



STRATEGIC HUMAN RESOURCE OUTSOURCING, ENTERPRISE RESOURCE PLANNING, AND PERFORMANCE: A SYSTEMATIC REVIEW

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Article history:	Abstract:
Received: October 6 th 2021 Accepted: November 7 th 2021 Published: December 10 th 2021	This paper x-rays how organizations can adopt strategic human resource outsourcing to enhance performance as professionals today are constantly seeking out ways to drastically reduce their day-to-day overhead operations cost to better focus on their core competencies. To survive in a fast-changing business environment, organizations must strategize and make high performance its default state. There has been considerable anecdotal evidence that suggests that the use of outsourcing strategy greatly influence higher levels of performance. This has further demonstrated that strategic human resource outsourcing activities seemingly have lasting positive implications which has mostly resulted in several positive outcomes within the context of performance such as operational cost efficiency and firm operational excellence. Thus, the paper recommends that management of organizations should consider adopting strategic human resource outsourcing as it offers organizations an opportunity to reduce operational cost so as to keep the organization in business. Furthermore, organizations should engage in enterprise resource planning to enable them source, obtain, and interpret information so that they can make informed decision regarding strategic human resource outsourcing to enable them gain competitive edge.

Keywords: Strategic Human Resource, Outsourcing, Enterprise Resource Planning, Performance, Operational Excellence, Transactional Cost, Operational Cost Efficiency.

INTRODUCTION

Attaining high performance for service organizations does not come easily, as these organizations are confronted with challenges that are bedeviling to their existence. Some of these challenges may include; lack of strategic focus, lack of timely and meaningful feedback, lack of leadership support, lack of stakeholder review, lack of training and communication, lack of simplicity in administrative processes. Other factors affecting the attainment of performance are as follows; (1) highly aggressive sales targets and customer service benchmarks, (2) lack of continuous coaching and employee mentoring, (3) lack of ability of employees to frequently track goal and performance reviews, (4) lack of adequate workforce planning, (5) poor preparation for millennial workforce and their digital expectations, (6) poor rational compensation and benefits, (7) lack of employee data security and privacy, (8) lack of employee motivation, (9) non-performing assets, (10) political pressures, etc.

Again, some organizations do not seem enjoy dealing with issues concerning outsourcing. This may explain some of the reasons why their management sometimes feels uneasy and even intimidated when it relates to outsourcing specific functions. Outsourcing specific functions in the organization is key because of the need to be transparent with their employees about the process and provide reassurance that this is beneficial to the organization on a larger scale. Nevertheless, proper outsourcing in the human research process does not come that easy. This is because it brings about disconnection with and within employees, reduce flexibility, brings about problems that take longer time to solve, leaves employees as well as organizations with fewer choices, and brings about more security challenges in the organization. In the light of this, there has been an outcry concerning the way outsourcing is performed in most instances. This is because, Harland et al. (2005) noted that the most significant risk in outsourcing includes decision on which activities should remain within the organization and



which should be outsourced, whether all or part of the activity should be outsourced, and how to manage relationships rather than internal functions and processes. This goes to show that, there is even a problem identifying core or non-core functions to be outsourced.

It is worthy of note that, Delen *et al.* (2013) have pointed out that the measurement of the performance of the firm has been traditionally tied to only financial indicators by decision-makers, investors, shareholders, and creditors. This could be linked to the fact that some of these stakeholders mistake an aspect of performance, being financial performance for the overall performance of the firm. Hence this study is designed to fill this gap by examining performance on the basis of cost efficiency and operational excellence using recruitment and selection, and payroll administration as measuring instruments of strategic human resource outsourcing. This serves as a point of departure.

THEORETICAL FRAMEWORK

In examining extant literature, the outcome of the systematic review proves that certain theories explain and enhances strategic human resource outsourcing and performance. This research is however underpinned by transaction cost theory. This is because transaction cost theory is suitable to adequately demonstrate the concept of strategic human resource outsourcing with performance in the event of having enterprise resource planning in place.

TRANSACTION COST THEORY

Ronald Harry Coase, a British economist, and the Clifton R. Musser Professor of Economics at the University of Chicago Law School has been credited for coining and developing the transaction cost theory. Although, Prof. Coase discussed the cost of using price mechanism in his 1937 paper titled; "The nature of the firm", in which the concept of transaction cost was first introduced and discussed. Nonetheless, transaction cost theory came into being as a formal theory in the late 1960s and 1970s (Mikko & Mahoney, 2017; North, 1992; & Young, 2013).

