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Strategic Outsourcing as an Antecedent of Organisation Performance: A Review of Literature

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Abstract: *The unpredictability and uncertainty witnessed in the global business environment has seen a rise in intense competitiveness among firms. Some of the causes of this increased dynamism may be attributed to fast-paced technological change, shortening product cycles, globalization, changes in customers' demands and preferences, government regulation and supply of raw materials; thus, causing a major challenge on a firm's abilities to perform well. Consequently, intended planned strategies that were developed in relatively stable environments have failed in such hypercompetitive environments. For organisations to outperform strategic outsourcing becomes a viable key in the ever-turbulent business environments. Strategic outsourcing refers to subcontracting a service, such as product design to a third party company. A review of extant literature has demonstrated that firms which embrace strategic outsourcing, are able to identify and respond quickly to opportunities and threats, adopt strategic options to compete in product markets and deploy existing strategic resources to create new sets of resources to respond to changes. However, other studies show that strategic outsourcing results in improved organizational performance by reducing both costs and risks, increasing flexibility for innovation as well as freeing up key resources for core competency building. A review of both theoretical and empirical literature has also revealed various research gaps on the construct of strategic outsourcing. This paper makes theoretical contributions in strategic management because the inclusion of the moderating variable, environmental dynamism, and the mediating variable, competitive advantage, has led to the development of a proposed theoretical model that is expected to guide future studies examining influence of strategic outsourcing on firm performance.*

Keywords: *Strategic Outsourcing, Core Competencies and Organisation Performance*

1. Introduction

Strategic outsourcing has been utilized for quite a long time, but much of the concept until the late 1990s was focused on informational technology outsourcing. The objective then was often largely restricted to achieving operational efficiencies. In the past, the world has witnessed a remarkably rapid growth in strategic outsourcing in different areas, the target is basically long-term and it focuses on representing a set of operations that are delegated by a company for management to a third-party service provider (Maku & Iravo, 2013).

As Cox (2014) states, as from the early days when it was viewed as little more than a hohum tactic which aimed at reducing costs, strategic outsourcing has now matured into a strategic management tool. Global outsourcing market's growth in the past years has been phenomenal, and all indications are that the pace will continue in the coming years. In the face of increasingly intensified competition in the emerging global economy, firms are progressively turning to strategic outsourcing of some of their functions (Cox, 2014). With an increasingly turbulent business environment, organizations are continuously looking for better ways of gaining competitive advantage.

One of the strategies that firms can employ to acquire sustainable competitive advantage is strategic outsourcing. Strategic outsourcing is basically that part of an organization's process, which is sourced from outside suppliers with no regard for the type of relation with these suppliers (Kiongera, Wanyonyi, Musiega & Masinde, 2014). Many leaders consider strategic outsourcing as the only way to keep a business competitive in this century. The highly turbulent business environment coupled with almost insatiable customer demands for tailored services and products has forced organizations to evaluate, improve and re-engineer their operations.

As Insinga and Werle (2000) noted, these reengineered processes have a significant contribution to the efforts by organizations to wholly satisfy customer needs and wants. Cox (2014) asserts that every firm engages in strategic outsourcing to some extent. Some firms may outsource security services, customer care and logistics, while others choose to outsource after sales technical support, market research, product design and development. Cox further states that while many firms may not outsource the above value chain activities, it is more common for most firms to outsource support activities such as accounting, auditing, staffing, or administration.

The decision regarding what functions to outsource and which ones to keep in-house depends on many factors from company to company such as the need to develop invest in resources, skills, and to stay abreast of to the evolving technology in any areas kept in-house (Welch & Nayak, 1992). Many organizations in different areas are now increasingly pursuing continuous improvement, leaned up production, reengineered business processes, and integrated supply chains. This is seen in the increasing number of firms utilizing strategic tools such as Japanese Gemba Kaizen, Total Quality Management, and Business Process Reengineering (Manning, 2013). As Maku and Iravo (2013) noted, over the past two decades there has been a growing recognition of the vital contribution of outsourcing strategy on the performance of organizations

