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Conundrum of Relationship Between Governance Mechanisms:

Alignment with Transaction, A Missing Link

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Abstract: Impact of governance mechanisms' relationship on performance is still contradictory and inconclusive. Using a comparative case analysis, we explain the variation in relationship between governance mechanisms in an emerging economy public-private partnership context, which is not studied much. We argue that the governance mechanisms continue to complement, substitute, and do both in a dynamic manner but until aligned with nature of transaction they are ineffective to control partner opportunism. In the case of power imbalance, private organizations fake governance mechanisms contradictory to the actual intention. This compromises transparency resulting in lower trust, critical to fill the gaps in incomplete contract. Inappropriate governance mechanisms inflate the gaps of incomplete contracts leading to poor public value, especially in emerging economy healthcare context.[This paper has been submitted to Strategic Management Journal special issue on Value Creation and Value Appropriation in the context of Public and Non-Profit Organisations.

Keywords: Governance mechanism, public-private partnership, partner opportunism, nature of transaction, emerging economies.

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Conundrum of Relationship between Governance Mechanisms: Alignment with Transaction, A Missing Link

INTRODUCTION

The literature on contract governance has been organized into two poles apart approaches in management and business studies – transactional governance and relational governance. Transactional governance with its origin in transaction cost economics and agency theory argues for detailed contract and hands on approach in managing contracts with limited role of relationship. On the other hand, relational governance approach anchored in sociological school of thought, relational exchange theory, and resource based view argues for relationship as a cornerstone for the transaction. Both of these extreme governances are rare and in practice, both governance design involve mix of both. The interaction between these governance mechanisms has been studied extensively, however, with contradictory findings. The governance mechanisms have been found to complement, substitute, and do both over a period of time (Cao and Lumineau, 2015). Therefore, the relationship between governance mechanisms is not straightforward as most of the quantitative studies have identified different facets of relationship between drawing contradicting inferences. Secondly, the relationship between governance mechanisms in terms of impact on performance has also been identified. Studies have found both complementary as well as substitute impact on performance (Cao and Lumineau, 2015). A number of mediating factors have also been identified (Mahapatra *et al*., 2010; Huber *et al*., 2013), however, explanation on variation in relationship between governance mechanisms and their impact on performance is still not complete.

This study aims to address the inconclusive research on relationship between governance mechanisms and explain, from a different perspective, the variation in relationship between governance mechanisms. We conducted a comparative case analysis of inter-organizational governance of National Health Insurance Program (known as Rastriya Swasthya Bima Yojana - RSBY) launched by Government of India. Using primary data through in-depth interviews and direct observation supplemented with secondary sources, the study analyses the use of different governance mechanisms to control partner opportunism in three Indian provinces which have similar contracts, institutional, and administrative structures. This study argues that each governance mechanism has an individual unique effect in addition to conventional effect that is functionally equivalent to other governance mechanism. As they are functionally equivalent to certain extent, certain parts of the governance mechanism gets substituted by other governance mechanisms and at the same time, other parts get complemented. Therefore, each governance mechanism can be substituted or complemented at least up to a certain extent. Organizations try to substitute or complement governance mechanisms in order to adapt to changes in the nature of transaction. If the organisations deploy (substitute/complement) governance mechanisms such that it is in alignment with the nature of transaction. Till organisations reach this stage of alignment, the governance mechanisms will either be substituted or complemented with other governance mechanism. Thus, the impact of governance designs on performance is mediated through the alignment of governance design with the transaction. The congruency between governance mechanisms and nature of transaction is determined on three dimensions - incentive intensity, administrative control and social norm. Alignment of governance designs results in governance dynamics that allow agents to capture value and overcome threats leading to higher performance (Maurya, 2015). When organizations are not able to deploy required governance mechanisms, they use the governance mechanism that is available, rather than needed one, leading to internal incoherence in the governance design. This incongruent governance designs fails to mitigate conflict, realise mutual gain and induce order resulting in sub-optimal governance and poor performance.

THEORETICAL BACKGROUND AND RESEARCH PROPOSITION

Scholarship on inter-organizational relationship (IOR) covers non-contractual relationship to long-term contracts from just two organizations to huge network of organizations in public, business as well as non-profit organizations (Cropper *et al*., 2008). The IOR is conceptualized into three sub-dimensions – content that is flow of resources; governance design that is means through which actors manage the flow of contents; and structure that is opportunities and constraints placed by the relationship (Cropper *et al*., 2008). Researchers have generally defined values of one or more of the three sub dimensions and have tried to link it with some aspects of performance or outcome. Governance fills the gaps in the express agreements of the party, reduces transaction cost (Seabright *et al*., 1992), influences partner opportunism and thus, determines performance outcomes of the transaction. As the research context of most of the existing studies are matured economies, there is growing interest in understanding the role governance plays in emerging economies which are characterised with limited development of institutions. In the context of public private partnership (PPP), the role of governance design becomes more important because of institutional void, government opportunism, third party opportunism, and clan culture (Schilkae and Cook, 2015). Governance of service based PPP arrangements is considered as one of the most important factor determining their performance. (Palmer and Mills, 2003; Perrot, 2006; Lonnoroth *et al*., 2007; Fernandez, 2009). A number of empirical reviews have identified contract governance as one of the key factors influencing contract performance in case of social services (Palmer, 2000; Romzek and Johnston, 2005; Amirkhanyan Kim and Labmright, 2007, 2011; Lonnoroth *et al*., 2007; Guinness, 2011).

The governance of a contract is defined during the contract design stage, known as governance design, and evolves during contract implementation. The purpose of the governance design is to mitigate conflict realise mutual gain and induce order (Williamson, 2000). One of the common indications of the effectiveness of governance of a transaction is extent of partner opportunism. Partner opportunism reduces performance; increases transaction cost, reduces trust, satisfaction, motivation and increases conflict between parties (Hawkins, Wittmann and Beyerlein, 2008). Thus controlling opportunism, a critical dimension of transaction performance, is considered as central goal of governance (Williamson, 1985). Governance mechanisms involved in governing a transaction constitute the governance design. Two commonly known governance mechanisms are transactional governance and relational governance. Transactional governance mechanism includes rational controls - well written contracts with incentives, transaction specific investments, monitoring and sanctions. Highly detailed contract, characterized by "sharp in/sharp out", is the major instruments through which control is exercised (Gundlach and Achrol, 1993; Heide, 1994; Lusch and Brown, 1996; Ferguson, Paulin and Bergeron, 2005). On the other hand, in relational governance mechanism transaction is governed through relational norms (MacNeil, 1978; Colledge, 2005) and loosely defined, less rigid contracts. There is limited research on how agencies can combine different governance mechanisms to achieve a governance design to control partner opportunism. Thus, exploring interaction between governance mechanisms in the context of partner opportunism provides indications about the appropriateness of the governance design. If the partner opportunism is prevented or controlled, this suggests effectiveness of the governance design to manage transaction ex-post.

