



THE IMPACT OF OUTSOURCING ACCOUNTING SERVICES TO SMALL AND MEDIUM ENTERPRISES' GROWTH AND PERFORMANCE

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ABSTRACT

Outsourcing of accounting services is one of the biggest trends in the present-day competitive corporate world. This research work aimed to review various articles and studies that explain how outsourcing of accounting services help companies. Specifically, it focuses on the impact of outsourcing accounting services to Small and Medium Enterprises' growth and performance. Some SMEs tend to encounter problems in handling their accounting functions that can greatly affect their performance. The paper revealed the benefits associated with outsourcing accounting services. Furthermore, the literature reviewed showed the reasons why SMEs utilize outsourcing. It is being used as a strategy to enhance SMEs performance that leads to potential growth.

Keywords: Outsourcing, Accounting Services, Small and Medium Enterprises, Growth, Performance

INTRODUCTION

Business environment is so dynamic and it is very competitive nowadays. Sustainable competitive advantage is a key for a business to survive and succeed in the rapidly changing market environment. However, the diversity of businesses have created disadvantages to the Small and Medium Enterprises capabilities so as to sustain their competitive advantage since for SMEs the resource constraints are usually more significant than for large companies. (Jayabalan et al., 2009). Small and Medium Enterprises lack the necessary resources such as knowledge, skills, competencies and expertise which make sustaining competitive advantage more challenging. Resource-Based View (RBV) states that the restricted resource of smaller companies makes it essential for them to get resources from external sources (Kamyabi & Devi, 2011). Thus, obtaining capabilities from external service providers is attractive and helpful to SMEs.

Accounting functions are cornerstones to businesses' growth and success. These functions are essential in business to sustain competitive advantage. The provision of high-quality accounting services is one of the important components of business growth and development. In the competitive environment nowadays, outsourcing of accounting services is very popular because this enables businesses to be profitable and efficient by cutting down costs, reducing risk and fraud and gaining access to the expertise of professional accountants.

DISCUSSIONS

The Need for Small Medium Enterprises to Outsource Accounting Services

Today, businesses are adopting best practices and strategies in order to adapt to the abruptly changing world (Egiyi, Modesta & Florence, Alio, 2020). Many challenges need to be dealt by business as they create advantages for business competitiveness in the market. Small and Medium Enterprises, in particular, find it more difficult to deal with the challenges in the competitive business environment. Technological advances, increase in customer demands and strong competition that result in an unstable and unpredictable business environment is one of the challenges should be dealt with by Small and Medium Enterprises (Kamyabi & Devi, 2011b). Being a small firm compared to larger companies, Small and Medium Enterprises are more susceptible because they lack the necessary resources and capability to grow and survive (Kamyabi, Yahya & Devi, Susela, 2011).

In order to address the gap in resources, Small and Medium Enterprises need to reduce cost and create more opportunities by utilizing external resources. Obviously, outsourcing practices would be a great way to cost-reduction and create opportunities for profitability and growth.

Outsourcing improves the company's focus on important business related matters because the management has enough time by utilizing external resources (Egiyi, Modesta & Florence, Alio, 2020). Furthermore, outsourcing enables a company to free-up resources and redirect them to core activities that have a greater impact on business performance. And of course, a lower cost structure by having access to external providers is a compelling factor for outsourcing (Egiyi, Modesta & Florence, Alio, 2020).

Outsourcing of accounting services is one of the practices being utilized by Small and Medium Enterprises. Accounting functions play a big role in the development of any business. Majority of SMEs tend to outsource these accounting functions due to lack of the necessary skills, knowledge, expertise and resources. They find it difficult to carry out the accounting related activities taking place in their business and in performing an accounting cycle to prepare sound Financial Statements. The difficulty in preparing Financial Statements results from many factors such as lack of necessary financial and non-financial resources (Hidayati, 2013). These circumstances motivate most of the SMEs to outsource accounting services. This is an option for SMEs to create and maintain competitive advantage in a competitive business environment (Kipsang, B. S., & Mwangi, M. (2017). The provision of high quality accounting services is an important component of business development. Palesheva, Nadezhda & Zonova, Nadezhda & Grin, Svetla (2019).

The Benefits of Outsourcing Accounting Services to Small and Medium Enterprises

Cahyaningtyas & Ningtyas, (2020) mentioned in their study that company performance, usually measured as financial and non-financial, has been one of the most-studied topics. Moreover, Almajali, A. Y., Alamro, S. A., & Al-Soub, Y. Z. (2012) revealed the importance of company performance to management. Performance is one of the measurements that show what the company achieved for a certain period of time. The ability of the company to gain and manage the resources in different ways in order to develop competitive advantage is being reflected on its performance. Unfortunately, most of the SMEs are struggling to successfully achieve exceptional performance and sustainable growth in the competitive business environment.

Outsourced accounting service is one option for SMEs to improve their performance and sustain competitive advantage in the competitive business environment (Kipsang & Mwangi, 2017). Husin & Ibrahim (2014) revealed the need for SMEs to consult the expert on accounting practices to improve their performance. Moreover, Agburu et al. (2017) found out the benefit of outsourced service to SMEs competence, thus enabling effective and efficient cost-reduction, improving their responsiveness to rampant changes in the business environment, and reducing risks from technological advances.

Most if not all, Small and Medium Enterprises may not have sufficient resources and expertise in-house to stay compliant and effectively monitor financial performance, thus the need for support from external accounting and finance experts has undeniably grown over the years. Outsourcing high-quality accounting services is being embarked as a cost-effective strategy to save cost and time doing accounting functions and allows the companies to have more focus on the core competencies. This is supported by Raluca (2015) who pointed out that by delegating the accounting functions to external service providers, the employees and managers may be able to have the extra time to focus on other responsibilities and pay attention in addressing problems, thus achieving more for the company's growth and improve performance. Furthermore, major investments in human resources, equipment, software, infrastructure of an internal accounting department are being eliminated by outsourcing accounting services. This is a practical option for SMEs who lack the resources and capabilities. Moreover, the reduced investment needs can give SMEs the opportunities to allot the saved capital to other value-added revenue-generating activities wherein resources can be used more efficiently Mikko & Juntunen (2018). This strategic option can give a positive impact on the SMEs financial performance by achieving a higher profit level with smaller capital. Hence, this enhances the financial performance metrics of the SMEs.

In today's world where technology continues to change and advances from time to time, the market environment is also changing continuously. Through availing systematic outsourcing accounting services the SMEs can reap benefits with up-to-date technology (Kumaran, 2013). This gives companies the access to high-quality performing accounting software programs. The responsiveness of the company to rapid change and advancements of technology is also essential to perform exceptionally and to have sustainable growth where business industry competition is stronger than ever before.

CONCLUSION AND RECOMMENDATION

The articles reviewed showed the reasons why Small and Medium Enterprises do outsource accounting services and how this practice or strategy impacts the business growth and performance. The literature reviewed concluded that outsourcing accounting services have a positive impact on improving performance and attaining sustainable growth of SMEs. However, the literature reviewed shows insufficiency of studies on the control of risks associated with outsourcing accounting services. Thus, it is recommended to conduct further studies in mitigating risks of outsourcing accounting services and how SMEs do to control risks while taking the advantages of outsourcing and improving their performance.

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