2. Statement of the Problem

Schaaf (2004) explains strategic outsourcing as a concept, which represents a contractual transfer (long-term or constant) of activity, which had been carried out by the outsourcing company, but has been outsourced to an external supplier. Burns (2000) defines strategic outsourcing slightly differently, which is the relationship between buyer-supplier and, at the same time, regards activities previously not carried out by the outsourcer as outsourcing activities. He claims that strategic outsourcing is a primary organizational strategy through which companies increase the level of organizational skills. It is an important strategy, through which enterprises get a supply of necessary and changing skills, say skills, required by the development of new information systems, or acquire skills needed urgently, usually for a short-term period.

There has been an increase in academic interest in the construct over the past decade (Combe, 2012). This has been mainly attributed to dynamic business environment characterized by unprecedented levels of volatility, uncertainty, intense competition, and ambiguity. Due to this, traditional methods of strategy developed in relatively stable environments are rendered obsolete (Sanchez, 1995; Johnson et al., 2000).Strategic outsourcing is seen by many economists as a win-win situation but is not always so. It has lots of downsides that most people cannot possibly conceive and only must leave it to time. Organizations turn to strategic outsourcing mainly because it is the general trend without assessing the cost benefit analysis.

Despite the established importance of the determinant of strategic outsourcing in influencing the success of the process (Quinn, 2010), and consequently improving performance of the firm (Banerjee, 2011), researchers have given little attention to the drivers (Hancox and Hackney, 2012). There is thus a need to review outsourcing.

It can also be argued that the lack of conclusive studies could be due to a lack of inclusion of moderating and intervening variables in previous studies. Consequently, this paper will systematically review extant literature in the field of outsourcing to develop an encompassing definition of the construct, identify the processes of strategic outsourcing, the perspectives, and measures of these perspectives.

3. Conceptual Literature

3.1. Concept of Strategic Outsourcing

Strategic outsourcing varies considerably according to Tarlochan K (2001) strategic outsourcing is defined as a transfer of some activities, which were previously carried out by the company, to an outsource. World Trade Organization defines outsourcing as a transfer of routine, repetitive activities to external providers. Such a relationship is regulated by a contract between the outsourcer and the service provider.

The consequence of outsourcing is the reduction of employees in outsourcing company and the increase of employees in the outsource company (Harrigan, 2017) defines strategic outsourcing as a form of company organization, by which companies respond to competitive pressures, which require improved efficiency. Enterprises can reorganize through acquisitions and mergers, common investments, strategic alliances or through outsourcing to a connected company abroad or to an outsource – foreign or domestic. (Lee, 2007) state that through outsourcing enterprises focus on their core capabilities, lower operating costs, release resources and get access to capabilities on the global scale. They found out that outsourcing without an ownership or other normative connection in a 'hierarchical' environment is to a large extent a matter of trust.

(King, 2007) believes outsourcing to be often connected with processes of knowledge transfer, which means that partners in outsourcing often learn from each other. (Schaaf,2004) explains outsourcing as a concept, which represents a contractual transfer (long-term or constant) of ac-tivity, which had been carried out by the outsourcing company, but has been outsourced to an external supplier. Burns (2000) defines outsourcing slightly differently, which is Outsourcing like the relationship between buyer-supplier and, at the same time, regards activities previously not carried out by the outsourcer as outsourcing activities. He claims that outsourcing is a primary organizational strategy through which companies increase the level of organizational skills. It is an important strategy, through which enterprises get a supply of necessary and changing skills, say skills, required by the development of new information systems, or acquire skills needed urgently, usually for a short-term period.

According to Straub (2011) outsourcing enterprises can acquire various skills, without searching for new employees. This increases the need for infrastructural and administrative support services. Through outsourcing enterprises acquire functioning and skilled teams who already possess the premises and equipment needed for a certain job. If the need for certain skills is only temporally limited, the enterprise does not have problems with the termination of outsourcing, because there are no legal obligations regarding the outsource employees.