Dynamic relations between governance mechanisms

In practice, both the governance mechanisms are used together. Huber *et al*. (2013) operationalized relationship between two governance mechanisms as complementary when governance mechanisms enable use of other governance mechanisms (enabling) or compensate for deficiency in other governance mechanisms (compensating). The substitution relationship between governance mechanisms happens when they either replace (replacing) the other governance mechanism or dampen the use of other governance mechanisms (dampening). A number of contextual factors have also been identified that moderate the relationship between governance mechanisms. First, the nature of relationship between partners before the contract influences the relationship between governance mechanisms and their impact on the performance. When organisations already share a strong tie transactional and relational mechanism act as substitute whereas in case of weak tie they act as complement (Yang, Zhou, and Jiang, 2011). This suggests that based on the nature of initial relationship, parties interpret contract either as a sign of distrust or as a sign of commitment and that determines the relationship between governance mechanisms used (Woolthius Hillebrand and Nooteboom, 2005; Zheng Roehrich and Lewis, 2008).

In the initial phase of a project, both governance mechanisms are used as complementary (Huber, Bostrom and Felzenstein, 2013). However, as the context changes and organizations adapt to the situation, relationship between governance mechanisms may vary. Thus, the relationship between governance mechanism have been found to be substitute, complementary as well as both over a period of time. The contradictory results are probably due to the fact that most of these studies being quantitative using cross-sectional data. There are only three studies (Huber, Bostrom and Felzenstein,, 2013; Olsen *et* *al*., 2005; Caniels, Gelderman and Vermeulen, 2012), which have gone beyond empirical evidence to understand how these two governance mechanisms interact with each other over a period. A recent meta-analysis by Cao and Lumineau (2015) concluded that the relationship is towards complementary rather than the substitute but the review only includes quantitative studies using cross-sectional data. However, For example, Huber, Bostrom and Felzenstein (2013) suggest that the relationship is dynamic and argues for more qualitative studies to understand the exact nature of relationships between governance mechanisms. Extending the argument of Huber, Bostrom and Felzenstein (2013) to the context of PPP in the emerging economies, we argue that the relationship between governance mechanisms is dynamic, which means it keeps on changing as the nature of transaction changes.

Proposition 1: Relationship between governance mechanisms is temporal, therefore dynamic over a period.

Alignment of governance mechanisms with nature of transaction

Each governance mechanism was found to increase opportunism whether it is a relational or transactional (Anderson and Jap, 2005). There is contradictory opinion on which governance mechanisms is better to control opportunism. Some studies find relational governance (Cavusgil, Deligonul and Zhang, 2004; Caniels and Gelderman, 2010; Zhou and Xu, 2012) whereas others argue for transactional (Liu, Luo and Liu, 2009). When used in combination, governance mechanisms have been found to complement each other thus reducing partner opportunism (Poppo and Zenger, 2002; Luo, 2002; Mayer and Agyres, 2004; Olsen *et al*., 2005; Liu , Luo and Liu, 2009; Zheng, Roehrich and Lwis, 2008; Caniels, Gelderman and Vermeulen, 2012; Bai et al 2016) at the same time substitute each other and increasing partner opportunism (Ghoshal and Moran, 1996; Das and Teng, 1998; Dyer and Singh, 1998; Wuyets and Geyskens, 2005; Caniels and Gelderman, 2010). We argue that the reason for contradictory evidences is because most of the studies are quantitative and cross-sectional assuming that nature of transaction does not changes within the sample examined and thus ignored the role played by the nature of transaction and its relationship with governance mechanisms. Some of the qualitative studies suggest that the sequence in which governance mechanisms are used (Olsen *et al.*, 2005; Yang, Zhou and Jiang, 2011; Zhou and Xu, 2012; Caniels, Gelderman and Vermeulen, 2012) and their mix (Olsen *et al*., 2005; Caniels, Gelderman and Vermeulen, 2012) impact performance highlighting the dynamic nature of the relationship between governance mechanisms. Therefore, we argue that the governance mechanisms are dynamic and need to be aligned with nature of transaction for effective governance. As nature of transaction keeps on changing, the governance mechanism should be aligned with transaction in a dynamic manner.

Insert Figure 1 here

The inter-organizational governance is designed before the start of the relationships but as the implementation progress, with changes in the environment, partners adopt a mix of governance mechanisms. As implementation progresses and if the context changes - increase in risk\volatility\uncertainty because of high environmental turbulence - organisations substitute governance mechanisms (Lee and Cavusgill, 2004; De Man and Roijakkerns, 2009; Zhou and Peng, 2010; Lie *et al.*, 2010; Huber, Bostrom and Felzenstein, 2013) leading to higher performance (Cannon, Achrol and Gundlach, 2000; Olander *et al.*, 2010). Though the relationship between partners and environment determines the choice of governance mechanisms, their appropriateness is determined by their alignment with the nature of transaction. We further argue that alignment of governance mechanisms (mix of) with nature of transaction ultimately determines the nature of relationships between governance mechanism (substitute, complement or both). Once alignment is achieved, mix of governance mechanism is effective in controlling partner opportunism and the relationship between governance mechanisms is concretized at that stage in that context (Figure 1). As the nature of transaction changes again, the organizations will have to again adapt the governance mechanisms in order to achieve effective governance.

Proposition 2: Alignment between governance mechanisms and nature of transaction determine complementarity between governance mechanisms at that stage till the nature of transaction is stable.

In most inter-organizational arrangements, the use of governance tool depends upon the relationship shared between agencies which evolve over a period. Partners usually respond in a "tit for tat" manner (Axelrod *et al*., 1997; Ostrom, 2005). Over a period, mix of governance mechanisms gets aligned to the nature of transaction and become effective as discussed before. However, organizations need to have ability to adopt governance mechanism in order to match with the nature of transaction. Adoption of governance mechanism also involves setup cost, ongoing governance costs, and potential opportunity costs due to mismatch.

Proposition 3: Ability to use governance mechanisms determines deployment of governance mechanisms and its alignment with the nature of transaction.

Public contracting studies suggest that contracts are designed in a formal rigid-inflexible, dependent on formal accountability mechanisms manner to reduce opportunism and ensure transparency (Spiller and Moszoro, 2011). However, during implementation public managers typically manage contracts in a relational style (Van Slyke, 2007; Goo and Huang, 2008; Lamothe and Lamothe, 2012; Poppo and Zenger, 2002) due to considerable cost in using penalties and enforcing sanctions (Van Slyke, 2009; Girth, 2014). However, we know very little about what happens when private sector agencies are unable to use a desired governance mechanism. This typically happens in case of power imbalance – over dependency of private agencies over public agencies. In such cases, inter-organizational relation are organized in a unilateral fashion, wherein one exchange partner (public agency) impose decisions on the other (Hart, 2003; Simon, 1995). This is truer in emerging economies context. In case of high dependency, more powerful partner may get into opportunism. The partner with less power cannot exercise high rights as stipulated in the contract. We argue that less powerful partner's actual governance mechanism may be concealed.

Proposition 4: In case of inability to use a governance mechanism, organisations may adopt a visible governance mechanism, different from the actual intention to use governance mechanism.

