DETERMINANTS OF OUTSOURCING ACCOUNTING SERVICES ON GROWTH OF SMALL BUSINESSES IN KIAMBU COUNTY

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ABSTRACT

This study seeks to investigate the determinants of outsourcing of accounting services in small and medium sized businesses. The role of small and medium enterprise (SMEs) in a national economy has been emphasized all over the world as to their contribution to the total productivity and job opportunities (Gunasekaran et al, 1999). Empirical evidence from studies on developed countries may not be as relevant to developing countries such as Kenya (Mashayekhi and Mashayekh, 2008). There is limited empirical study in Kenya on determinants of outsourcing accounting services on the growth of SMEs in Kiambu County, this study seek to fill the existing research gap by conducting a study on determinants of outsourcing of accounting services on the growth of SMEs in Kiambu County.

Key Words: outsourcing, accounting services and small business

Introduction

SMEs have a significant role in the development of the country (Bayati and Taghavi, 2007). Therefore, there is a potential to improve SME performance (Gunasekaran et al, 1999). Accounting functions such as general ledger, account receivable, account payable and payroll are essential in business. These functions can be easily handled by purchasing accounting software which is user friendly and available in market such as User Business System (UBS) and Mind Your Own Business (MYOB).

However, the diversity of businesses in the world have created disadvantages to the SMEs capabilities in order to sustain their competitive advantage since resource constraints generally are much more significant for SMEs than they are for large firms (Marriott and Marriott, 2000). Svedberg et al. (2006) found that many large companies dedicate employees or even whole departments to handle a certain function of a company. Most certainly, SMEs do not have these
resources. Fortunately, the presence of outsourcing practices has offered a great helping hand or an alternative for business survival in general for SME.

Several global research agencies including KPMG Report (2007), Potter (2007), PricewaterhouseCoopers (2007) and Technology Partners International Inc. (TPI, 2009) have reported that worldwide, outsourcing engagements have been growing and will continue to grow consistently both in terms of number of contracts and their average contract value. The advanced industrialized economies such as the USA, Japan and Western Europe are the principal candidates for the origin of outsourcing transactions (Koveos and Tang, 2004). Hence the literature, though it has addressed a wide array of aspects of outsourcing, e.g. technical, motivational, cultural, organizational, strategic, operational, and performance related (as reviewed by Lacity et al., 2009), is primarily focused on understanding outsourcing phenomenon from developed countries’ perspective. Banking and financial services sector in India is one of the robust and fast emerging sectors in the world (Jain and Natarajan, 2010b).

It is globally observed that, given the nature of information technology (IT)-intensive business processes, the banking industry has a huge potential for benefiting from outsourcing (Winter, 2002; Tas and Sunder, 2004). In fact, industry research indicates that Banking and Financial Services Industry (BFSI) has been the largest sectoral user of outsourcing services worldwide next only to manufacturing (Ackermann, 2003). Ismail (2002) added that SMEs are lacking accounting knowledge and support to perform accounting functions thus they are more likely to outsource their accounting works to accounting firms.

Previously, accounting functions served mainly for month end reporting or record keeping purposes. Today, the evolution of accounting such as management accounting has made accounting functions to have more roles to play in any business. Businesses able to sustain their competitive edge as managements are looking at the accounting information for appropriate decision making. In short, accounting functions seem to be relatively important in every business operation.

However, in the context of diverse businesses, SMEs seem to have disadvantages in sustaining a competitive advantage in terms of capital and resources. In accounting, a resource deficit means that the company is lacking in terms of people or knowledge to fulfill the accounting functions. The higher the resource deficit, the more attractive outsourcing option becomes (Dibbern & Heinzl, 2001). This is particularly relevant for SMEs, since resource constraints generally are much more significant for SMEs than they are for large firms (Marriott and Marriott, 2000). Ismail (2002) claimed that most of the small and medium enterprises (SMEs) tend to outsource their accounting works to accounting firms due to lack of accounting knowledge and support. This is because they rely on the statutory accounts as their main source of information.

As further elaborated by Everaert et al. (2006), SMEs lack of access to expertise because the accounting functions do not only require knowledge of generally-accepted accounting rules or the tax regulation, but also require that one knows how to apply the rules in a given business environment. Apart from that, Ismail (2002) added that SMEs do encounter difficulty to draw and retain skilled employee.
This may be due to less number of expertise and insufficient of knowledgeable accounting support to handle full set of accounts. As an alternative, some SMEs choose to outsource accounting works relative to utilize a highly paid accountant. By relying on outsourcing, SMEs can obtain the capabilities and competences they require from external service providers (Gilley et al., 2004). Consequently, the presence of outsourcing practices has provided an option for SME survival (Jayabalan et al., 2009).

