



## Outsourcing Human Resource Functions: Implications for the Performance of SMEs in Oyo State, Nigeria

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### ABSTRACT

*The study explores the impact of outsourcing human resource (HR) functions on the performance of small and medium-sized enterprises (SMEs) in Oyo State, Nigeria. It specifically examines the level of adoption of HR outsourcing by SMEs and investigates the influence of recruitment and selection, training, and payroll outsourcing on SME performance. A simple random sampling technique was used to select 720 respondents, while a structured questionnaire was employed to collect the data. Data analysis was performed with the aid of simple percentage, mean, standard deviation and Path Analysis. The result reveals that a larger portion of respondents exhibit an average level of adoption of HR outsourcing, while nearly half report a low level of adoption. The evidence further reveals that a strong, statistically significant positive relationship between HR outsourcing functions (recruitment and selection, training, payroll) and SME performance. In conclusion, the data strongly support the idea that outsourcing recruitment and selection, training, and payroll functions can significantly improve SME performance. Therefore, SMEs should consider these outsourcing strategies to enhance their operational effectiveness, and stakeholders should support their adoption through targeted initiatives and policies such as workshops, training sessions, and awareness campaigns tailored to demonstrate how outsourcing can address common HR challenges faced by SMEs.*



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## Introduction

Small and medium-sized enterprises (SMEs) are widely recognized as crucial contributors to sustainable development in both developed nations and the economies of developing countries. Their significant impact spans various aspects of development. In Africa, the SME sector is particularly notable, serving as the primary source of employment and forming the backbone of nearly every economy on the continent (Ojokuku, Sajuyigbe & Ogunwoye,

2014). Despite their commendable role in fostering sustainable economic growth, job creation, and poverty alleviation, SMEs face significant challenges, exacerbated by the unpredictable dynamic environment and the impact of the COVID-19 pandemic. The underwhelming performance of SMEs in Nigeria, as highlighted by Ojokuku and Sajuyigbe (2015), has raised concerns among the government, the populace, operators, and practitioners. The primary cause of this predicament is the inadequate implementation of outsourcing human resource (HR) functions in SMEs.

Optimal HR management in SMEs has long been a subject of global concern for researchers and experts. In the knowledge-based economy, businesses face the challenge of meeting their need for highly trained employees in labor markets marked by a scarcity of qualified labor. Despite this, there is a prevailing notion that HR is not crucial for SMEs and is not cost-effective. Consequently, owners and managers of SMEs often overlook outsourcing HR functions, including selection, employee training and development, performance appraisal, and performance compensation. Kuvadia (2013) argues that SMEs often have a limited understanding of the critical roles played by HR functions, frequently perceiving responsibilities such as talent acquisition, effective HR practice implementation, and labor regulation management as the domain of larger organizations. Such neglect is misguided, as increased competition necessitates a better understanding and management of all available resources for both small and large organizations. Research by Ojokuku and Sajuyigbe (2014) suggests that SMEs encounter significant HRM challenges because the small size of the firm does not justify the hiring of professionals exclusively dedicated to HRM activities. As a result, the sector faces numerous challenges in business administration, particularly in efficiently and effectively utilizing resources to achieve organizational objectives. Okpara (2011) further posits that many SMEs grapple with serious HR problems despite the vital role played by HR in developing and sustaining their competitive advantages. Moreover, existing knowledge on HRM in SMEs is deemed highly descriptive and fragmented.

In response to these challenges, scholars, researchers, and professionals have identified outsourcing HR functions as an alternative paradigm for improving SMEs' performance. Outsourcing provides a platform to access specialized knowledge and resources that may not be readily available to SMEs, allowing them to concentrate on core competencies and enhance overall performance. Given the ongoing debate on outsourcing, there is a critical need to continually assess the impact of HR outsourcing on SME performance (Suleman & Ogbette, 2019). According to Shafiq et al. (2019), outsourcing HR involves contracting third-party providers to manage some or all of an organization's HR functions. These can range from basic tasks like payroll processing and benefits administration to strategic activities such as talent acquisition, performance management, and HR compliance. Previous studies have highlighted the benefits of outsourcing HR functions for SMEs, as it frees up internal resources from HR-related tasks. By implementing effective recruitment and onboarding strategies, competitive compensation and benefits packages, and continuous employee development programs, SMEs can focus on core business activities while attracting and retaining top talent (Mishra et al., 2018; Sinkovics et al., 2018; Suleman & Ogbette, 2019; Bogoviz et al., 2019; Pace, 2016; Chae et al., 2019).