RESEARCH CONTEXT

This study examined one of the most ambitious public health program launched by Government of India - National Health Insurance Program also known as Rashtriya Swasthya Bima Yojana (RSBY). With 95 per cent of the population without any health insurance coverage, catastrophic healthcare expenditure drove around 40 million people in India to poverty every year (Selvaraj and Karan, 2009). In order to reduce poverty impact of healthcare expenditure, the Government of India (GOI) launched a nationwide health insurance program in 2008, known as Rashtriya Swasthya Bima Yojana (RSBY), i.e. National Health Insurance Program. The program is specifically targeted to low income groups and specific vocational groups. The program covers hospitalization expenditure (for all disease including pre-existing) up to 30,000 Indian Rupees (450 USD) per Below Poverty Line (BPL) family per annum in all the network hospitals across country. As of March 2016, program covered around 41 million families in 482 districts across 29 provinces, i.e. states. The State Nodal Agency (SNA) contracts with insurance company on the basis of premium per family to provide health insurance coverage a defined population group in each District, which is the implementation unit of the program. The contracts to the insurance company are awarded on the basis of a competitive bidding process. The program is implemented at the district level through a network model, where the insurance company (IC) works as a lead contractor in the district contracting with other agencies like Third Party Administrator (TPA) (for back office functions), Smart Card Service Providers (SCSP) (for enrolment of beneficiary), District Administration (DA) (facilitation of implementation in the district), and hospitals (for healthcare to the beneficiary) to provide healthcare insurance coverage (Figure 2). The families who are in the selected population group can enrol in the program by paying a token amount of USD 0.50 as a registration fee per annum.

<u>Insert Figure 2 here</u>

Governance Structure of the RSBY

The IC as a lead contractor contracts with SCSP for enrolment of beneficiary and with TPA for creating network of hospitals and claims management. Both SCSP and TPA make all investment in the specific equipment, process, software and human resources. Thus, IC primarily manage funds and relationship with the partner agencies while most of the activities – enrolment of beneficiary, empanelment of hospitals, and management of claims is done by their subsidiaries. The terms of the relationship between all agencies is dictated primarily by the contract between SNA and IC. As seen in the figure 2, the relationship between agencies is based on hierarchy, formal and informal contracts and thus governance is hybrid in nature. All contracts in the program are explicitly detailed in terms of inputs and process - activities, role and responsibility, payment mechanisms, and risk sharing leaving limited scope for discretion and ambiguity. The contract document is specific to the extent that one of the insurance company managers commented that "the guidelines are so clear that we do not need to know anything else…One has to just follow the guidelines (specifications in the contract)".

Monitoring of the scheme is done through analysis of data submitted by ICs on enrolment of beneficiary, hospital empanelment, and claims management. Apart from the data, the monitoring is done through regular meeting and field visits. Regular meetings at national and state levels are also held to review progress and discuss issues. Many SNAs carry out field level monitoring either through existing or hiring additional staff on contract. To address the disputes in a systematic manner, a three tiered grievance redress system has been set up at district, state, and national level, comprising of stakeholders at the respective levels and chaired by a public functionary. Even though these committees do not have a legal sanctity, there is a threat of contract termination and/or non-renewal next year. As pointed out by the Director of the program, in the case of dispute, stakeholders are advised to "sit together, discuss and seek a response from the agency and make them do it, rather than penalizing them." The program design promotes working as a "team and not be dependent on penalties but facilitate and support each other in performing." Another ministry official emphasised that, "Our approach is either you are with us or you are not with us. There is no penalty. If you are not performing, then you are out."

Incomplete contract, power imbalances, and scope for opportunism

Even though the contract describes the inputs and process in extensive details, the contract is incomplete when it comes to outputs, outcomes, and quality. In the contract, incentives are tied to the volume of inputs (enrolment of beneficiary) rather than outputs and outcomes (Healthcare service utilisation or health outcomes), therefore IC and their subsidiaries have incentive to increase enrolment but not outputs\outcomes. Similarly, hospitals are paid on the basis of packages without quality monitoring, and thus have incentive to increase volume of packages rather than healthcare outcomes. As quality is not monitored, parties also have an incentive to shed quality – especially if it increase costs (Hart, 2003). Thus, incompleteness of the contract in the programs provides a number of prospects for opportunism and rent seeking for all stakeholders. To ensure the quality of deliverables by IC and their subsidiaries, D has been given responsibility to provide support and ensure quality. The DA is also a referee at district level to address disputes between agencies. However, DA has no incentive to perform and IC being outsider in the district depend on DA for support. The DA exploits this dependence of IC to seek rent empaneling their favoured hospitals even if they do not qualify (Asher, Vora and Maurya, 2015). The DA would seek rent if they have high veto power and private hospitals keen on getting empanelled in the scheme provided the opportunity to do so. Once empanelled, these private hospitals under immunity of DA collude with other agencies making extensive fraudulent claims. The IC unable to control these fraudulent hospitals resorts to counter opportunistic behaviours - repeatedly suspending hospitals if submit higher claims, delaying payment to hospitals and paying them less than the claimed amount later. This creates a vicious cycle of opportunism and counter-opportunism and perpetuates fraudulent behavior in other functions as well (Asher, Vora and Maurya, 2015). During the period of the contract, changing the terms of the contract is not possible. There is very little that one party can do to police other parties. Therefore, parties with high power exploit their position. In many states, the redressal system is not functioning properly, therefore, agencies try to manage the issue themselves by using private order systems - using mix of governance mechanisms to prevents and control partner opportunism. Extensive focus on controlling cost in program design and ignorance of governance dynamics has resulted in low cost low quality services with extensive frauds and leakages resulting into underutilization, limited effectiveness in reducing financial burden, and therefore, generating limited public value this program was expected to generate (Asher, Vora and Maurya, 2015; Karan, Winnie and Mahal, 2015; Prinja *et al.*, 2017).

METHOD

As discussed above, in context of underdeveloped institutions, partners rely on private order institutional arrangements to address disputes and therefore the deployment of governance mechanisms and their relationships is expected to vary in these contexts. A case of under-developed institutional context provided an opportunity to extend theorisation on relationship between governance mechanisms, which have primarily been studied in developed institutional contexts. In order to study the relationship between governance mechanism and its impact on performance, we needed a case which allows to do so by controlling for various confounding variables that influence performance, one of the critical challenge in a case study methodology. The case used in this study provided the opportunity to do so as its unique design control the critical determinants of contract performance - contract design, administrative structure, implementation process. This provided opportunity to tease out the impact of relationship between governance mechanisms on performance.

In order to arrive at a framework for explaining variations in relationship between governance mechanisms, this study used process tracing and critical incident technique within a case and comparative case analysis for cross-validation and generalization. To ensure validity and reliability we apply four criteria to assess the rigour of our case research (Gibbert, Ruigrok and Wicki, 2008), as presented in Table 1. First to establish the background knowledge - actors involved, processes of implementation, governance mechanisms available, a series of documentation and literature reviews were done, together with a set of preliminary interviews. This preliminary research helped to develop an understanding of the general dynamics of the program implementation, different types of partner opportunism, and governance mechanisms. This preliminary study along with the literature review provided constructs that can be used in the tracing the process.