According to (Suhil ,2015) Strategic Outsourcing is a form of company control. Increasingly, companies are aware of the problems caused by outsourcing nonstrategic activities, as this de-ters them from their main activities. By outsourcing nonstrategic activities, companies can focus on strategically important areas, i. e. to what is required from them by the market and what they are good in doing currently.

Focus on strategically important tasks enables companies to increase their added value. Quinn and Hilmer (1994) believe that companies, which only use internal capabilities instead of external (or instead of outsourcing), are less innovation oriented and fail to seize opportunities for developing new products with added value. In addition, they believe that once knowledge about a certain specific activity becomes more important than the knowledge about the final product, highly specialized outsources can contribute much more towards the added value with lower cost than any integrated enterprise. In outsourcing enterprises often see a tool for fast and short-term reduction of direct cost. (Dubrovski 2004) defines outsourcing as subcontracted, separated, transferred (dislocated) selected business function, activity, service, or program me, which is carried out by an outsourcee.

The study of literature brings us to the conclusion that outsourcing vary considerably according to different authors. Some definitions are explained below, and for this research strategy out-sourcing is defined as a transfer of some activities, which were previously carried out by the company, to an outsource. World Trade Organization defines outsourcing as a transfer of routine, repetitive activities to external providers. Such a relationship is regulated by a contract be-tween the outsourcer and the service provider.

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Through outsourcing enterprises can acquire such skills quickly, without searching for new employees. On the other hand, this increases the need for infrastructural and administrative sup-port services. Through outsourcing enterprises acquire functioning and skilled teams who al-ready possess the premises and equipment needed for a certain job. If the need for certain skills is only temporally limited, the enterprise does not have problems with the termination of out-sourcing, because there are no legal obligations regarding the outsource employees.

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3.1.1. Perspectives of Strategic Outsourcing

Strategic outsourcing has a very complex structure, which consists of numerous activities and functions giving rise to series of administrative and managerial dilemmas. Several theories have been used to help scientists understand the nature of these operations and activities, as well as to help the managers of enterprises and organizations handle these processes in an effective manner. It is commonly accepted that any phenomenon can be described through a series of theoretical frameworks based on the corresponding approaches. Naturally enough, strategic outsourcing has been approached applying a series of different theories, which can often lead to confusion among researchers (Busi and McIvor, 2008).

Strategic outsourcing is perceived as a set of operations that are delegated by a company for management to a third-party service provider (Lacity & Leslie, 2003; Ronan, 1991; Jensen, 2006; Benoit & Li, 2013). Although it appeared in earlier studies this perspective has only become prominent in recent studies (Vagadia, 2018). It emphasizes the ability of an organisation to undertake pre-emptive maneuvers to deal with expected changes in its environment. A firm can intentionally trigger change and continuously adjust its strategic actions, resource use and investment strategies (Nadkarni and Narayanan, 2007). Therefore, strategic outsourcing is an intentional strategic action (Masaaki & Kotabe, 2010; Halim & Svend, 2007; Hollesen et al. 2008; Hasliza, 2017; Abdul, Greaver &Rudyllan, 2007). In this way, it engages in both offensive and defensive measures simultaneously in anticipation of change in its environment (Oshri, 2018; Benoit, Pauwels &Vandenbempt, 2005).

Baden (2015) asserts that strategic outsourcing leads to both cost reduction and possibility for the company to focus its resources on core activities. Strategic outsourcing can be perceived as an organisation dynamic capability (Abraham & Bullock, 2000, Fuller & Jen, 2011). Numerous scholars identify different types of strategic outsourcing such as professional outsourcing, multi outsourcing and information Technology outsourcing (Yin, 1997; Oliver & Smith, 2007; Starr, Merriam & Tisdell, 2011). Strategic outsourcing enables firms to: achieve a competitive advantage in changing markets through emphasis on the delegation of non-core logistics and focusing on core activities (Gorla and Somers, 2007); redeploy resources and change their current operations (Vilko and Vining, 2010); and have a timely response (Gloveman, Brewer & Walling, 2010).