Transaction cost theory represents the cost of providing for some goods and/or service through the market (or external sources) rather than having it provided from within (in-house) the firm. Thus, in engaging in a market transaction, it is required that parties should attempt to discover the true identity of the entity one wishes to deal with, to conduct an actual negotiation leading to a bargain, drawing up a contract. That is, parties are expected to search for information about cost, bargain and take the decision about such cost, and policing and enforcing such cost (Watkins,

2020). North (1992) pointed out that four key elements compromise transaction cost. These elements are: (1) measurement, (2) enforcement (3) ideological attitude and perception (4) the size of the market. These factors respectively involve; (1) calculation of the value of all aspects of the good or services involved in the transaction, (2) the need for an unbiased third party to ensure that neither party involved in the transaction ranges on their part of the deal. (3). the ideological component that influences the perception parties to draw from their interaction and dealing with is another, and (4) the size of the market affects the partiality or impartiality of transactions (North, 1992). Considering these factors, Costa (2004) pointed out that the basic assumptions of transaction cost theory did not capture the issue of trust in the contractual relationship between the parties as a transactional opportunity comes with some form of trust risk.

CONCEPTUAL REVIEW

Strategic Human Resource Outsourcing

On one hand, outsourcing is a business practice and/or strategy in which external parties who are perceived to be professionals in certain fields are hired by an organization or an individual to perform specialized tasks, responsibilities and render services on behalf of the hiring organization in their area of strength. However, these services are traditionally performed in-house by the employees or staff of the hiring organization (Twin, 2021). On the other hand, human resources represent the workforce, employees, or personal (human element) of an organization. It also connotes a division of the business that is saddled with the responsibility of sourcing, finding, attracting, screening, recruiting, and training job applicants, as well as administering employee-benefit programmes for the organization (Kenton, 2020). In light of the above, Strategic human resource outsourcing is a process in which third-party organizations are hired to undertake Human Resource functions for or in favour of another organization. Thus, the process involves a third-party procurement of human elements for another organization (Biswas, 2020). It connotes the act of drawing outside or external organizations to be legally empowered to undertake the responsibility of human resource activities of another organization. This shows that organization A is hiring organization B to conduct human resource functions on its behalf. Biswas (2020) has pointed out that this process is enacted to cut operating costs, increase cost efficiency, and enhance the productivity of the contracting and/or hiring organization.

Strategic human resource outsourcing has been known to address multiple organizational challenges that organizations had to suffer especially when such



organizations might not have all it takes to adequately handle such activities. In this sense, Biswas (2020) noted that strategic human resource outsourcing addresses a lot of organizational challenges, hence, it has lots of benefits that can improve organizational life. These benefits may include: (1). Access to a wider range and variety of skills, experiences, and expertise, (2). Helps optimize and maximize organizational resources, (3). Allows in-house human resource department or unit focus on other strategic and critical matters. (4). Gain broader access to markets and newer business opportunities through the affiliation of the network of the organization providing the services (5). Eliminate non-operational distractions while increasing commitment in the area that are core to the hiring organization (6). Enhances flexible human resource solutions that are critical to the hiring or contracting organization (7). Improve organizational credibility and improving brand image by their association or link with a professional human resource organization. (8). Enhancing organizational effectiveness and operational cost reduction through access to industry best practices, (9). Improve product and service value, shareholder value, customer satisfaction, and provides enhanced organizational outcome (10). Ensures human resource practitioners are squirrely focused on core non-administrative functions.

Strategic human resource outsourcing has become increasingly important in today's world of business as human resource professionals are constantly seeking out ways to drastically reduce the time and several other resources expended on the daily transaction and other administrative functions so they can focus more on applying their core competencies (Biswas, 2020; Alzhrani, 2020; Twin, 2021; & Kenton, 2020). Alzhrani (2020) on a similar note pointed out that strategic human resource outsourcing enhances organizational flexibility, reduces organizational risk, provides access to the latest and improved technology, as well as enhancing organizational efficiency. Alzhrani (2020) further pointed out that although strategic human resource outsourcing has several benefits, there are risk-prone factors that are attached to it. This submission is supported by Tian (2007) who noted that strategic human resource outsourcing comes with a variety of risks. Such risks may include (1) operational risk, (2) strategic risk, (3) contracting risk, cultural risk (5) risk of dependence. The first operational risk could occur in form of business interruptions, product failure, errors, or omissions by human resource organization (third party organization), failure of information communication technology system, failure of health and safety, loss of key personnel, fraud, litigation, and loss of suppliers (Solvexia, 2020). Second, strategic risk could be born out of senior management turnover,

competitive pressure, technological changes, regulatory changes, merger integration, stakeholder pressure, changes in customer preference, and shifts in the demands of customers (Matthews 2008).