Insert Table 1 here

Based on the preliminary interviews, three provinces implementing RSBY program were selected based on the variation in governance mechanisms used (explanatory variable) without any information on the variation in performance that is extent of partner opportunism (dependent variable). This design for a given value of explanatory variable provides variation in the distribution of outcomes of the dependent variable allowing us to make initial causal inferences as described by King Kohen and Verba (2004, Pg 140). In each of the State, the implementation unit of the program, i.e. District was selected to make data collection manageable. Within the district, data was collected from all stakeholders through semi-structured interviews, allowing us to identify areas of overlap and differences to triangulate data from different perspectives.

Apart from a total 42 face to face interviews of nearly 75 hours, qualitative data was collected from 9 informal discussions and 6 direct observation. This primary qualitative data was complemented with secondary data which included data provided by agencies and ministries, reports, concept notes, newsletters, published and unpublished articles, data published on official websites, newspaper reports, and evaluation studies. Critical incident technique was used to map implementation dynamics in each context, i.e. district. Four critical events in the program implementation - planning, enrolment of beneficiary, empanelment of hospitals, claims management - were identified and data was collected, mapping micro-level incidents and responses of agencies. For each critical incidents, responses were collected on dimensions like - preparing plans, decision making processes, problems during implementation, approaches to manage problems, various opportunistic behaviours, and governance tools. This facilitated exploration of little-known phenomenon (Gremler, 2004) and reduction of complex qualitative data (Chell and Pittaway, 1998).

The analysis is structured around the prevention and management of partner opportunism. For each of the partner opportunism, process tracing was used to trace the governance tools used at different stages including the reasons for choice of the governance mechanisms and their impact. This process tracing was done for all opportunistic behaviours observed by all stakeholders involved. Understanding the dynamics of program implementation in each context allowed to draw inferences about the choice of governance mechanisms in each case, while tracing the process of choice of governance mechanisms and their impact on the performance allowed us to draw inferences about the relationship between governance mechanisms and their consequent impact on performance. Comparative case analysis of use of governance mechanisms for same opportunism across three cases allowed to generalise about the factors driving choice of governance mechanisms and relationship between governance mechanisms.

FINDINGS AND DISCUSSIONS

This section provides first a background and variation in performance across three states - Himachal Pradesh, Punjab, and Uttar Pradesh. Next, we discuss how different governance mechanisms across three states were used to counter same opportunistic behaviours, thus suggesting about the relationship between governance mechanisms. This is followed by findings and discussion on how alignment of governance mechanism and nature of transaction helps in controlling partner opportunism. Finally, as the implication of alignment, we discuss organization's ability to align governance mechanisms with nature of transaction and how lack of such ability results in dual governance reducing transparency and trust, which ultimately result poor public value.

Himachal Pradesh is economically developed; has lower corruption in public service, and high level of human development (Table 2). The state is also a high performer, receiving - award for the highest enrolment in the program for two consecutive years. At the state level, the program is managed by an autonomous agency under department of health with very few staff. At the district level, implementation of the program is facilitated by department of rural development. The state government actively participated in the planning and implementation of the program and therefore, there was considerable pressure on DA to facilitate implementation. Consequently, data on the BPL population has been revised continuously resulting in 100 percent enrolment in many village councils. The state was also high performer in utilization of services as hospitalization rate was around 5.1 percent that was higher than many other states and close to national level (National Sample Survey Office of India, 2015). No opportunistic behavior has been reported by any of the agencies, across all activities, including hospital frauds. Furthermore, in order to keep the program clean, state government was severely punishing fraudulent agencies.

Insert Table 2 here

Punjab is economically developed but lags in human development (Table 2). At the state level, the program is managed by corporatized SNA with a team under their direct hierarchical authority. Each of the districts was providing them in-depth information and control over field operations. A steady increase in performance was observed across all functions as reported by RSBY newsletter, RSBY connect. Because of its ability to manage the implementation, a number of pilot initiatives-launch of OPD (outpatient department) services and connecting RSBY with other social schemes were undertaken. However, opportunistic behavior couldn't be controlled completely and frauds were observed in empanelment and hospitals claims. The third state, i.e. Uttar Pradesh, known for its poor governance and corruption in public service delivery (Paul *et al*., 2004), has been a low performer (Table 2). For the first two years, due to poor staffing and poor management capacity extensive opportunism and fraud was observed (The Indian Express, August 22 2011). A new autonomous agency, was set up in 2011 with a mandate to improve performance. With a new organizational structure, new leadership and operational autonomy, this newly formed State Nodal Agency (SNA) began improving accountability at the state and district levels and engaging stakeholders at various levels. However, the improvement in performance was not significant. The new administrative regime was ineffective in tackling the issue of collusion and rent seeking and therefore, opportunistic behaviours were observed across all activities (Asher, Vora and Maurya, 2015).

The Table 3 presents four most commonly opportunistic behaviours observed and governance tools used to prevent and control them. As shown in the table, poor quality of enrolment by SCSP and TPA is observed due to the fixed cost payment method that incentivises quality shedding in absence of effective monitoring. The second opportunism, district administration not providing required support to the TPA/IC during enrolment, happens as either DA shirks from the responsibility or they purposely withhold support to IC in order to get their demands met. The third opportunism, favoring certain private hospitals in their empanelment\de--empanelment, originated because DA collude with these hospitals. The fourth opportunism, ICs unethical behaviour in claims management (instructing hospitals to admit only a certain number of patients, withholding information on claims status, rejecting claims on frivolous reasons, delaying claims payment and not paying the full claim amount) arises as claims ratios threaten profitability, etc.

<u>Insert Table 3 here</u>

Dynamic relationship between governance mechanisms

This section discusses how different governance mechanisms in different context were deployed to control opportunistic behaviours, therefore, highlighting their relationship. In the beginning of the relationship, partners collaborated as they were unclear about their position and vulnerability and the support they will need from the other partner. As this information was unclear, partners used both governance mechanisms in order to achieve the favourable response. However, as relationship dynamics became clearer, agencies' behaviour was driven more by calculation and incentives. In order to control opportunism, organizations went on moving from one governance mechanism to another, either substituting or complementing them, but they could not complement or substitute completely. For example, agencies could use relational governance only when they had some control over the other party to minimize the risk of being exploited. However, despite using relational governance they also continued monitoring. Similarly, governance mechanisms were not substituted completely. For example, as trust and credibility reduced, partners increased monitoring to detect opportunism but at the same time use relational activities to prevent opportunism. So organisations continued to use alternate governance mechanisms until opportunism was controlled. When they failed to control partner opportunism, they resorted to counter opportunism in order to control damage.