Professional outsourcing, is the practice of contracting an individual specialists or professionals to handle multiple small tasks without the intention of outsourcing an entire function. (Martin, Pausing & Teo, 2011). Information Technology outsourcing is a strategy used by many firms to either reduce their total cost on information technology or gain information capabilities not available inhouse. Multi outsourcing is an approach to outsourcing in which information technology operations and technology infrastructure and are contracted to a number of vendors usually in combination with some internally provided elements of information technology. This multisourcing approach contrasts with fully inhouse information technology provisioning and sole source outsourcing models. (Liu & Peter, 2015). They identified the competitive advantage to include improved technology, quality service and minimal cost. Tarn (2015) argued that business leaders did outsource solely tangible resources, such as products and IT software, but they acquired intangible resources, such as goodwill, technical knowledge, consultancy services, and intellectual property. Kivijärvi and Toikkanen (2015) stated that the key benefits for ITO included cost savings, access to new IT solutions, and access to technical capabilities.

3.1.2. Dimensions of Strategic Outsourcing

Research shows that strategic outsourcing is a complex multidimensional concept. Several dimensions of strategic outsourcing can be identified from extant strategic management studies Lee (2000). Strategic decision of planning the organisation based on partnerships with external supplies of goods and services is specified as strategic outsourcing.

Extant research shows that strategic outsourcing is a complex that is hard to define satisfactorily (Thuy & Duong 2005; Mark & Lee, 1990). Several dimensions of strategic outsourcing can be identified from extant strategic management studies. Dickson (1995) identified Human resource and outsourcing coordination. Human resource outsourcing refers to a process in which the employer transfers responsibilities and risks for human resource functions to the external provider which performs this tasks for the company. (Liu & Hancock, 2009). It shows the extent to which an organisation is able to use its resources to produce better results and improve on performance. Robert (2001) asserts outsourcing coordination can be characterized through two aspects: that is common and special. Proper outsourcing coordination makes it easy to use the existing resources to pursue new strategic options as well as reducing the time and cost spent for switching one resource to another (Thuy & Duong, 2009; Linder, Yi & Gee, 2011).

Outsourcing coordination has been distinguished from human resource in extant studies (Sanchez, 2001; Hensel & Phillip, 2019; David, Norton, & Jay, 2014; Zhou & Henderson, 2011). (Wei, Yi & Guo, 2014). This involves the processes that identify and reshape groups of resources within the organization (Suhil, 2005; Sunayana & Parveen, 2013). Three key aspects of outsourcing coordination are: identification of the products or services and their target market segments; configuration of chains of resources capable of being used in the value chain; and deploying resources through supportive organizational processes and systems to be used for identified purposes (Sanchez, 1995). Outsourcing coordination increases with reduced costs, difficulty and time required for these three aspects. Conversely, it increases with the range of alternative novel resource uses, resource chain configurations, and systems and processes identified to pursue a defined course of action (Colonel, 1997). Several scholars identify strategic action as a dimension of strategic outsourcing (Li ,2015). Organisation Performance is the capability of a firm to respond to environmental changes by using various strategic options Norman (2017) it is the capability of the firm to be responsive to environment by showing different strategic actions at a high speed. The dynamic business environment exerts pressure on organisations, requiring them to develop different strategic options that will enable them to effectively take actions quickly. Through strategic outsourcing the organisations has the capacity to take these new actions to address such new situations (Mohur, 1978). Jihad (1989) posits that Organisations in fast-paced industries must entrench strategic outsourcing in their strategic actions to be able to survive.

3.1.3. Adoption of Strategic Outsourcing in Strategic Management and Outcomes

The value of Strategic outsourcing for the modern enterprise is increasingly being recognized the world over (Brown & Billy, 2015), and more enterprises are explicitly attempting to manage this important process. To be successful in the management strategic outsourcing, it is of fundamental importance to recognize that organisational performance is key, just as any other factor of the enterprise, should be managed in the context of the overall business (Hiram & Timothy, 2009). The focus is therefore on achieving high organisation performance. This is achieved by recognizing that strategic outsourcing is a valuable process that should be managed explicitly in an enterprise (Allan, 2010). Traditionally many enterprises have taken an ad hoc approach to managing resources resulting in work duplication, inconsistent work practices and loss of important organizational skills when employees retire or leave the company (Duke & Taylor, 2017). The linking between strategic outsourcing and organisation behavior is viewed as the key for successful businesses. Thus, Hebert and Chile (2018) state "the most crucial element of strategic outsourcing is to conceptualize what kind of resources should the management outsource and what should be done in house.