**Statement of the Problem**

Outsourcing has emerged as one of the popular and widely adopted business strategies of this globalized era (Willcocks, 2010). Outsourcing is an increasingly important initiative being pursued by organizations to improve efficiency (Vining and Globerman, 1999). To be able to survive and be profitable in current globalization era, companies tend to use outsourcing in larger extent (Brannemo, 2006). In today’s business environment, companies considered outsourcing to empower business focus, mitigate risks, build sustainable competitive advantage, extend technical capabilities and free resources for core business purposes (Bartell, 1998).

As organisations shift their focus towards their core competencies, outsourcing of less critical functions to a third party is becoming an attractive option (Longenecker et al., 2003). Statistics shows that more than 50% of African informal firms close within three years most of them within one year (Haan, 2011). Most firms fail within the first few years (Ladzani, 2012) due to the fact that SMEs are vulnerable during their initial years, the period of time when the entrepreneurs are still learning how to operate the business. Most of the SMEs have a tendency to fail because lack of planning, knowledge, absence of overall managerial skills, competencies and capabilities (World Bank, 2012). Due to these constraints, SMEs tend to fail but in order to curb this, outsourcing is brought in.

Gooderham et al. (2004) investigate factors associated with small firms relying on their external accountant as a business advisor and they suggested that most small firms rely on their external accountant as business advisor. Sian and Roberts (2009) found 57.2 percent of small firms outsourced accounting services including financial statements (51.1 per cent), tax or VAT information (30.8 percent) and accounting system (18.1 percent). For example, Jayabalan et al. (2009) found the types of accounting functions outsourced are based on the standard functions which include bookkeeping, accounts receivable, accounts payable, financial reporting, management reporting and tax filing.

Moreover, Everaert et al. (2007) revealed that more than half of SMEs use a combination of outsourcing and insourcing of accounting functions, while 35 percent of the SMEs use only in-house accountants’ services and 12 percent use total outsourcing of accounting services. There is limited empirical study in Kenya on determinants of outsourcing accounting services on growth of SMEs in Kenya, this study seeks to fill the existing research gap by conducting a study to determine the influence of outsourcing accounting services on growth of SMEs in Kiambu County.
Specific Objectives of the Study

1. To identify how manager’s knowledge determines the growth of SMEs in Kiambu County.
2. To assess how manager’s trust of external accounting will determine their growth in Kiambu County.
3. To find out how staff competence of accounting influences growth of SMEs in Kiambu County.
4. To establish how corporate strategy determine the growth of SMEs in Kiambu County.

Literature Review

Resource-Based Theory (RBT)

The RBT of the firm states that differences in performance happen when well succeeded organizations possess valuable resources that others do not have, allowing them to obtain a rent in its quasi-monopolist form (Wernerfelt, 1984). The RBT is important to the study of outsourcing, as superior performance attained in enterprise activities corresponding to competitors would explain why such tasks are carried out in-house (McIvor, 2009).

According to Barney (1991) firm resources can either be: physical, human, or organizational. He also focuses on the strategic identification and use of resources by a firm for developing a sustained competitive advantage. Resources can also be tangible, or intangible (Hoskisson et al., 1999; Hannes and Fjeldstad, 2000; Gupta and Roos, 2001; Spanos and Lioukas, 2001; Mathews, 2003). The resources, assets and capabilities the firm possesses are used to build its competitive advantage and, as a consequence, economic wealth (Dess et al., 1995). The resources and capabilities, tangible and intangible, generate economic returns to the firm (Amit and Schoemaker, 1993).

RBT suggests that smaller firms outsource accounting functions to broaden its market (Marriott et al 2008). In SME environment, RBT is useful in number of studies on outsourcing of accounting functions and provides constructive basis upon which to consider the factors that determine the tendency of a firm to outsource accounting tasks (Marriott et al, 2008, Johnson et al, 2007; Everaert et al., 2006; Doving & Gooderham, 2005; Gooderham et al et, 2004; Bennett and Robson, 2003).