Consequently, this study aims to bridge the existing gap in the literature by examining the influence of outsourcing HR functions on the performance of SMEs in Oyo State, Nigeria. Specifically, it seeks to assess the extent of adoption of HR outsourcing strategies by SME operators and managers, evaluate the influence of recruiting outsourcing on the performance of SMEs, analyze the impact of training outsourcing on the performance of SMEs, and determine the effect of payroll outsourcing on the performance of SMEs. The findings aim to

empower policymakers to implement targeted initiatives such as awareness campaigns, support programs, and policy adjustments, thus cultivating a thriving environment for SME HR outsourcing. For entrepreneurs, these insights will illuminate the strategic potential of outsourcing HR, enabling them to make informed decisions that enhance their overall performance.

## **Theoretical Framework**

The human resource outsourcing strategy has been associated with various theories, including Human Capital Theory, Resource-Based View Theory, Strategic Contingency Theory, and Ability, Motivation, and Opportunity (AMO) Theory (Bernardin & Beatty, 2018; Bogoviz et al., 2019; Chae et al., 2019). However, this study specifically focuses on the Resource-Based View (RBV) Theory. This theory is chosen because it facilitates a paradigm shift from the traditional approach to human resources, advocating for a more integrated perspective that effectively collaborates with individuals and recognizes workforce equilibrium as a crucial support for organizational capabilities, ultimately creating competitive advantages for SMEs (Huselid & Becker, 2011). The RBV theory offers several benefits to human resource outsourcing for the performance of SMEs. It emphasizes aligning the organization's resources, including human resources, with its strategic objectives. When applied to HR outsourcing, SMEs can strategically select and leverage external human resource capabilities that align with their unique needs and goals. This ensures that the outsourced activities contribute directly to the firm's competitive advantage. According to RBV theory, the key to competitive advantage lies in the firm's ability to leverage and deploy valuable, rare, and difficult-to-imitate resources (Kamunge, Obiero, & Mwirigi, 2014). By outsourcing HR functions, SMEs can tap into the specialized knowledge, skills, and technologies of external providers, enabling them to access resources that may be challenging to develop in-house, leading to improved HR processes and outcomes.

## **Concept of Outsourcing and Hypotheses Development**

Outsourcing, also known as contracting, is a corporate strategy where a company engages external groups to provide services and manufacture products that were traditionally handled internally by the company's own workforce (CIPD, 2022). This practice involves transferring projects, activities, employment, or procedures to a third party for an extended duration (Noe et al., 2014). The diverse definitions of outsourcing by various authors reflect the broad scope of the term. Regardless of an organization's size or the nature of its activities, nearly every organization engages in some form of outsourcing. It is a strategic decision-making process that goes beyond procurement activities, profoundly influencing the organization and requiring careful consideration due to potential positive or negative effects (CIPD, 2022).

Outsourcing is a strategic tool employed by organizations, and its impact can vary, with both positive and negative outcomes. Despite uncertainties surrounding its effects, the utilization of outsourcing is on the rise. Proper management of outsourced processes or activities is crucial, as inadequate management can be detrimental to an organization (CIPD, 2022). Various types of outsourcing services exist, each with its corresponding models. Examples include IT Outsourcing, Logistics Outsourcing, HR Outsourcing, and Business Process Outsourcing (Nagaraju & Pooja, 2017; Noe et al., 2014; Mishra et al., 2018; Marquardt, 2016; Marlow & Taylor, 2008; Kuvadia, 2013). Outsourcing models may be theoretical or practical, employing diverse analytical methods such as supply-chain management (Neo et al., 2014) and strategic management (Marquardt, 2016). Analyzing an organization's activities can be approached from different perspectives. Nagaraju and Pooja (2017)