According to Jin (2017) strategic outsourcing is key and it helps in achieving competitive advantage. Jin argued that "companies can change from a situation strategic outsourcing causes a company to grow and the organisation performance goes up. The question may be posed as to the importance of strategic outsourcing and its contribution to the competitive position of organisations and further to those of industries and beyond to that of nations (Hill, et al, 2010). Strategic outsourcing plays a crucial role in the competitive nature of organisations and hence constitutes a critical component of enterprise strategy (Manuela-Rata et al., 2011).

(Simchi, 2004) defined strategic outsourcing as the act of obtaining semi-finished products, finished products orservices from an outside company if these activities were traditionally performed internally. The aim of such a strategic outsourcing definition is to find, unlock, share and capitalize on the expertise and skills of employees (Levi et al., 2019). Den (2011) defines organisation performance as the degree to which the organization, with some informational, financial, and human resources, positions itself effectively on the business market. All organisations have a mechanistic, organic as well as dynamic nature that influences how strategic outsourcing is handled among the participants in the organisation (Sahle, 2010). The important thing is the recognition, that the organisation environment plays in outsourcing of non-core logistics and concentrating on only core activities in order to improve on organisation performance.

3.2. The Concept of Organisation Performance

The concept of organisation performance emanates from the concepts of efficiency and effectiveness. A business organization must produce the right products and services and it must produce them using the fewest possible inputs if it is to have a strong organizational performance (Cheng, 2011). Organizational performance can be measured by analyzing a company's performance as compared to its corporate goals and objectives based on three primary outcomes - financial performance, market performance and shareholder value performance.

Businesses simply endeavour to perform well in several areas of organization. Most importantly, they strive to do well financially in terms of achieving superior profitability and realizing good returns on investment. In order to acquire as much market share as possible, it is imperative that companies produce a product that is in demand and offer it at a price that allows them to compete in the market. Finally, they need to perform well in terms of creating value for their shareholders by ensuring a sustainable level of growth and shareholder return (Buchanan, 2014).

Research work on organizational performance should include multiple performance measures. Such measures could be traditional accounting measures such as sales growth, market share, and profitability. In addition, factors such as customer satisfaction and non-financial goals of the owners are also very important in evaluating performance, especially among privately held firms (Cheng, 2011). This approach is consistent with the proposal of Kaplan and Norton (1996) in the Balanced Score Card that the performance of a firm should be measured in four perspectives – financial, customer, learning and growth and internal business processes. The balanced score card directs that managers should use both financial and non-financial measures to evaluate the organization of the firm. In the context of this study, organizational performance will be measured by four components – profitability, sales growth: market share and customer satisfaction.

3.2.1. Measuring Organisation Performance

Waithaka (2016) posits that it is not easy to measure a firm's performance because organizations have numerous goals, among them profitability, productivity, employee satisfaction, growth, social responsibility and the ability to adapt to a dynamic environment. Richard, et al. (2009) advice that since there exist several dimensions, a researcher should choose those that are best suited to their study and judge outcomes of that choice. The three major dimensions of performance identifiable in extant literature are operational performance, financial performance and non-financial performance. Operational performance 15 includes both product-market outcomes including market share, efficiency, new product introduction and innovation; and internal process outcomes like productivity, employee retention and satisfaction (Venkatraman & Ramanujam, 1986). Priem and Butler (2001) have suggested that there is need to examine the relationship between operational performance and organizational performance. However, Combs, Crook and Shook (2005) postulate that the two concepts are distinct from each other, and propose that operational performance be viewed as an antecedent to organisational performance.

