

## **Outsourcing Accounting Services and Firm performance in Small and Medium Sized Enterprises (SME's): A Pilot Study of Nigerian Food, Beverages and Tobacco Industries.**

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**Abstract:** this study analyses the reasons Small and medium sized enterprises (SME's) engages in outsourcing accounting services and the corollary of outsourcing on performance in terms of Transaction Cost Economics (TCE) theory in the context of Food, Beverages and Tobacco SME's in Nigeria. The use of questionnaires to collect data was employed. Twenty (20) SME's was pilot tested and regression analysis was used to determine key drivers of outsourcing in SME's. The study reveals that the predictor variable outsourcing has a significant impact on performance (Coefficient=0.6738,  $p < 0.001$ ) and Asset Specificity Trust in Accountant and Behavioral Uncertainty is significantly related to SME's performance (Coefficient= 0.5223, 0.7112 and 0.6957 respectively).

**Key Words:** outsourcing, small and medium sized enterprises, Food, Beverages and Tobacco, Transaction Cost Economics and Performance.

### **Background to the Study**

Small and Medium Sized enterprises (SME's) plays a significant role in the development of economies but not without business challenges internally or externally (Danjuma 2014). SME's the world over faces rapid global changes that force them to adopt a better practices and technologies to sustain competitive treat and compete favorably against its competitors (Dorasamy et al 2010). According to Vision 2020 the SME sector in Nigeria generates employment, creates wealth and reduces abject poverty and sustains economic growth and development. Therefore it absorbed up to 85% of Nigerian jobs thereby improving its per capita income, value added to supply of raw materials, improve export earnings and capacity utilization in industrial sector. 90% of Nigerian businesses in the manufacturing sector is undertaken by the SME's so economic prosperity depends on the business performance and strategies adopted by SME's in the manufacturing sector (Ade 2012).

Outsourcing is reducing workload to enjoy financial economies, increase ability to focus on core competencies and strategic issues, access to technology and specialized expertise, ability to demand measurable and improved service levels, and achieve competitive advantage (Suraju and Hamed, 2013). Outsourcing accounting functions therefore involve the services of an independent accountant and the practicing firm he represents. In Nigerian context it's the practicing independent accountant issued with license to do such and is a member of either Association of National Accountants of Nigeria (ANAN) or Institute of Chartered Accountants of Nigeria (ICAN) who are known to be CNA to the former and ACA to the latter. Also the accounting firm they represent in undertaking the accounting service to the clients.

Performance is a measure of how well a mechanism or process achieve its purpose. It's also to know how well the organization is managed and the value the organization delivers for customers and other stakeholders (Moullin 2003). Performance therefore in this study is defined as using the economic resources effectively and efficiently to attain the objectives of the Nigerian SME's both externally and internally. This definition achieves the fundamental dimensions of performance measurement which is

effectiveness and efficiency (Neely, 2003). Effectiveness means achieving the stakeholders' requirements while efficiency is the use of economic resources economically to meet stakeholders' satisfaction. SME's attain superiority relative performance only when they achieve their set objectives with greater efficiency and effectiveness (Neely, 1998).

The decision to undertake accounting services in-house or alternatively to employ the services of a vendor depends on the transactional cost involved (Kamyabi and Devi 2011). The Transaction Cost Economic (TCE) theory gives explanation to this decision basically on the transaction cost its effect on the firm breakeven point and the conversion of fixed cost element to variable cost in the short run. Owing to the challenges faced by SME's in deciding whether to internally undertake their accounting service or contract it out to an expert to maximize performance this study examines the drivers of outsourcing and its influence on the performance when Transaction Cost Economics (TCE) theory is considered particularly in the Nigerian Food, Beverages and Tobacco SME's.

### **Research Problem**

Because of the rapid global changes, it becomes vital for businesses to adopt better practice and technologies in order to stay firm and compute favorably (Dorasamy et al., 2010). SME's in Nigeria face difficulties in handling accounting routine. Prominently the SME's lack expertise in handling accounting processes, procedures and its application in record keeping (Danjuma, 2014). In light of the above the performance issues are raised and outsourcing option evolved and yet the decision to undertake accounting services in-house or externally not unraveled.

### **Research Objective**

This study examines the drivers of outsourcing accounting services and its influence on the performance when Transaction Cost Economics (TCE) theory is considered particularly in the Nigerian Food, Beverages and Tobacco SME's.

### **Research Methodology**

This study is exploratory, descriptive quantitative and a pilot test survey of 20 SME's in Nigeria. This approach was applied to ensure increasing reliability, validity of evaluation and strong based findings. Questionnaire was designed for data collection on a 7- point Likert scale to obtain first-hand information from the respondents. Also unstructured interview was conducted during the pilot study which contributes immensely in understanding the phenomenon.

### **Key Findings**

The evidences on drivers of outsourcing accounting services and its influence on performance of Nigerian SME's with respect to TCE theory revealed that outsourcing intensity is positively associated with SME's performance (Coefficient= 0.6738,  $p < 0.001$ ), asset specificity is negatively related to outsourcing intensity (Coefficient= -4.8875,  $p < 0.001$ ) but positively related with performance (Coefficient= 0.5223,  $p < 0.001$ ). This means that the study concur with the previous studies (Kamyabi and Devi, 2011) which indicates asset specificity was statistically and negatively associated with accounting function outsourcing on Iranian SMEs. It also agrees with prior studies conducted by Everaert, Sarens and Rommel, (2010); Speklé, Elten and Kruis, (2007). This study also acknowledges the negative association of asset specificity with accounting and audit functions.

Furthermore, the study established that firm performance is positively associated with trust in independent accountant by SMEs owner/manager (Coefficient= 0.7112,  $p < 0.001$ ). The result therefore authenticates prior studies conducted by Kamyabi and Devi, (2011); Verwaal, Verdu and Recter, (2008).

Finally, behavioural uncertainty plays a significantly related with firm performance (Coefficient= 0.6957,  $p < 0.001$ ) which concur to prior studies (Kamyabi and Devi, 2011; Widener and Selto, 1999; Everaert et al., 2010 and Alvarez-Suescun, 2010). It is contrary with Dibbern and Heinzl (2009) which acknowledged behavioural uncertainty to be significant only on some service functions such as information system but not accounting functions.

## **Conclusion**

The key findings of the study revealed support to three TCE model predictions and authenticate positive relationship between asset specificity, trust in accountant and behavioural uncertainty and firm performance. The study contributes to outsourcing literatures useful for further researchers, government agencies, independent accountants, SME owners/managers and the general public in Nigeria, West Africa, Africa and the world over. But has limitation to generalizability, due to it being a pilot study of relatively small sample size of SME's in Food Tobacco and Beverages economic subsector.

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