Therefore, RBT leads to suppose that the SMEs make use of external accountants as a source of professional services and such services will be a function of the resources at the disposal of the firm (Gooderham et al, 2004). Since some of the firms do not have adequate resources to perform some of the non-core activities, they tend to employ outsourcing of these activities in the business to save on the available resources so that they are used to focus on the core functions of the business.
Transaction Cost Economics (TCE) theory

TCE theory helps in explaining the outsourcing decision in areas such as outsourcing of accounting functions (Everaert et al., 2010), internal audit activities (Carey et al., 2006) and human resource (HR) (Gilley et al., 2004). Smaller companies have larger difficulty in producing economies of scale, which in turn is likely to reduce the justification for adopting internal facilities and increase outsourcing alternatives (Carey et al., 2006).

TCE theory suggests outsourcing by smaller enterprises generate lower costs (e.g. staffing and payroll) than when those functions are conducted internally because smaller companies lack of competences and experience effects (Gilley et al., 2004).

Aubert et al. (1999), using transaction cost theory and agency theory, emphasize the risks related to adverse selection of vendor, failure of vendor, service debasement, etc. which not only makes the vendor relationship management a complex affair but also adds to the complexity in general business management ultimately defeating the very purpose of outsourcing.

Knowledge-Based View Theory

It is largely accepted that the knowledge-based (KBV) of the firm is a recent extension of the RBV of the firm (Grant, 1996a; Roos, 1998; Hoskisson et al., 1999; Sveiby, 2001b; Bontis, 2002b; De Carolis, 2002; Huizing and Bouman, 2002; Balogun and Jenkins, 2003). The approach of this theory is that a firm is an institution for generating and applying various types of knowledge (Grant, 1996). The KBV of the firm considers knowledge as the most important strategic resource and, in that sense, this perspective is an extension of the RBV of the firm (De Carolis, 2002). While incorporating much of the content of the RBV, the KBV pays more attention to the process or path by which specific firm capabilities evolve and develop over time. This kind of development of knowledge through learning could be seen as a key element in achieving competitive advantage and superior performance (Teece et al., 1997; Kyläheiko, 1998; Danneels, 2002; McEvily and Chakravarthy, 2002). Firm growth is not sustainable without the dynamic re-development of knowledge-based resources and capabilities because an organization is less capable of discovering new opportunities.

The resource base of the organization increasingly consists of knowledge-based assets (Roos et al., 1997; Stewart, 1997; Sveiby, 2001b; Marr, 2004). Although the emphasis on knowledge and capabilities has strengthened during the last decade it seems that empirical research has still not reached maturity, and there are no universally accepted guidelines for studying capabilities (Spanos and Lioukas, 2001; McEvily and Chakravarthy, 2002). It could be concluded from a review of the existing literature that there are many ways of defining “knowledge” and “capabilities”.

Knowledge in particular is an ambiguous phenomenon, but the same applies to capabilities, regardless of the many efforts to reframe and simplify the two concepts (Eisenhardt and Martin, 2000). For the purposes of this paper, the following working definitions are sufficient. Knowledge could be seen as a distinctive production factor that has a huge impact on productivity, innovation, and product development, for example (Spender, 1996). It is also important to note that organizational capabilities such as marketing and technical capabilities are
not the only things that matter, as often it is the nature of the knowledge that has an effect on the sustainability of the competitive advantage, and accordingly of the potential growth strategies (Kogut and Zander, 1993).

Research Methodology
In Kiambu County there are 2,061 SMEs licensed by February 2013 this study randomly sampled 10% of the 2,061 licensed. This is as recommended by Gay (1989) for large survey populations of the accessible population. The study used stratified random sampling method. All the categories of licensing were used because of the small population and the desire to reduce the sampling error. a regression equation was used to determine the dependence of various variables i.e. \( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \) Where \( Y \) is the dependent variable (Growth Of SMEs), \( \beta_0 \) is the regression constant, \( \beta_1, \beta_2, \beta_3 \) and \( \beta_4 \) are the coefficients of independent variables, \( X_1 \) is manager knowledge, \( X_2 \) is managers trust of external accounts, \( X_3 \) is technical competence and \( X_4 \) is Corporate strategy

Research Results

Relationship between Managers’ Knowledge and Outsourcing of Accounting Services
The first research objective was to identify how manager’s knowledge determines the growth of SMEs in Kiambu County. The predicted model relating to managers’ knowledge and outsourcing of accounting services was presented using the linear regression model in equation (4.1) below.

\[
\text{OAS} = X_1 + \beta_1 X_1 + \epsilon_1
\]

Equation (4.1)