The analysis reveals that governance tools are selected based on the feasibility irrespective of the contract (Table 3). The feasibility of governance tool is assessed in terms of its expected effect on the situation including impact on relationship and efforts required to deploy them. If one governance tool is found to be ineffective, parties move to another one with a minimum increase in effort. This next tool could be either from a transactional or from a relational category. Thus, organisations keep on shifting from transactional to relational tools and vice versa as observed in the study (Table 3). For example, IC in Punjab and Uttar Pradesh, initially continue to ignore pressure (relational) from DA favouring a particular hospital for empanelment. However, when DA starts behaving opportunistically by non-cooperating in program implementation, the IC can no longer ignore it. Subsequently, IC communicate their inability to empanel a particular hospital (relational approach). In the event, explanation and communication does not work, the ICs move to a transactional approach by asking DA to provide a written request, which cannot be provided as per the contract (formalizing communication). If, however, the DA continues behaving opportunistically, as the case in Uttar Pradesh, the IC bows down and accepts demand of DA even if it has serious repercussion on claims. This happens when ICs cannot exercise indirect control on DA through SNA as stipulated in the contract. As discussed here, the governance approaches served as both complementary and substitute but only up to a certain extent. This is probably due to the fact that each governance mechanism has different modus operandi, even when they are used for the same purpose. Therefore, it appears that the relationship between governance mechanisms is not static as other studies have assumed but dynamic in nature.

Alignment between nature of transaction and governance mechanism

The relationship between governance mechanisms is dynamic and we argue that this remains so until they are aligned with the nature of transaction. Also until aligned, governance mechanisms are ineffective in controlling partner opportunism. As discussed in the context of the case, the nature of transaction between insurance company and district administration varied across state on two dimensions - veto power of district administration and extent of empanelment of private hospitals. These two characteristics of the transaction determined the risk of opportunism or rent seeking. Thus, states differed in the nature of transaction between IC and DA leading to variation in risk imposed by these transactions across states (Table 4).

Insert Table 4 here

In Uttar Pradesh, DA has complete veto power and state government favoured private hospitals during empanelment thus providing higher opportunity for rent seeking making the transaction high risk. In the state, the new administrative regime restructured rules and gave DA complete decision making power during hospital empanelment increasing dependency of IC on them. Furthermore, pathetic status of the public hospitals in the state paved way for the empanelment of private hospitals. More than 90 percent of the empanelled hospitals were from private sector providing extensive opportunity for DA to abuse the veto power by seeking rent from these hospitals. In Punjab, DA has limited veto power and nearly half of the hospitals empanelled were from private sector, providing moderate opportunity for rent seeking for DA. Therefore, nature of transaction between IC and DA was of moderate risk. In the state, the SNA prohibited DA's interference in private hospital empanelment. However, it was ineffective because DA has close linkages with private hospitals. The DA continued exploiting dependency of insurance companies. In Himachal Pradesh, DA has no influence on the hospital empanelment decision making and the state government strongly favoured public hospitals (90 percent empanelled from public sector), therefore, the risk of opportunism was very low making the transaction low risk. The DA being from department of rural development, has limited connection and understanding of the private hospitals limiting their involvement in hospital empanelment. The DA was also under pressure from state government for supporting insurance company, and thus lacked any veto power during implementation.

Similar to nature of transaction, states also differed in their use of mix of governance mechanisms (Table 5). According to the program design, IC has no formal contract with DA but the roles of both agency was defined. The IC was expected to use formal communication to manage the relationship (transactional governance) but due to lack of formal contract, they cannot exercise any direct influence on DA. However, in case of non-compliance by DA, IC could report to SNA. The role of SNA was to ensure compliance by DA primarily by exercising hierarchical control. However, states in India vary in terms of hierarchical control that SNA can exercise on DA. In some states DA is under direct hierarchical authority but in others DA could be from different department and SNA may lack any control whatsoever on the DA. DA being public servants cannot be fired, in case of non-performance, limiting effectiveness of hierarchical control on them even if SNA has one.

<u>Insert Table 5 here</u>

In Himachal Pradesh, the transaction between IC and DA is low risk as DA has no veto power. At the same time, SNA, being from different department, could not use direct hierarchical control on DA. As no veto power was exercised by DA, there was no need for hierarchical control to ensure compliance by DA and relational governance mechanism complimented very well with the low risk nature of transaction. In case of Punjab, the nature of transaction between DA and IC was moderate risk due to moderate veto power of DA and moderate empanelment of private hospitals. To control the opportunism, SNA has instructed

DA, who are under their direct hierarchical authority, to not interfere in private hospital empanelment. Nevertheless, DA continued interfering in hospital empanelment and thus hierarchical control was effective only to a certain extent, given the guaranteed job tenure DA has. In the case of Uttar Pradesh, the nature of transaction between IC and DA was high risk because of high veto power of DA and dominance of private hospitals. At the same time, SNA has limited hierarchical authority on DA, as they were at the same level of bureaucratic hierarchy in the state. As a result, SNA couldn't exercise any hierarchical authority on DA limiting possibility of indirect control that IC can exercise as stipulated in the contract. Because of lack of any control, DA abused their veto power extensively, highlighting conflict of interest leading to counter-opportunism by other agencies, lowering collaboration, and reducing performance.

Both Uttar Pradesh and Himachal Pradesh used the similar mix of governance mechanisms but outcomes were different, as demand of the nature of transaction in both jurisdiction was different. In Uttar Pradesh, the nature of transaction was high risk whereas in case of Himachal Pradesh it was low risk. In Punjab, good mix of both governance mechanisms addressed the need of the moderate risk transaction. Thus, alignment between nature of transaction and governance mechanisms determined the performance. We observe a consistent positive relationship between combination of nature of transaction with governance mechanisms and performance. Therefore, different nature of transactions require different mix of governance mechanisms (Williamson, 2005). More the governance mechanisms addressed the need of the transaction, higher performance was observed. The findings here suggest that organizations go on complement and supplement governance mechanism till the governance design is aligned with the nature of transaction. Till this, the governance mechanisms may complement or substitute but they are ineffective in controlling opportunism. If the desired governance mechanism cannot be used then alignment between governance design and nature of transaction cannot be achieved (as seen in case of Uttar Pradesh) leading to less than optimal governance resulting into governance failure.

Ability to align and dual governance

In RSBY program, stakeholders at the district level have a business opportunity for a shorter period. Because of the shorter time duration, there is little time for development of relational attributes\norms and therefore, trust is stunted (Lambe, Robert and Hunt, 2000 Pg. 213). As relationship is temporary (the contract is only for one year), parties are not expected to use relational approach, as development of relationship requires considerable investment in terms of time and cost (Frazier, Spekman and O'Neal, 1988; Lambe, , Robert and Hunt, 2000). On the contrary, we found that private sector organisations did not use transactional governance important to control partner opportunism instead relied on relational governance to address partner opportunism. In the case of the RSBY program, public sector agencies predominantly use transactional governance towards the private sector agencies.

However, private sector agencies, due to dependence, use relational activities to get the work done, even if the public sector agencies behave opportunistically.