Financial performance is a traditional measure of firm performance based on the shareholder theory. The major concern for investors is superior financial performance (Chakravarthy, 1986). According to Venkatraman and Ramanujam, (1986) financial performance is a narrow segment of firm performance; it shows the achievement of economic goals of the firm by using financial indicators. The authors identify overall profitability, profit margin, earnings per share, stock price and sales growth as measures of financial performance. Abbott and Banerji (2003) used profitability to measure financial performance; the indicators used are ROA, ROS and EBITM. Cho and Pucik (2005) posit that financial management is represented by three complimentary aspects: profitability, growth and market value. Atwa (2013) suggests that the most common financial measurements include ROA, ROI, ROE, sales growth, gross profit, and new wealth creation.

Non-financial performance are mainly subjective measures and qualitative in nature. The information is collected by asking managers and other informants in key positions to rate their company's overall performance on measures such as market share, profitability, innovation efforts and performance of human resource practices (Singh, Darwish, and Potočnik, 2016). Non-financial measures include aspects such as customer purchases, customer retention, brand retention, and customer referrals, (Selvam et al, 2016; Namusonge, Mukulu and Mokaya, 2017; Taouab & Issor, 2019). Most of the studies currently emphasize non-financial or multi-dimensional measures of firm performance in evaluating the achievement of organisational goals.

Many recent studies combine both quantitative and qualitative measures of performance. Santos and Brito (2012) identified six dimensions of firm performance: profitability, growth, market value, customers' satisfaction, employees' satisfaction, environmental performance and social 16 performances. Ganesh-Kumar and Nambirajar (2013) adopt market share, sales growth, profit margin, overall product quality, overall competitive position, average selling price, ROI and ROS as their measures of organisational performance. Combs, Crook and Shook (2005) in their analysis of publications in the period from 1980 to 2004 identified three dimensions of performance as: accounting returns, stock market, and growth. Other measures (market share, survival, and subjective measure) identified in the publications did not fall clearly into these major dimensions.

4. LITERATURE REVIEW

An extensive review of the vast body of relevant theoretical and empirical literature was carried out as guided by the key construct in this conceptual review. This section therefore, presents the theories that underpin the construct of strategic outsourcing and organisation performance as well as related empirical literature.

4.1. Theoretical Review

Two theories namely, transactional cost theory and resource based theory were reviewed as presented in the preceding section.

4.1.1. Transactional Cost Theory

This theory holds that strategic outsourcing, and can lead to an organisation to perform to gain a competitive advantage. According to Williamson (2003) transaction cost theory studies the governance mechanisms that can be used to achieve economic efficiency and proposes that the most favourable organizational structure is that which minimizes transaction costs or the costs of exchange. Williamson proposes that four variables will affect such costs, namely the frequency of exchange, environmental uncertainty, asset specify, and threat of opportunism.

Transaction costs are important when analyzing how managers make the outsourcing decision, but the available case is that is that not all transaction costs are included in the decision, and that such costs are more intricate than can be included in the type of analysis often undertaken by decision-makers. Considering Williamson's variables, the research indicates that the outsourcing of services did not comply solely with the levels of frequency of exchange or the requirement of asset specificity.

According to the Williamson transaction cost theory, when firms outsource, they should consider the possibilities of associative advantages for both their internal and relational capabilities. The associative advantage would be the competitive advantage achieved through a relationship between firms (Cheesley, 2003). Firms should be able to identify factors that greatly affect the decision to outsource in the corporation from this study.

The diversification of skills create new sources of competitive advantage through transformation and configuration of the available resources, giving the firm novel ways to create value for their customers which cannot be imitate by the competitors. According to transactional cost theory a firm’s capability to develop its competitive advantage is based on three capabilities: managerial and organisational processes, market positions and opportunities. It is the intangible resource that greatly determine a firm’s competitive advantage

Managerial and organizational processes refer to the way things are done in the firm or the patterns of current practices and learning. The market position refers to an organisation current specific resources in terms of technology, intellectual property, complementary assets, customer base, and its external relations with suppliers and complementors. The paths refer to the strategic alternatives available to the firm, and the past strategies that had been adopted.