Where: \( \text{OAS} = \text{Outsourcing Accounting Services} \)
\( X_1 = \text{Constant term associated with the regression model} \)
\( \beta_1 = \text{Coefficients of independent variable} \ X_1 \)
\( X_1 = \text{Managers` Knowledge} \)
\( \epsilon_1 = \text{error term associated with the regression model.} \)

Simple linear regression analysis using OLS method of estimation was employed in resolving the first research question which stated that:

The regression analysis resulted in the ANOVA Table 1, which was used to assess the statistical significance of the regression model 1. The \( F \)-value \((1,191) = 33.672\) and the sig. value = .000 for model 1. This meant that model was significant \((p \leq 0.05)\) at 0.05 level in explaining the linear relationship between managers` knowledge and outsourcing of accounting services.
Table 1: ANOVA Statistics of Managers` Knowledge

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>13.948</td>
<td>1</td>
<td>13.948</td>
<td>33.672</td>
<td>.000</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>29.410</td>
<td>191</td>
<td>.414</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>43.358</td>
<td>192</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Outsourcing of Accounting Services
b. Predictors: (Constant), Managers` Knowledge

The model summary in Table 4.9 shows model 1 was significant with \(F\)-value = .000. The adjusted coefficient of determination R square (R\(^2\)) column shows model 1 had R\(^2\) = .312. The study proceeded to interpret the coefficients of model 1 in Table 2.

Table 2: Model Summary of Managers` Knowledge

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of Estimate</th>
<th>Change Statistics</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R Square</td>
<td>Change</td>
<td>F Change</td>
<td>df1</td>
<td>df2</td>
<td>Sig. F Change</td>
</tr>
<tr>
<td>1</td>
<td>.567(^a)</td>
<td>.322</td>
<td>.312</td>
<td>.64360</td>
<td>.322</td>
<td>33.672</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Managers` Knowledge
b. Dependent Variable: Outsourcing of Accounting Services

Model 1 in Table 4.10 shows that managers` knowledge had significant p-values (p-value =.000). The study at 95% C.I deduced that there is a significant relationship between managers` knowledge and outsourcing of accounting services.

Table 3: Coefficient of Managers` Knowledge

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Sig. 95.0% Confidence Interval for B</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>Lower Bound</td>
<td>Upper Bound</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.832</td>
<td>.382</td>
<td>4.795</td>
<td>.000</td>
</tr>
<tr>
<td>1</td>
<td>Managers` Knowledge</td>
<td>.594</td>
<td>.102</td>
<td>.567</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Outsourcing of Accounting Services

Evaluating the Model Predicted by Managers` Knowledge

The preceding analysis shows a significant relationship exist between managers` knowledge and outsourcing of accounting services. This results paved way for evaluating model 1 in Table 4.9 and Table 3. Model 1 had an R\(^2\) = .312. This meant managers` knowledge explained 31.2% of
the variance in outsourcing of accounting services. The model provides a weak fit, but demonstrated that managers` knowledge cannot be ignored when examining the determinants of outsourcing of accounting services in Kiambu County. This relationship is presented by the fitted model below;

\[ \text{OAS} = 1.832 + 0.594 \text{MK} \]

Equation (4.2)

Managers` knowledge had a \( \beta_1 = 0.594 \) according to equation (3). Managers` knowledge therefore explained 59.4% of the variations in outsourcing of accounting services. A unit decrease in managers` would therefore result in a 59.4% increase in outsourcing services. This indicated the existence of a positive relationship between managers` knowledge and outsourcing of accounting services. Managers` knowledge therefore significantly predicted the successfulness of outsourcing accounting services.

**Relationship between Manager’s Trust of External Accounting and Outsourcing of Accounting Services**

The second research objective was to assess how manager’s trust of external accounting will determine their growth in Kiambu County. This relationship was examined using a simple linear regression analysis. The predicted model relating managers’ trust of external accounting and outsourcing of accounting services was presented in equation (4.3) as follows:

\[ \text{OAS} = X_2 + \beta_2 X_2 + \varepsilon_2 \]

Equation (4.3)

The relationship between managers` trust of external accounting and outsourcing accounting services was examined by resolving the second research question which stated that:

Using linear regression analysis the study proceeded to determine managers` trust influence the outsourcing of accounting services. Regression analysis resulted in an ANOVA output presented in Table 4, used to interpret the statistical significance of the regression model. From the output, model 1 had an \( F \)-value (1,191) = 13.338 and sig. = .000. This indicated that model 1 was significant at 0.05 levels in explaining the linear relationship between managers` trust on external accounting and outsourcing of accounting services.