Insert Figure 3 here

Figure 3 provides use of governance mechanisms with DA depending upon the nature of transaction. As seen from the figure, we observe that if there is high dependency and high incentive to perform, as in case of private sector ICs (Box 1), the IC used relational tools even when it is humiliating as observed in Uttar Pradesh. However, these relational tools were used at a very superficial level without any trust, which is the core of a relational governance. In fact, private agencies continued to monitor their partners. The ICs inability to use to transactional governance tools further increases opportunistic behaviours of DA. As the level of trust lowers between the agencies and the risk of opportunism by DA increases, private sector agencies use more relational tools to prevent opportunism, leading to the unique phenomenon of use of high relational tools but with lower level of trust. Consequently, the agencies feigned collaboration externally but internally monitored behavior of the other agency. Therefore we terms this 'forced collaboration' as dual governance. Dual governance illustrates how an agency use a particular governance approach, irrespective of the governance approach used by the other agency. The ICs exhibited this dual governance till opportunism by DA is not a severe threat to their financial performance. If opportunism by DA becomes a sever threat or their dependence is reduced because of some reasons, they turned to transactional tools-approaching higher authority to get the matters sorted out. Though there are some evidence of dual identity (Bielefeld *et al.*, 2010), contract governance literature has not sufficiently explored this dual approach to governance. This dual governance was not observed if the IC were not dependent and had low incentive to perform as seen in case of public sector IC in Himachal Pradesh.

CONCLUSION

The relationship between governance mechanisms is not static as many of the quantitative studies suggest but dynamic, changing from substitute to complementary and vice versa. Initially, organisations adopt governance design considering nature of transaction but as the dynamics of transaction changes, the organisations keep varying the mix of governance mechanisms to effectively manage the transaction. This adoption of governance mechanisms leads to variation in relationship between governance mechanisms either substituting or complementary but not completely. This is because governance mechanisms, though functionally equivalent to some extent, have unique effect that cannot be complemented or substituted. The adoption of governance mechanisms continues till the governance design is in alignment with the nature of transaction. When aligned, the governance mechanisms become effective in managing transaction and the relationship between governance mechanisms is concretised. This is applicable only for that stage, till the nature of transaction does not change. The adoption of governance mechanisms is only feasible if the organisations have the ability to deploy them. In many context, organizations may not have this ability either because governance mechanism are unavailable or their use may have negative repercussions in long-term. The inability to deploy required governance mechanism results in inappropriate governance design. The inappropriate governance design fails to mitigate threat posed by the nature of transaction and capture opportunities, consequently, resulting into poor performance and public value.

Contributing to existing literature on conundrum of relationship between governance mechanisms and effective governance, this study argues that it is not a particular governance mechanism or a given mix but the alignment of governance mechanisms with the nature of transaction that effectively controls partner opportunism. Relationship between governance mechanisms and their effectiveness in controlling partner opportunism, as aspect of performance, has received limited attention. Using a qualitative study to unearth contextual issues that determine the variation in nature of transaction, the study extends theorization and provides a fresh explanation to understand the relationship between governance mechanisms and their effectiveness. In the emerging economies context, with underdeveloped institutions, extensive number of public private partnerships (PPPs) are undertaken to deliver public infrastructure and services. With private player's efficiency and capability, PPPs are expected to deliver high public value. However, in order to deliver public value PPPs need to be governed effectively. There is very scant literature that deals with governance of PPP especially inter-organisational relations and their impact on performance in emerging economies. As contracts are always incomplete, the governance mechanisms must compliment to deliver public value and if not, they end up inflating gaps in the contract posing severe threat to performance. As implementation happens in a complex dynamic world, the nature of transaction keeps on evolving, subsequently, alignment of governance design needs to be dynamic. This requires flexibility mechanisms built at the design stage. Above discussion also implies that rather than relying only on hierarchical control the incentives of street level bureaucrats, who ultimately shape the nature of transaction, should be aligned to deliver public value. Unless their incentives are aligned, goal conflict between organizations reduces transparency, lowers trust that is critical to govern in under-developed institutions context.

There are some limitations of this study. Due to extensive frauds and scams in the RSBY program, it was very difficult to get information on opportunistic behaviors with their present partners. Therefore, there is the possibility of under-reporting bias. As findings are drawn from healthcare context and service based PPPs, the intensity of applicability of this study may vary in other context. Therefore, this research can further be examined in different context more specifically in infrastructure PPPs and supply chain management. The dual governance behaviour of private agencies, as discussed in this paper, need to be further explored, especially in emerging economy context that is characterised with under-development of institutions and lack of transparency. As indicated in this study, further detailed study is required on how incentives can alter opportunistic behaviour of street bureaucracy, which is the program implementation unit in most of the public programs in emerging countries. Going further, quantitative validation of the findings will require development of scale for measuring nature of transaction, governance mechanisms, and alignment between them. This may help in developing prescriptive tools for effective governance of PPPs and contracts in general.

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Table 1: Framework of case methodology - criteria for validity and reliability

Internal validity	Construct validity	External validity	Reliability
	Data triangulation	**Cross case analysis**	
Research framework: · Research framework is based on existing literature on contract governance, transaction cost economics, relational theory, partner opportunism. · The relationship between nature of transaction and governance mechanism is depicted in fig. 1 as proposed research framework. ***Pattern matching:*** · The pattern matching is done through literature review on key constructs observed to develop the framework. ***Theory triangulation:*** · The study adopts three different theoretical lenses – transaction cost economics, relational theory, and policy implementation in contract governance. · Theoretical lenses along with existing studies and primary inputs form public sector agencies – ministry, state level departments, district administration, private sector agencies – insurance companies, third party administrators, hospitals, reinsurance brokers and experts to support research framework.	***Archival data:*** · Archival data for the period of 2008-2015 (evaluation and internal reports, minutes or archives, annual reports, press or other secondary articles) is looked at. · As to supplement formal face-to-face interview data, observation in field meetings and events. ***Interview data:*** · With official confirmation, we conducted a total 42 face-to-face interviews of key stakeholders at district, state and national level. · All the informants are actively involved in the program, significantly adding value to validity of constructs studied. Interviews were recorded and transcribed with permission. ***Participatory and Direct observation:*** - Apart from 75 hours of formal interview, discussions went on in informal settings also. · One author visited the ministry of labour, SNA, ICs, TPA, hospitals, and DA offices. ***Transcript/Draft Review:*** · Additionally, discussions continued through phone and emails with stakeholders to furthering sharpen the theoretical arguments. · The draft paper was sent to some of fellow-academicians for their comments. ***Qualitative analysis:*** · Transcripts and archival documents have analysed using qualitative approaches of process tracing, comparative case analysis, and critical incident technique using nVivo software. · The qualitative evidences such as partner opportunism, use of governance tools, contextual factors were supplemented with the quantitative information provided by ministry of labour of government of India.	***Comparative case analysis approach:*** · A comparative case analysis approach is adopted. First, a within a case analysis was done at the dyad level to understand the use of governance mechanism followed by a network level analysis to explore relationship between agencies. Finally, a state level analysis was done to understand overall governance dynamics. · Individual case analysis was followed by a comparative case analysis to generalize the findings across three cases. ***Case rational:*** · This case (RSBY) allowed to control confounding variable bias as critical determinants of performance was controlled across all jurisdiction because of its unique design. - The case provided an opportunity to examine theoretical proposition in the context of emerging economy PPP, which has received scant attention. - Being one of the largest social health insurance program in the world to create public value.	· Following archives search, key research questions around contract governance were identified. · Research questions were further refined initial primary study. · A detail of how case study was conducted is explained under method section of the paper. · An inventory of all primary and secondary data was prepared. · The actual name of the program and state studied is given to explicitly but the respondents were provided promised anonymity given the sensitive nature of the data. .