4.1.2. Resource Based View Theory

The RBV attempts to explain how firms use their resources to achieve a sustained competitive advantage. According to Penrose (1959) he conceives firms as a collection of resources. Wernfelt (1994) describes a resource as anything which could be either a strength or weakness of a given firm; and which is tied semi permanently it. Barney (1991) states that these resources can be tangible and intangible, for example, assets, capabilities, process attributes, information and knowledge. The RBV is based on the assumptions made by Barney (1991) that the firms within an industry have different resource endowments; and these resources are relatively immobile across the firms which makes the assumption of resource heterogeneity a long lasting one.

In the 1990s the resource-based view theory gained popularity in literature and in practice. This theory helps organizations to distinguish their core competences and provides knowledge about which activities should be performed in-house and which should be outsourced. This is defined by the possession of resources and capabilities. The theory suggests that organizations keep in-house the activities that provide them with a competitive advantage and outsource all other activities (Anderson and Weitz, 2008). This view is also known as the core competence approach.

Core activities and core competences are concepts that are frequently mentioned in outsourcing literature, especially in literature from a resource-based view. Prahalad and Hamel (2010) are the founders of the relationship between core competence and outsourcing. According to them, a core competence should provide potential access to a wide variety of markets, make a significant contribution to perceived customer benefits of the product, and be difficult for competitors to imitate.

They argue that core competences are not physical assets, but the ―collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technology. Core activities are central to the organization in favour of successfully serving the needs of potential customers in each market.

Many outsourcing frameworks recognize the importance of defining the organization 's core competences and core activities. However, this is a complex task. Insinga and Werle (2011) distinguish four different types of activities based on the two dimensions ‗contribution to competitive advantage and ‗level of organizational strength '. This results in key activities, emerging activities, basic activities, and commodity activities. Key activities (core activities) are always kept in-house. Key activities can bring the organization a competitive advantage in comparison to competitors. Even if the organization has not enough internal capability to perform the activity, it should be kept in-house.

4.2. Empirical Literature Review

The relationship between strategic outsourcing and organisation performance is illustrated in several empirical studies. Different studies have varied point of views on the relationship between strategic outsourcing and organisation performance because of the different localities the studies conducted. Different studies on strategic outsourcing and organisation performance are put together to make up the empirical literature review of this study.

4.3. Proposed Theoretical Model

Theoretical model is imperative in helping to reveal the relationship between independent variables, moderating variables, mediating variables and dependent variable. In the case of this independent study, a theoretical model was proposed that illustrated the relationship between strategic outsourcing and organisation performance. This relationship is demonstrated in a chart marked as Figure 5.1.