emphasize considering the views of product or service users, incorporating features or actions that align with user preferences. Mishra et al. (2018) advocate analyzing activities from a competitive advantage and added-value standpoint, comparing them with those of competitors while assessing the potential for wastage or skills deficiency. When making outsourcing decisions, the internal and external environment of an organization must be scrutinized (Marlow & Taylor, 2008). The definition of an organization's external environment varies among scholars. For instance, Francheschini views it as analyzing service providers, while Blumberg sees it as factors influencing the organization's operations, including competitors and the market it operates in. The outsourcing models proposed by Neo et al. (2014) and Kuvadia (2013) can be compared based on characteristics, focus, and application areas. Franchising's model focuses on users' perspectives and managing business activities in the services sector. Malvor's model emphasizes effective decision-making, efficient operations management, and universal applicability. Blumberg's model, with a user-centric perspective, concentrates on outsourcing implementation and management and is also universally applicable (Marlow & Taylor, 2008).

### **Recruitment and Selection Outsourcing**

Recruitment and selection outsourcing refers to the practice of externalizing the processes involved in hiring and acquiring talent for an organization (Ooi et al., 2020). This strategic approach involves contracting with external service providers to handle various aspects of the recruitment and selection process, from sourcing candidates to conducting interviews and assessments. Outsourcing these functions allows organizations to leverage the expertise of specialized firms, reduce costs, and streamline their human resources processes. The concept of recruitment and selection outsourcing has gained prominence as organizations seek more efficient and effective ways to attract and retain top talent (Sharma, 2014; Klaas et al., 2017). Existing research establishes that recruitment and selection outsourcing have a positive and significant association with organizational performance. For instance, Klaas, Clack, and Wright (2017) explored the impact of outsourcing HR functions on the efficiency of HR managers in the private sector, revealing that recruitment and selection outsourcing contribute to the effective operation of organizations, enhances employee skills, and focuses primarily on cost reduction. Marlow and Taylor (2008) also confirmed a significant association between recruitment and selection outsourcing and organizational performance. In another study, Ooi et al. (2020) reaffirmed that recruitment and selection outsourcing have a positive link with organizational performance.

### **Outsourcing Training**

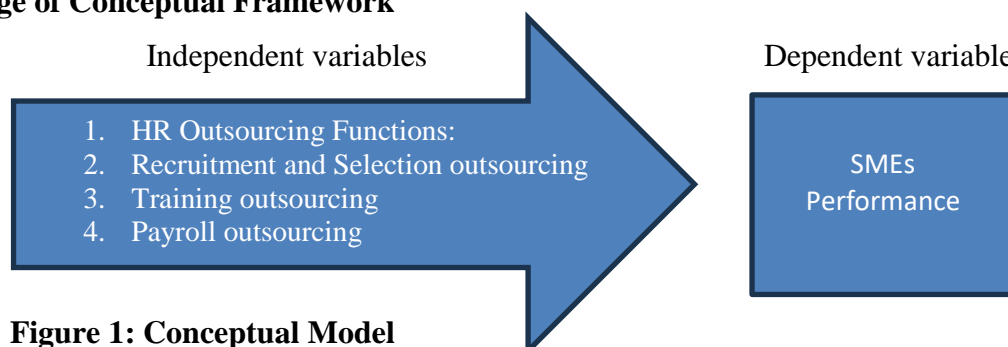
Outsourcing training is a strategic initiative wherein organizations enlist external service providers to oversee and deliver training initiatives for their employees. This strategic approach enables companies to harness the specialized expertise of external training providers, ensuring the delivery of high-quality and pertinent training for their workforce (Paradiso, 2018). The scope of training outsourcing encompasses various facets of the learning and development process, ranging from program design and content creation to delivery and subsequent evaluation. Marquardt (2016) asserts that training outsourcing involves creating and developing tailor-made training programs, encompassing content creation, course design, and the development of learning materials aligned with the specific objectives of SMEs. By outsourcing training, organizations can focus on their core business activities, delegating the training function to experts and thereby enhancing overall operational efficiency (Noe et al., 2014). Paradiso (2018) further contends that this outsourcing strategy can prove cost-effective for SMEs, as it enables them to sidestep the

expenses associated with establishing and maintaining an in-house training infrastructure. External providers often deliver top-tier training at a reduced cost due to economies of scale. In another study, Bogoviz et al. (2019) showcase that outsourcing training is significantly influenced organizational performance in terms of competencies and cost reduction. Marquardt (2016) also presented findings indicating that outsourcing training positively and significantly influenced business performance. Similarly, Nsowah, and Phiri (2023) demonstrate that outsourcing training is strong predictor of SMEs performance.