Table 2: Background and performance across three states

	Himachal Pradesh	**Uttar Pradesh**	**Punjab**
Number of families enrolled in the program (as on February 2017)	480588	1464242	232352
Corruption in Public Services	Moderate	High	Moderate
GDP Per Capita	$1520	$551	$1333
% of Population Below Poverty line	8.4	32.8	10
Human Development Index (2011-12)	0.122	0.538	0.647
Infant Mortality Rate (2011)	38	57	30
Conversion Ratio	79.9	31.11 (2011-12)	46% (2011-12)
Hospitalization Ratio	5.1	2.7 (0.2- 2.5)	2.3
Percentage of Hospitals from Private sector	10	67.31	144/298
Claims Ratio	234	128	94
Source: Based on data provided by Ministry of Labour, Government of India and various secondary reports.			

Table 3: Governance tools to control opportunism across three states

Opportunism	Poor quality enrolment by SCSP and TPA			District Administration not providing enough support to TPA			DA Favouring in Hospital Empanelment and De-Empanelment			IC unethical behavior to control claims		
States	***UP***	***Punjab***	***HP***	***UP***	***Punjab***	***HP***	***UP***	***Punjab***	***HP***	***UP***	***Punjab***	***HP***
Prevention	Monitoring	Monitoring	Not observed	Relationship with higher authority (R)	Formal written instructions (T)	Not observed	Information provision and joint decision making (R)	Authority	Not Observed	Monitoring (T)	Monitoring information and communication (T)	
Step 1	Verbal Complaint (T)	Verbal Complaint (T)		Liaison (R)	Liaison (R)/Sharing of resources (R)		Ignore the pressure (R)	Information provision (R)		Verbal (T) complaints	Verbal complains (T)	Verbal (T) complaints
Step 2	Authority (letters) (T)	Scolding (T)		Information and communication (R)	Information and communication (R)		Information provision communication (R)	Ignore the pressure (R)		Verbal complaint higher level(T)	Verbal complaint higher level (T)/ Delay in payment of premium	Written complaint (T)
Step 3	Penalty	Letter to CEO (T)		Loss of autonomy (R)	Verbal complaint (T)		Formalizing authority (T)	Formalizing authority (T)		Documented complaint (T)	Written notice (T)	
Step 4				Verbal complains (T)	Written complaint (T)		Low autonomy (R)	Verbal complains (T)		Written letter (T)	Letter to CEO (T)	
Step 5							Verbal complains (T)			Penalty (T)	Blacklisting (T)	

Source: Based on primary data. R = Relational governance tool; T = Transactional governance tool.

Table 4: Variation in nature of transaction and governance mechanism

	Himachal Pradesh	**Uttar Pradesh**	**Punjab**
Affiliation of State Nodal Agency	Autonomous agency under department of Health	Autonomous Agency	Autonomous agency under department of Health
District Administration	Department of Rural development	Initially department of rural development followed by department of Health	Department of Health
Dependency of IC on DA	Low	High	Moderate –High
Authority of IC in Empanelment	High	Low	Low- Moderate
Veto power of DA in Empanelment	Low	High	Moderate –High
Scope for Opportunism (Private Hospitals)	Low	High	High
Opportunism of DA in Empanelment	Low	High	Moderate –High
Source: Based on primary data. *Hospital empanelment			

Table 5: Alignment of governance mechanism with nature of transaction

		Risk in Transaction (Veto power of DA and Dominance of Private Hospitals)		
		High Risk	*Moderate Risk*	*Low Risk*
Governance Design	*High Alignment*		Mix of Both (Punjab)	Relational (Himachal Pradesh)
	Low Alignment	Relational Uttar Pradesh		