**Table 4: ANOVA Statistics of Managers` Trust on External Accounting**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>6.857</td>
<td>1</td>
<td>6.857</td>
<td>13.338</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>36.501</td>
<td>191</td>
<td>.514</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>43.358</td>
<td>192</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Outsourcing of Accounting Services  
b. Predictors: (Constant), Managers` Trust on External Accounting
The resulting model summary in Table 5 was examined. The sig. $F$-value = .000, the adjusted R square ($R^2$) for model 1 was $R^2 = 0.146$. Model 1 of managers` trust on external accounting was significant in predicting outsourcing of accounting services.

### Table 5: Model Summary of Managers` Trust on External Accounting

<table>
<thead>
<tr>
<th>Model</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.398$^{a}$</td>
<td>.158</td>
<td>.146</td>
<td>.71701</td>
<td>13.338</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
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<td></td>
<td>71</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.000</td>
<td>1.605</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Managers` trust on external accounting  
b. Dependent Variable: Outsourcing of accounting services

The coefficient of managers` trust on external accounting is presented in Table 6, which indicates that model 1 under managers` trust on external accounting had a significant $p$-value = .000. The study at 95% C.I meant that there was a significant relationship between managers` trust on external accounting and outsourcing of accounting services.

### Table 6: Coefficient of Managers` Trust on External Accounting

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Sig. 95.0% Confidence Interval for B</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>Lower Bound</td>
</tr>
<tr>
<td></td>
<td>(Constant) managers` trust on external accounting</td>
<td>2.425</td>
<td>.441</td>
<td>5.502</td>
</tr>
<tr>
<td></td>
<td>1 trust on external accounting</td>
<td>.422</td>
<td>.116</td>
<td>.398</td>
</tr>
</tbody>
</table>

a. Dependent Variable: outsourcing of accounting services

**Evaluating the Model Predicted Managers` Trust on External Accounting**

After establishing that a significant relationship exist between managers` trust on the external accounting and outsourcing of accounting services. The study evaluated model 1 in Table 5 and Table 6. Model 1 had an $R^2 = .158$. This meant managers` trust on the external accounting explained 15.8% of the variance in outsourcing of accounting services. The model provides a very weak fit, but indicates that managers` trust on the external accounting can be a influence of outsourcing accounting services in Kiambu County. This relationship is presented by the fitted model below;
OAS = 2.425 + 0.422 MTEA

Equation (4.4)

On a simple regression relationship, managers` trust on the external accounting had a $\beta_2$ value = 0.422 as shown in equation (5). Managers` trust on the external accounting explained 42.2% of the variations in outsourcing of accounting services. A unit increase in managers` trust on the external accounting would result in a 42.2% increase outsourcing of accounting services. The positive relationship between managers` trust on the external accounting and outsourcing of accounting services meant that managers` trust on the external accounting could significantly predict outsourcing of accounting services.

**Influence of Competence of External Accounting**

The third research objective was to find out how staff competence of accounting influences growth of SMEs in Kiambu County. The study used linear regression analysis to examine the relationship between competence of external accounting and outsourcing of accounting services. The predicted model is represented by equation (4.5) as follows:

$$OAS = X_3 + \beta_3 X_3 + \varepsilon_3$$

Equation (4.5)

The relationship between competence of external accounting and outsourcing of accounting services was examined by solving the third research question which stated that:

A linear regression analysis using OLS method of estimation was adopted in determining the influence of competence of external accounting on outsourcing of accounting services. The ANOVA output in Table 4.14 shows a statistically significant model 1, with $F$-value (1, 193) = 13.112.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
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<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>13.112</td>
<td>1</td>
<td>13.112</td>
<td>30.779</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>30.246</td>
<td>193</td>
<td>.426</td>
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<td></td>
<td>Total</td>
<td>43.358</td>
<td>193</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Outsourcing of Accounting Services

b. Predictors: (Constant), Competence of External Accounting

The model summary of competence of external accounting in Table 8 shows model 1 had a sig.

