which their organizational practices are burdensome. This inventory can provide knowledge of where to make internal organizational improvements. For example, the local manager may be trained in effective communication practices and upper management can oversee the development of an organizational culture in which timely and streamlined responses are emphasized. Given that poor quality service is a frequently cited reason to bring contracted services back to a direct method delivery (Hefetz and Warner, 2012), it is inherent on the seller to be aware and take appropriate action by to assure that good customer relationships are maintained.

### Limitations and suggested future research

As with any study, there are limitations. Given the interest in collecting dyadic data the resulting limitation of a small sample size may have generated erroneous insignificant findings because of low power (Cohen, 1988). However, given the small sample size, great confidence can be placed in the significant findings. That is, the quality of communication displayed by the seller and the presence of red tape in its organizational context matters impacts the reported levels of customer satisfaction in a for-profit contractual arrangement. Second, although the research was designed to control for variation with limitation to the study of one industry in the United States, there follow challenges with regard to the generalizability of the findings. There is a need to pursue additional studies which incorporate at a minimum a wider range of industry sectors, national settings (i.e., both developing and developed economy nations), as well as the extent to which the organization experiences political control (Boyne, 2000). Third, while there is a potential for common method bias in the customer satisfaction responses, given my own failed efforts to obtain a sufficient number of responses from other actors in the buyer organization and acknowledging that the other variables were generated from a combination of buyer-seller responses, I judged that the customer satisfaction responses were viable to use in the study.

Another limitation is the rigor of the red tape variable selected to measure the nature of organizational context. The use of single item measures is not a desirable design approach (Pedhauzer and Schmelkin, 1991). However, the use of the single item measure followed research design in previous works (Bozeman and Kingsley, 1998; Pandey and Scott, 2002). Given that a goal of this research effort was to generate results complementary of past works in order to consider the extent to which *a priori* assumptions regarding organizational context might hold in the instance of a popular privatization method, the use of single item measures was considered to be acceptable. Finally, the study was limited in terms of its ability to establish causality. Regression analysis does not test for causality, but rather for the presence of a relationship between variables (Hair et al., 2005). It is possible that there may be a bidirectional or looped relationship between the level of red tape and customer satisfaction. That is, the seller assessment of red tape in his/her organization may be reflective of his/her awareness of dissatisfaction with customer service. Carefully designed longitudinal studies, as well as further theoretical development would help to establish the direction of relationship between these constructs.

### Conclusions

This study advances an understanding of ways in which to better manage privatization efforts as found in the popular for-profit contract with a focus on the role that organizational context plays in the quality of information exchanged. The results suggest that longevity in the contract arrangement can be beneficial for the exchange of information. This in turn is suggested to result in improved organizational performance. However, the results also caution that

assumptions that private sector organizations afford a more beneficial setting may not always be valid. More importantly noting that seller red tape is an impediment to information exchange, which is a prerequisite for innovation in organizations, it is possible that government policy which stresses privatization as a way in which to become more responsive to its citizens may in fact hinder its ability to accomplish this goal. In this regard, a more aggressive study of the presence of red tape in private sector organizations may be a fruitful endeavor.

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