Thirdly, contracting risk may occur as per; (1) Risk that involves legal accountability such as breach of contract and infringement on intellectual property rights (Upounsel, 2020). Fourthly, the cultural risk may come into play as a result of "failure to" identify regional and subcultures, (2) Adapt to global best business practices, (3) Understand local business practices, (4) Adapt human resource management practices to local markets, (5) Identify new opportunities, (6) Adapt management practices across all cultures, (7) to understand local legal and ethical issues (Menzies, 2015)/ lastly, risk of dependency is likely to ruin the entire plan or strategy of the organization because something might go wrong in the process and may adversely affect the organization that hired the third party organization because they rely on them for all of their human resource needs. It is imperative to note that all strategic human resource outsourcing process has a clear and quantifiable price for the range of services offered by the third party professional. These third-party organizations usually develop a pricing model that seemingly provides incentives for the organization that hired the third-party organization. These incentives tend to reduce the cost of operation for such an organization. Again, such processes as adopted by these organizations are maintained at that level throughout the life of the contract (Alzhrani, 2020; Biswas, 2020). Alzhrani (2020) further pointed out that strategic human resource outsourcing encompasses recruitment and selection, payroll and compensation management, staff training and development, employee benefits and service, job evaluation, performance appraisal, and so on.

Performance

Performance may not only depend on the operational efficiency of the organization, but also the operational excellence of such an organization. All of these are geared towards attaining the financial health or stability of the organization. Therefore, to survive in a fast-changing business environment, every organization should make high performance its default state (Taouab & Issor, 2019). It is believed that several factors contribute to making organizations perform highly. Some of these factors may include; growth performance, market value performance, employee satisfaction, environmental performance, customer satisfaction, social performance, and profitability performance (Selvan et al., 2016). Once a high performance is attained, it is required of management to sustain such level of performance Civelek et al.



(2015) opined that these key factors may include; (1) producing organizational knowledge, (2) Generating organizational intelligence, (3) Managing supply chain, (5) Managing environmental uncertainty, (6) creating knowledge, and (7) managing knowledge. In the same vein, Calantone *et al.* (2002) pointed out that learning orientation is a key factor that drives performance at several levels. This is true because for an organization to achieve sufficiently from its strategic human resource outsourcing programme, such an organization should make learning a key factor to its survival. In this sense, such an organization should constantly give employees the orientation that learning is all it needs to achieve both tangible and intangible results from any employee training and development process. In light of this, Calantone *et al.* (2002) noted that for an organization to perform as planned, such an organization is expected to; (1) Commit to learning, (2) share its vision with all employees, (3) have an open mind (4) share knowledge and work-related experiences throughout the organization, (5) firm has to be innovative in their day-to-day operations, and so on.

Nevertheless, this interaction by both firms (client organization and third party organization) can potentially lead to performance. On this note, Belghitar *et al.* (2019) noted that performance could be attained through the relationship that both firms enjoy. This is seemingly correct because employees acquire newer skills and aptitudes based on the relationship that both organizations enjoy in the process of work. In this case, this recruitment and selection outsourcing and the training and development process outsourcing offers a platform for both organizations to sufficiently relate with one another and grow on account of this interaction. Some studies have suggested that performance is determined by market performance and operational performance (Tan & Thai, 2014). In this regard, Tan and Thai (2014) opined that several factors are considered indicators of performance. These factors have attracted incremental growth for organizations where they are feasible. For instance, indicators of market performance may include; market share, sales growth, market development, organizational reputation and image, and customer satisfaction. On the flip side, operational performance has indicators such as; service quality, organizational responsiveness, organizational flexibility, operational cost reduction, dependability, and technological efficiency (Tan & Thai, 2014). Tan and Thai (2014) further stated that the increased ubiquity of globalization and the knowledge-based economy has made knowledge a significant factor in addressing organizational challenges while observing all factors regarding strategic alliances. This demonstrates that the strategic alliance between the professional human resource organization and the client organization that

wants to address its human resource issues can be beneficial to both parties because of the extent of knowledge that could be shared amongst them.