### **Outsourcing Payroll**

Managing payroll can pose a challenging and time-consuming task for small and medium-sized enterprises (SMEs). Dealing with complex tax regulations, ensuring compliance, and accurately calculating employee wages can divert valuable resources and attention away from core business activities (Pilbeam & Corbridge, 2006). Payroll outsourcing, where a third-party service provider is hired to handle all aspects of payroll processing, offers a solution to these challenges. This includes tasks such as calculating employee wages, withholding taxes, managing benefits, and ensuring compliance with various regulations (Nagaraju & Pooja, 2017). For many SMEs, opting for payroll outsourcing becomes a strategic decision to streamline operations and focus on core business activities (Bernardin & Beatty, 2018). According to the Society for Human Resource Management (2023), payroll outsourcing involves transferring the responsibility of calculating employee salaries, deductions, taxes, and generating payments to a dedicated payroll service provider. These providers possess the necessary expertise, technology, and infrastructure to handle all aspects of payroll, providing SMEs with a comprehensive and hassle-free solution (Kuvadia, 2013). Nagaraju and Pooja (2017) highlight that SMEs no longer need to invest in payroll software, hardware, and training for in-house personnel when outsourcing. This not only saves costs but also minimizes the risk of payroll errors and non-compliance, which can result in costly penalties and fines. Pilbeam and Corbridge (2006) observe that payroll providers offer economies of scale, often leading to lower processing fees compared to in-house solutions. Kuvadia (2013) also attest that payroll outsourcing is significantly influenced organizational performance. Noe et al. (2018) also found significant relationship between payroll outsourcing and firm performance. Similarly, Chae, Lawson, Kull, and Choi (2019) concluded that payroll outsourcing positively impacted firm performance. In another study, Mohammed, and Adamu (2020) reaffirm that payroll outsourcing is major determinant of SMEs performance.

### **Linkage of Conceptual Framework**



**Figure 1: Conceptual Model**

The research model in Figure 1 explains the relationship amongst the variables under study; it explains HR outsourcing functions as independent variables while SMEs performance as the dependent variable.

**Based on the literature review, the following hypotheses were developed (see Fig. 1):**

H1: Recruitment and selection outsourcing have a significant relationship with SMEs' performance.

H2: Training outsourcing is significantly associated with SMEs' performance.

H3: Payroll outsourcing is significantly associated with SMEs' performance.

## **Methodology**

**Research Design:** This research will utilize a descriptive research design to explore the thoughts, opinions, and feelings of participants through a structured, closed-ended questionnaire. The choice of a descriptive research design is driven by its effectiveness in collecting data for specific research inquiries, enabling the acquisition of unbiased information and facilitating informed decision-making based on results analysis (Van de Ven, 2007).

**Sampling Procedure and Sample Size:** Participants who have been involved in small and medium-sized enterprises (SMEs) for a minimum of three years were invited to partake in the study. A total of 780 questionnaires were distributed to SME operators across all three senatorial zones in Oyo State, Nigeria. Of these, 720 were retrieved, representing a 92% retrieval rate. This high retrieval rate was achieved due to prior discussions the researcher had with SME operators and managers.

**Research Instrument:** The primary source of data for the study will be a qualitative survey of the study sample. Data collection will be conducted through the administration of the questionnaire survey. The research instrument was personally distributed and retrieved by the researcher, with the assistance of three research assistants. The data administered to the participants were derived from the Recruitment and Selection outsourcing scale validated by Ooi et al. (2020). Training outsourcing Scale developed by Sharma (2014) and Payroll outsourcing scale developed by Paradiso (2018).