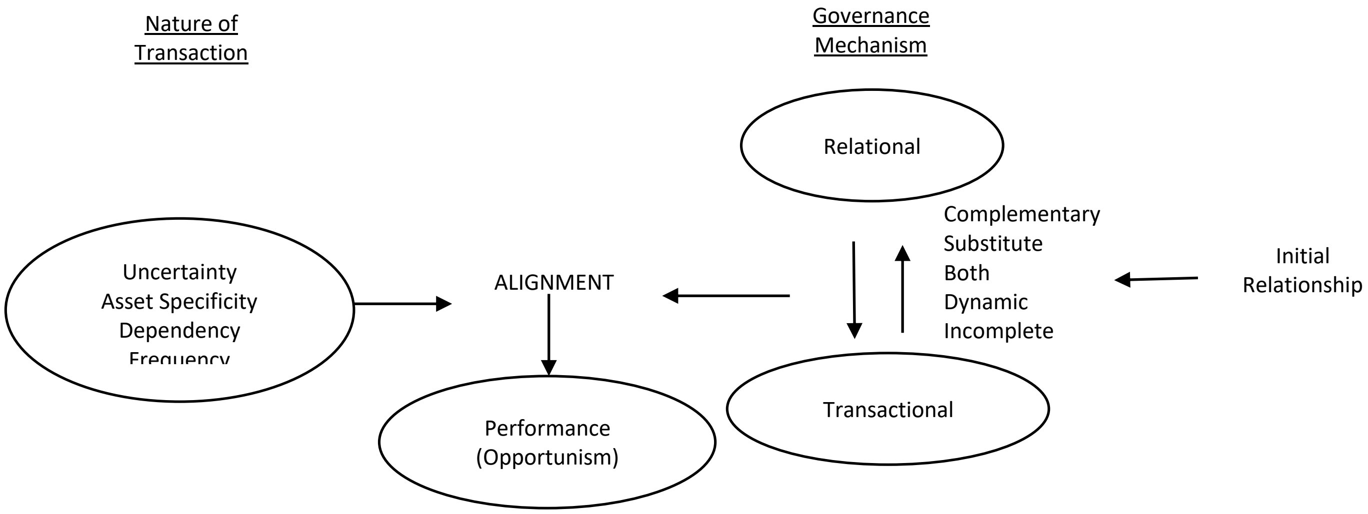

Figure 1: Theoretical framework

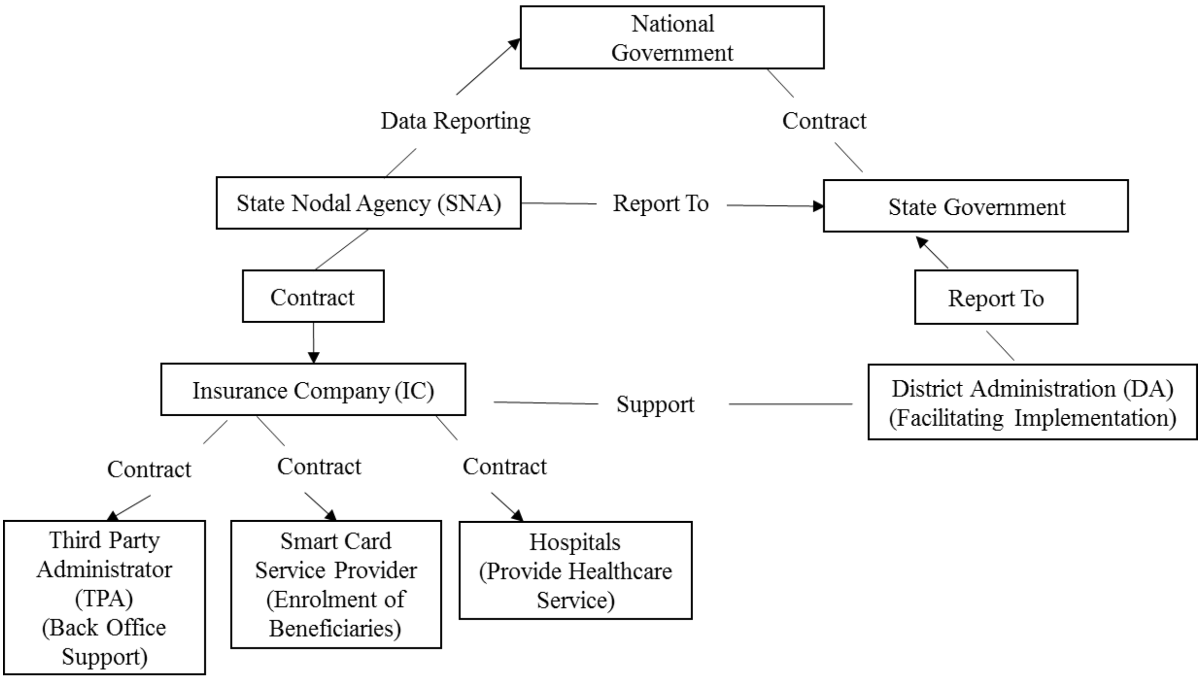

Figure 2: Relationship between governance mechanisms

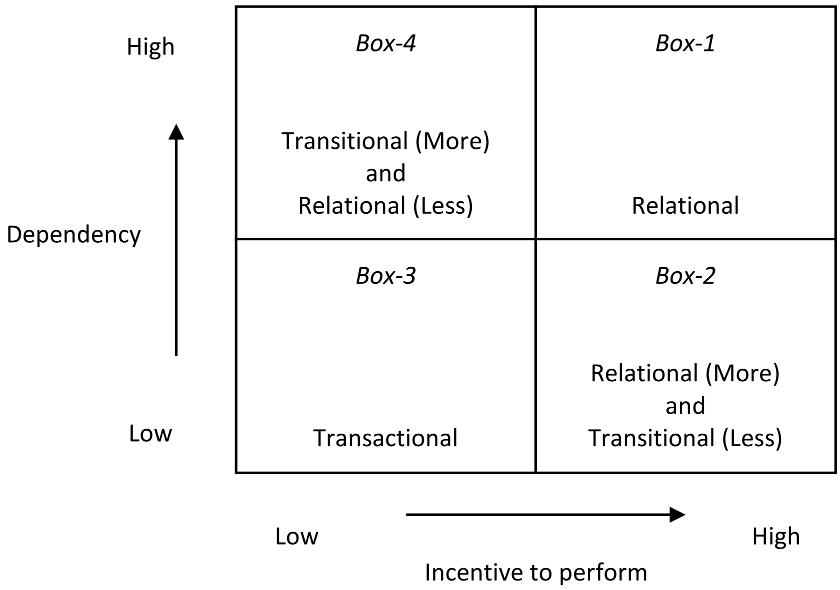

Figure 3: IC use of governance mechanism with DA with variation in transaction

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Teaching: Strategic Management, Technology and Strategy

Professional Activities

- ‘Assistant Managing Editor’ for ‘Global Journal of Flexible Systems Management’ (Springer).
- Reviewer for the Journals:
- Journal of Management & Organization (Cambridge University Press)
- Journal of Strategy and Management (Emerald)
- Journal of Organizational and Change Management (Emerald)
- Global Journal of Flexible Systems Management (Springer)

Research

Acquisition of tech-startups, strategy execution, technology and strategy

Publications

Article Published in Journals

1. Amit, S. and Sushil (2015). “Modeling Organization and Information Systems for Effective Strategy Execution,” Journal of Enterprise Information Management, Vol. 28 No. 4, pp. 1-28.
2. Amit, S. (2014). “Act for Effective Strategy Execution: Mediating Role of Adapt,” Global Journal of Flexible Systems Management, Vol. 15 No. 4, pp. 305-312.
3. Amit, S. (2014). “Modeling Drivers of Adapt for Effective Strategy Execution,” The Learning Organization, Vol. 21 No. 6, pp. 369-391.
4. Amit, S. and Sushil (2013). “Modeling ‘Strategic Performance Factors’ for Effective Strategy Execution,” International Journal of Productivity and Performance Management, Vol. 62 No. 6, pp. 554-582.
5. Amit, S. and Kulkarni, V. (2009). “Disinvestment Decision of National Aluminium Company (NALCO), India (2002-03 & 2005-06),” South Asian Journal of Management, Vol. 16 No. 3, pp. 104-131.
6. Mavalankar, D. and Amit, S. (2008). “Lessons from Massive Floods of 2006 in Surat City: A framework for Application of MS/OR Techniques to Improve Dam Management to Prevent Flood,” IIM Ahmedabad Working Paper Series (W.P. No. 2008-07-06), July 2008.

Case Study Publication

1. "Family Planning in Bihar," IIM Ahmedabad Case Writing Series, Reference No. CMHS0001. (Co-authored with Prof. Dileep Mavalankar and Prof K.V. Ramani).
2. "Free Drug Distribution System in Bihar," IIM Ahmedabad Case Writing Series, Reference No. CMHS0002. (Co-authored Prof. Dileep Mavalankar and Prof. K V Ramani).
3. "Surat Flood of August 2006," IIM Ahmedabad Case Writing Series, Reference No. PSG0106. (Co-authored Prof. Dileep Mavalankar).
4. Amit, S. and Kulkarni, V. (2009). "Disinvestment in India: A Stakeholders' Management Perspective," South East Asian Journal of Management, Vol. 3 No. 1, pp. 41-52.

Articles Published as Book Chapter

1. Amit, S. and Sushil (2015). "Flexible Strategy Game Card: Framework for Effective Strategy Execution," Systemic Flexibility and Business Agility, pp. 97-111, Springer India Publication.
2. Amit S. and Sushil (2014). "Adapt: Critical Pillar of Strategy Execution Process," Organizational Flexibility and Competitiveness, pp. 9-24, Springer India Publication.
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4. Amit Srivastava (2007). "Role Of Communication in Industrial Disputes: The Case- Industrial Unrest (2005), HMSI," Communication Strategies and Trends, Tata McGraHill, India, pp. 557-564.
5. Amit Srivastava (2007). "Managing Stakeholders' Dynamics in Industrial Dispute: The Case-HMSI, Industrial Unrest (2005)," Trade Unions, The ICFAI University Press India, pp. 223-246.