The issue of performance is robust and encompassing, hence, all of the factors reviewed earlier have influenced higher organizational performance in one way or another. This is obvious by the submission of Tende and Alagah (2017). In this study, they recommended that organizations should develop, introduce, and institutionalize effective human resource plans to enable the organization to adequately forecast actual human resource needs and sufficiently prepare for them as required. Secondly, organizations should ensure that their human resource policies and plans are implemented to help these organizations attract the blend of manpower requirements as this is essential for actualizing performance. This philosophical position could help human resource organizations to understand the actual blend of the manpower needs of the client organization and how to go about achieving the same. Richard *et al.* (2009) suggest that performance is broad as it encompasses three major and/or specific areas or organizational outcomes. These areas may include financial performance, product market performance, and shareholder return. First, financial performance covers profits, return on assets, and return on interesting finds or investments. Second, product market performance covers sales, market share, service quality, and so on. Lastly, shareholder return covers economic value-added, total shareholder return, etc. Upadhaya *et al.* (2014) noted that several organizations today are reverting to adopting the balance search and model to assess organizational performance where performance is viewed and measured in terms of customer service, employee stewardship, social responsibility (community outreach, corporate citizenship behaviour), financial performance (shareholder return), organizational engineering, pluralistic stakeholder value, and performance improvement.

Al-Matain and Al-Swidi (2014) noted that performance is a critical factor in the effective management of any organization. This is because the incremental improvement, growth, and survival of the organization cannot be closely monitored if performance is not being considered. Hence, the continuous improvement of organizational performance requires consistent measurement to ascertain the organizational outcome. In this sense, the success of the firm is demonstrated with the aid of performance measurement of the organization over a specified period in the life of the organization. However, Al-Matain and Al-Swidi (2014) explained that the performance of any organization is significantly impacted by the corporate governance structure in



place, and the functions they perform to drive organizational advancement. This submission has a connection with reality because organizational leadership determines the extent of advancement for any organization. On this note, the extent to which the leadership of the organization is open to contracting its human resource function determines to some extent how professionally the function of recruitment and selection outsourcing, and training and development outsourcing is to reduce operational cost and enhance operational excellence.

Empirical Review

Jirawuttinont (2015) investigated the effect of Human Resource Management (HRM) outsourcing on the performance of multinational firms in Thailand. The main objective was to verify whether the elements of strategic human resource outsourcing namely, recruitment activities, training administration, payroll management, and human resource information system could bring about organizational performance in terms of human resource cost efficiency, effective human resource department, and human resource flexibility. The test was conducted using data generated and collated from a mail survey questionnaire of 165 multinational organizations with the aid of a questionnaire instrument. The ordinary least squares (OLS) regression statistical method was used to perform the test. The outcome of the analysis demonstrated that HRM outsourcing has a significant positive impact on organizational performance directly and indirectly in terms of human resource cost efficiency, effective human resource department, human resource flexibility, and human resource information systems.

Alzhrani (2020) conducted a study on outsourcing human resource functions and their impact on organizational performance. In specific terms, the study was designed to examine how recruitment and selection outsourcing, training, and development outsourcing, compensation and salary surveys, organizational design and development outsourcing, human resource information systems or human resource information technology outsourcing, and payroll outsourcing could drive organizational performance specifically cost efficiency, productivity, profitability, and operational excellence. The outcome of the systematic review revealed that outsourcing especially strategic human resource outsourcing has been deemed an efficient tool used by organizations to reinforce their core competencies in a bid to assign and apportion scarce organizational resources effectively.

Olannye and Okoro (2017) performed an investigation in enhancing organizational performance through strategic human resource outsourcing in the Nigerian deposit money banks. The objective of the study was to examine the effect of strategic human

resource outsourcing on the organizational performance of deposit money banks in Asaba metropolis, Delta State, Nigeria. In this study, a 25-item structured questionnaire was administered to two hundred and sixty employees of ten deposit money banks using a cross-sectional survey method, while multiple regression analysis methods were used to analyze the data. It was found that strategic human resource outsourcing has a significant positive effect on organizational performance. This demonstrates that cost-saving and high productivity are outcomes of the adoption of strategic human resource outsourcing. They concluded that recruitment and selection outsourcing saves time and money, and that employee training outsourcing offers the organization a new perspective to organizational activities.