**Reliability and Validity of Instrument:** To ensure the validity and reliability of the instruments, a panel of experts from the University of Ibadan in Oyo State and Obafemi Awolowo University in Ile-Ife, Osun State, conducted a thorough evaluation. The panel performed a content analysis of each questionnaire, eliminating irrelevant items. After making the necessary modifications, the experts endorsed the instruments for use in the study. The study further uses Exploratory Factor Analysis for Testing Validity of the Constructs (see Table 1)

**Table 1: Exploratory Factor Analysis for Testing Validity of the Constructs**

Recruitment and Selection outsourcing Questionnaire (RSOQ)	1	2	3	4
Our company relies on external service providers for recruiting new employees.	.872			
We have experienced better retention rates with employees hired through outsourced recruitment.	.839			
Outsourcing recruitment has expedited the hiring process in our organization.	.801			
The use of external agencies for selection processes has reduced our recruitment	.827			

costs.				
Outsourcing recruitment has improved the quality of candidates hired.	.809			
<b>Training outsourcing Questionnaire (TOQ)</b>				
Our organization uses external providers for employee training programs.		.821		
The cost of outsourced training programs is justified by the benefits we receive.		.828		
Outsourcing training has allowed us to focus more on our core business activities.		.799		
The quality of training delivered by external providers meets our organizational needs.		.820		
Outsourced training programs have significantly improved employee performance.		.819		
<b>Payroll outsourcing Questionnaire (POQ)</b>				
Our company outsources payroll processing to an external service provider.			.809	
Using an external provider for payroll processing has freed up internal resources for other tasks.			.803	
Outsourcing payroll has improved our compliance with tax and regulatory requirements.			.811	
The costs associated with payroll outsourcing are justified by the benefits we receive.			.819	
Payroll outsourcing has significantly reduced errors in our payroll processing.			.808	
Our company has experienced significant growth in revenue over the past year.				.825
We have achieved our strategic goals and objectives consistently over the past year.				.784
Employee productivity and morale have been high in our organization.				.812
Our company has successfully expanded its market share in the past year.				.805
Customer satisfaction has consistently improved in our business.				.821
<b>KMO = 0.893</b> <b>Bartlett's Test of Sphericity (<math>X^2</math>) = 1601.087, 0.000.</b> <b>Total Variance Explained = 83.9%</b>				

From Table 1, the communalities for each variable exceed 0.50, the KMO test result is 0.893, and the Bartlett test for Sphericity shows a significance level of 1%. These indicators confirm

that the survey data is suitable for factor analysis, consistent with the suggestion of Edwards (2021).

## **Results and Discussion**

### **Analysis of Demographic factors of Respondents**

The demographic analysis of respondents shows that the majority are between 30 and 50 years old, with a mean age of 42.5 years and a standard deviation of 12.09. Most respondents have over 10 years of operational experience, indicating that SME operators are predominantly experienced and active, with a strong entrepreneurial mindset. This is a promising sign for the sector's growth and for achieving the Sustainable Development Goals (SDGs) by 2030. The results reveal that 55% of the respondents are male, while 45% are female, suggesting that males constitute the majority of SME operators in Oyo State. The majority of respondents hold a B.Sc/HND degree, followed by NCE/ND holders and those with a primary school certificate, at 50%, 30%, and 20%, respectively. This indicates that most SME operators are graduates. Additionally, the results show that 25% of respondents are single, while 85% are married. This development reflects a positive image of the Nigerian economy, as it indicates a large, dynamic, educated, and vibrant workforce engaged in business ventures. Therefore, promoting small businesses is crucial, as the future of the country heavily depends on their growth and success.

**Table 2. Level of adoption of HR outsourcing strategies by SME operators/managers**

Level of adoption of HR outsourcing strategies	Frequency	Percentage
<b>High</b>	92	12.7
<b>Average</b>	278	38.6
<b>Low</b>	350	48.7
<b>Total</b>	<b>720</b>	<b>100</b>
Mean	54.73	
Standard Deviation	10.45	

**Source:** Authors' Computation, 2024

The table 2 provides an overview of the level of adoption of human resource (HR) outsourcing strategies among small and medium-sized enterprise (SME) operators and managers. With 92 respondents, (12.7%) reveals a relatively small percentage of SME operators/managers have a high level of adoption of HR outsourcing strategies. This suggests that a minority of SMEs have fully integrated outsourcing strategies into their HR practices. A larger portion of respondents exhibit an average level of adoption with 278 respondents, (38.6%), indicating that while many SMEs are using HR outsourcing, they might not be doing so extensively or may have only implemented certain aspects of HR outsourcing. With 350 respondents (48.7%) showcases that nearly half of the respondents report a low level of adoption of HR outsourcing strategies. This shows that a significant number of SMEs are either not using HR outsourcing at all or are only using it minimally.