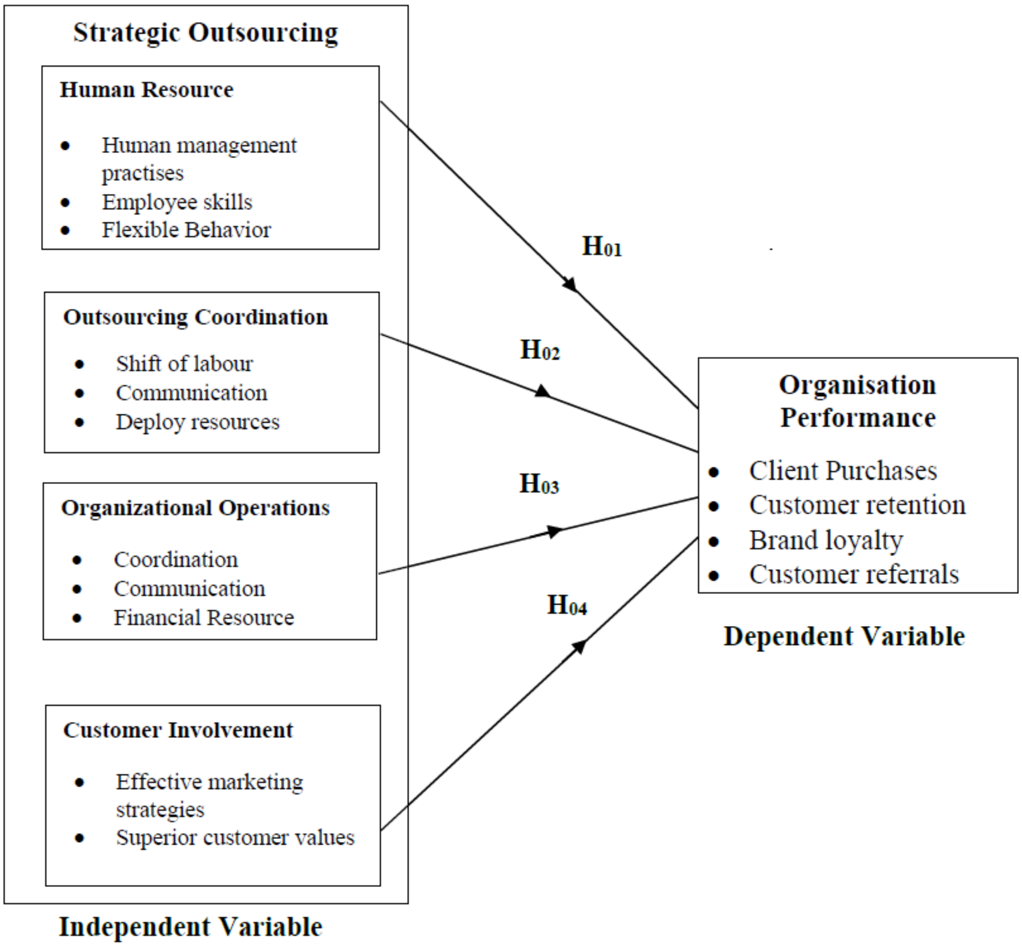

Figure1. *Proposed Theoretical Model*

Source: *Author (2021)*

The proposed model shows strategic outsourcing is the independent variable and organisation performance is the dependent variable. In this study, strategic outsourcing is measured by human resource, outsourcing coordination, organizational operations, and customer involvement. Outsourcing coordination is a very critical construct under strategic outsourcing. This is a strategic asset that helps provide an organization to maintain proper operations and do proper deployment of resources. Outsourcing coordination is very much useful in aligning strategies in organization to pursue better performance.

Organizational operations, as a construct of strategic alignment, enhance organization performance. This enhances internal capabilities of an organization enabling it to increase in its performance. Human Resource involvement in the formation and execution of an organization's strategies enhances performance of the organization as the views and perceptions of employees who execute the strategies are taken care of. Also, customer involvement is very important as the organization gets to precisely know what the customer needs are for its success. Organisation performance as the dependent variable is determined by client purchases, customer retention, brand loyalty, and customer referrals. An organization that has effectively aligned her strategies experience more client purchase, customers retention, the customers direct their friends and other people to the organization's products, hence the organization retains more customers. Unexpected volatility in the market environment forces business organizations to strategically align their operations to achieve customer satisfaction and beat their competitors.

5. Conclusion

The relationship between strategic out sourcing and organisation performance is assessed in this independent study. The main goal of this study was to suggest the most appropriate theoretical model that illustrates the relationship between strategic outsourcing and organisation performance. Through reviewing of theoretical literature and empirical literature, this independent study assessed the characteristics of strategic outsourcing including its parameters and understands how they affect organisation performance. The guiding principles and theories in this study were based on Transactional cost theory and resource based theory.

In the study, an appropriate theoretical model is proposed and it helps in illustrating the relationship between independent variable and dependent variables comprising of strategic out sourcing and organisation performance. Review extant literature revealed human resource, outsourcing coordination, organizational operations, and customer involvement as fundamental dimensions of strategic outsourcing that have potential to impact on organizational outcomes. Similarly, the review of literature identified client purchase, customer retention, brand loyalty, and customer referrals as suitable indicators for measuring organisation performance. The propositions of the study besides enriching the empirical and theoretical literature on strategic outsourcing and organisation performance, also serve to guide scholars in the field of strategic management on prospective studies with potential to impact organizational outcomes and market performance in diverse industries and sectors.

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