Strategic Human Resource Outsourcing and Performance

There has been considerable anecdotal evidence that suggests that the use of outsourcing strategy has greatly influenced higher levels of performance (Gilley *et al.*, 2004). This shows that outsourcing human resource activities have positive and lasting implications for performance relationship which results in a positive outcome in most cases. Jirawuttinont (2015) demonstrated that outsourcing human resource management activities such as recruitment activities, training administration, payroll management, and human resource information system has brought about human resource cost efficiency, effective human resource development, and human resource flexibilities which are indications of high organizational performance. To further buttress this submission, Biswas (2020) stated that strategic human resource outsourcing has been known to address several needs of the organization. Thus, strategic human resource outsourcing fills the gap of requisite skills and training required to move the organization forward. These skills and professional pieces of training received by employees are applied to address several organizational challenges and help in the optimization and maximization of organizational resources, eliminate non-operational distractions, have access to newer and more advanced knowledge, skills, and technology, improving product and service quality, improve organizational credibility, corporate image, value creation, and customer satisfaction, reduced operational cost, and enhance operational efficiency, which ultimately leads to higher organizational performance.

Strategic Human Resource Outsourcing, Performance, and Enterprise Resource Planning

Enterprise resource planning connotes the integration, processing, and effective management of central business processes using technological and real-



time approaches. It is thus a process adopted and applied by organizations to integrate and manage important components of the business (Dantes & Hasibuan, 2011; Khaleel et al., 2016). O'shaughnessy (2020) noted that the entire essence of enterprise resource planning is to source data and all sorts of information, interpret this data and information, and apply such information in the decision-making process of the firm. O'shaughnessy (2020) suggests that enterprise resource planning sources integrates, and centralizes information to reduce operational cost. Watkins (2020) suggested that information of parties in a strategic human resource outsourcing process ought to be sourced, integrated, and centralized in an attempt to enter into an outsourcing contract to enable them to take salient decisions on operational cost, pricing, and enforcement of such pricing agreement. O'shaughnessy (2020) on the other hand suggests that enterprise resource planning gives room for better and detailed analysis on the pricing method agreed upon. This is to help the client organization achieve performance through cost efficiency. In other words, enterprise resource planning improves inventory monitoring, production planning, and resource management activities which brings about improved service quality, and customer satisfaction through cost-effectiveness and operational excellence.

CONCLUSION

Strategic human resource outsourcing has showcased sufficient anecdotal evidence of its essential contribution to higher levels of performance. This has further demonstrated that strategic human resource outsourcing activities seemingly have lasting positive implications which has mostly resulted in several positive outcomes within the context of performance. More specifically, outsourcing human resource management activities such as recruitment and selection outsourcing, and training and development outsourcing has brought about significant favourable organizational outcome in terms of operational cost efficiency and firm operational excellence in terms of operational optimization and organizational resource maximization owing to effective enterprise resource planning.

RECOMMENDATIONS

The outcome of the review has necessitated the following recommendations for management and leadership of organizations. Thus, the leadership of organizations are required to:

- i. Consider strategizing using recruitment outsourcing as this gives the organization opportunities to reduce operational cost. This

has the propensity to keep the organization in business.

- ii. Implementing changes towards selecting quality candidates as well as reduced time-to-line in a bid to increase business agility. This will go a long way to improve and make the business more viable.
- iii. Institutionalize high-quality learning solutions to gain highly qualified workforce to address operational challenges. This could help the organization stay in business.
- iv. Build capacity through access to expert talent as this would help the organization expand their services to new market segments. This would help expand the horizon and streamline the experiences and skills gained.
- v. Apply enterprise resource planning to enable them source, obtain, and interpret information to ensure they make informed decision regarding strategic human resource outsourcing as it gives such firms competitive edge.

LIMITATIONS AND FUTURE DIRECTIONS

Several scholars have proposed recruitment and selection outsourcing, payroll and compensation management outsourcing, staff training and development outsourcing, employee benefits and service outsourcing, job evaluation outsourcing, and performance appraisal outsourcing as dimensions of strategic human resource outsourcing. Again, performances has been measured in several research studies and in different contexts. Out of all the measures proposed by these researchers and authors none were adopted and used in the cause of this study.

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World Bulletin of Management and Law (WBML)
Available Online at: <https://www.scholarexpress.net>
Volume-5, December-2021
ISSN: 2749-3601

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