The mean value of 54.73 suggests that, on average, the level of adoption of HR outsourcing strategies among the respondents falls slightly above the midpoint of the scale used (assuming a scale where 100 represents the highest level of adoption). This indicates a



moderate overall level of adoption across the sample. The standard deviation of 10.45 indicates some variability in the adoption levels among respondents. While the average is moderately high, individual adoption levels vary significantly from the mean. This implies that the high percentage of SMEs with low adoption of HR outsourcing strategies highlights a potential area for development. Since HR outsourcing can improve efficiency and access to specialized knowledge, promoting its benefits could lead to better resource management and operational effectiveness within SMEs. The moderate mean value implies that while some SMEs are adopting HR outsourcing, there is room for growth. Targeted strategies to educate SME operators on the advantages and best practices of HR outsourcing could increase adoption rates. This suggests that support programs or initiatives could be beneficial in encouraging more SMEs to adopt HR outsourcing. This could involve workshops, training sessions, and awareness campaigns tailored to demonstrate how outsourcing can address common HR challenges faced by SMEs.

**Table 3: Path Analysis (Direct Effect)**

Explanatory variable	Response variable	t-value	p-value	Hypothesis	Remark
RSO	SMP	6.87	0.000**	H1	Supported
TO	SMP	5.87	0.000**	H2	Supported
PO	SMP	3.89	0.000**	H3	Supported

Note. \*\*  $p < .05$ , SMP = SMEs performance, RSO = Recruitment and Selection outsourcing, TO = Training outsourcing, PO = Payroll outsourcing

The table 3 provides results from a statistical analysis examining the relationship between various explanatory variables and the performance of small and medium-sized enterprises (SMEs). The t-value of 6.87, and the p-value of 0.000 reveal a strong, statistically significant positive relationship between recruitment and selection outsourcing and SME performance. The t-value is 5.87, and the p-value is 0.000. This suggests a strong, statistically significant positive relationship between training outsourcing and SME performance. The t-value of 3.89, and the p-value of 0.000 show a statistically significant positive relationship between payroll outsourcing and SME performance. The p-values for all explanatory variables (RSO, TO, PO) are 0.000, which is less than the significance level of 0.05 ( $p < .05$ ). This means that the relationships between each type of outsourcing (recruitment and selection, training, and payroll) and SME performance are statistically significant. Therefore, H1, H2 and H3 are supported.

## Conclusion

The study explores the impact of outsourcing human resource (HR) functions on the performance of small and medium-sized enterprises (SMEs) in Oyo State, Nigeria. It specifically examines the level of adoption of HR outsourcing by SMEs and investigates the influence of recruitment and selection, training, and payroll outsourcing on SME performance. Data were collected from 720 respondents using a structured questionnaire. The analysis reveals that a larger portion of respondents exhibit an average level of adoption of HR outsourcing, while nearly half report a low level of adoption. This indicates that a significant number of SMEs are either not utilizing HR outsourcing at all or are using it minimally, highlighting a potential area for development. Path analysis demonstrates a strong, statistically significant positive relationship between HR outsourcing functions (recruitment and selection, training, payroll) and SME performance.

In conclusion, the data strongly support the idea that outsourcing recruitment and selection, training, and payroll functions can significantly improve SME performance. SMEs should consider these outsourcing strategies to enhance their operational effectiveness, and stakeholders should support their adoption through targeted initiatives and policies. Since HR outsourcing can improve efficiency and access to specialized knowledge, promoting its benefits could lead to better resource management and operational effectiveness within SMEs. The moderate mean value implies that while some SMEs are adopting HR outsourcing, there is room for growth. Targeted strategies to educate SME operators on the advantages and best practices of HR outsourcing could increase adoption rates. This suggests that support programs or initiatives could be beneficial in encouraging more SMEs to adopt HR outsourcing. This could involve workshops, training sessions, and awareness campaigns tailored to demonstrate how outsourcing can address common HR challenges faced by SMEs.

### **Theoretical Implications**

The human resource (HR) outsourcing strategy has been associated with various theories, including Human Capital Theory, Resource-Based View (RBV) Theory, Strategic Contingency Theory, and Ability, Motivation, and Opportunity (AMO) Theory (Bernardin & Beatty, 2018; Bogoviz et al., 2019; Chae et al., 2019). RBV theory facilitates a paradigm shift from traditional approaches to human resources, advocating for a more integrated perspective that effectively collaborates with individuals and recognizes workforce equilibrium as crucial for organizational capabilities. This shift helps create competitive advantages for SMEs. The RBV theory emphasizes aligning an organization's resources, including human resources, with its strategic objectives. When applied to HR outsourcing, this alignment allows SMEs to strategically select and leverage external HR capabilities that match their unique needs and goals. This ensures that outsourced activities contribute directly to the firm's competitive advantage. According to RBV theory, the key to competitive advantage lies in the firm's ability to leverage and deploy valuable, rare, and difficult-to-imitate resources. By outsourcing HR functions, SMEs can tap into the specialized knowledge, skills, and technologies of external providers. This enables them to access resources that may be challenging to develop in-house, leading to improved HR processes and outcomes. Outsourcing HR functions based on RBV theory can enhance the overall capabilities of SMEs by integrating external expertise with internal resources. This integration fosters better HR practices, such as more efficient recruitment and selection, enhanced training programs, and streamlined payroll processes, all of which contribute to improved organizational performance. This suggests that applying the RBV theory to HR outsourcing, SMEs can achieve a sustainable competitive advantage. This is accomplished by leveraging outsourced HR activities that are aligned with strategic goals, thereby enhancing the firm's unique strengths and positioning it more favourably in the market.

This implies that the application of the Resource-Based View (RBV) Theory to HR outsourcing provides a robust theoretical framework for understanding how SMEs can strategically leverage external HR capabilities to achieve competitive advantage. This approach highlights the importance of aligning outsourced HR functions with organizational goals and utilizing valuable, rare, and inimitable resources to enhance overall performance.

### **Practical Implications**

The study offers practical implications for SME operators, regulatory authorities, and policymakers. The statistical analysis supports the hypothesis that HR outsourcing in recruitment and selection, training, and payroll positively impacts SME performance. For

SME Operators, the findings indicate that outsourcing HR functions can significantly enhance SME performance. SME operators should consider adopting these strategies to improve operational efficiency and focus on core business activities. By outsourcing HR functions, SMEs can allocate their limited resources more effectively, leading to better management of time and finances, which can result in increased productivity and growth. Additionally, outsourcing provides access to specialized expertise and services that may not be available internally, improving the quality of HR processes, talent acquisition, employee development, and regulatory compliance.

For Regulatory Authorities, they should create and promote support programs that encourage SMEs to adopt HR outsourcing. These programs could include training sessions, workshops, and informational resources about the benefits and best practices of HR outsourcing. Providing financial incentives or subsidies for SMEs that engage in HR outsourcing can lower the barriers to adoption. This could include tax breaks or grants for SMEs that outsource certain HR functions. Furthermore, regulatory bodies should ensure that HR outsourcing providers adhere to fair labor practices and maintain high standards of service, building trust among SMEs considering outsourcing and ensuring positive outcomes for employees.

For Policymakers, they should develop policies that support and promote HR outsourcing among SMEs. This can include creating a favorable regulatory environment that reduces the complexity and cost of outsourcing HR functions. Launching awareness campaigns to inform SME operators about the benefits of HR outsourcing, highlighting successful case studies, and providing data-driven insights can help shift perceptions and encourage adoption. Additionally, encouraging partnerships between SMEs and reputable HR outsourcing firms can facilitate access to high-quality HR services and improve overall performance.

In summary, the study emphasizes the significant positive impact of HR outsourcing on SME performance and provides actionable recommendations for SME operators, regulatory authorities, and policymakers to foster the adoption and success of HR outsourcing strategies. By recognizing these practical implications, SME operators can enhance their efficiency and competitiveness, regulatory authorities can create supportive environments, and policymakers can develop initiatives that drive economic growth and sustainability.

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