$F$-value = .000, adjusted $R^2 = 0.293$. This was interpreted to mean that model 1 was significant in predicting outsourcing of accounting services.
Table 8: Model Summary of competence of external accounting

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of Estimate</th>
<th>Change Statistics</th>
<th>Durbin-Watson</th>
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<tbody>
<tr>
<td></td>
<td>.550⁹</td>
<td>.302</td>
<td>.293</td>
<td>.65269</td>
<td>.302</td>
<td>30.779</td>
</tr>
<tr>
<td></td>
<td>.293</td>
<td>.65269</td>
<td>.302</td>
<td>1</td>
<td>71</td>
<td>.000</td>
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<td>1.888</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), competence of external accounting
b. Dependent Variable: Outsourcing of accounting services

The coefficient of competence of external accounting presented in Table 9 shows model 1 had a significant p-value = .000. The study at 95% C.I, deduced that there was a significant relationship between competence of external accounting and outsourcing of accounting services.

Table 9: Coefficient of competence of external accounting

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Sig. 95.0% Confidence Interval for B</th>
<th>Collinearity Statistics</th>
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<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
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<td>VIF</td>
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<tr>
<td>(Constant)</td>
<td>1.665</td>
<td>.429</td>
<td>3.884 .000</td>
<td>.810</td>
</tr>
<tr>
<td>1</td>
<td>competence of external accounting</td>
<td>.633</td>
<td>.114 .550</td>
<td>.405 .860</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Outsourcing of accounting services

Evaluating the Model Predicted by competence of external accounting

The significant relationship between competence of external accounting and outsourcing of accounting services led to the evaluation of model 1 in Table 8 and Table 9 Model 1 had an $R^2 = .293$, which meant competence of external accounting explained 29.3% of the variance in outsourcing of accounting services. The model provides a weak fit, but indicates competence of external accounting was one of the potential determinants of outsourcing of accounting services in Kiambu County. This relationship is presented by the fitted model below:

$$OAS = 1.665 + 0.633 CEA$$  
Equation (4.6)

The fitted model shows that competence of external accounting had a $\beta_3$ value = 0.633 as shown in equation (7). Competence of external accounting explained 63.3% of the variations in strategic change. This meant that a unit increase in competence of external accounting would result in a 63.3% increase in outsourcing accounting services. The positive relationship between competence of external accounting and outsourcing of accounting services meant that competence of external accounting could significantly predict outsourcing of accounting services.
Relationship between Corporate Strategy and Outsourcing of Accounting Services

The fourth research objective was to establish how corporate strategy determines the growth of SMEs in Kiambu County. The study adopted a simple linear regression analysis in examining the relationship between corporate strategy and outsourcing accounting services, also presented in equation (4.7) below:

The study sought to determine the nature of relationship between corporate strategy and outsourcing accounting services. The fourth research question was therefore solved. It stated that:

A linear regression analysis was employed in examining the relationship between corporate strategy and outsourcing accounting services. The resulting ANOVA output is presented in Table 4.17. It shows that model had an $F$-value (1,192) = 24.390 and sig. = .000. This meant that model 1 was significant at 0.05 levels in explaining the linear relationship between corporate strategy and outsourcing accounting services.

### Table 10: ANOVA Statistics of Corporate Strategy

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>11.086</td>
<td>1</td>
<td>11.086</td>
<td>24.390</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>32.272</td>
<td>192</td>
<td>.455</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>43.358</td>
<td>193</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Outsourcing of Accounting Services

b. Predictors: (Constant), Corporate Strategy

The model summary in Table 11 shows model 1 was significant with $F$-value = .000. The adjusted $R^2 = .245$. The Durbin-Watson was approximate to 2, meaning the residuals in the data set used in this analysis showed no problem of multicollinearity.

### Table 11: Model Summary of Corporate Strategy

<table>
<thead>
<tr>
<th>Model</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of Estimate</th>
<th>Change Statistics</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.506a</td>
<td>.256</td>
<td>.245</td>
<td>.67419</td>
<td>.256</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Corporate Strategy

b. Dependent Variable: Outsourcing of Accounting Services

An examination of the coefficient of corporate strategy as presented in Table 12, shows that model 1 under had a significant $p$-value = .000. The study therefore at 95% C.I, deduced that there was a significant relationship between corporate strategy and outsourcing accounting services.
Table 12: Coefficient of Corporate Strategy

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>95.0% Confidence Interval for B</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>Lower Bound</td>
<td>Upper Bound</td>
<td>Tolerance</td>
</tr>
<tr>
<td>1</td>
<td>(Constant) 1.802</td>
<td>.453</td>
<td>3.976</td>
<td>.000</td>
<td>.898</td>
<td>2.705</td>
</tr>
<tr>
<td>IFMIS</td>
<td>.561</td>
<td>.114</td>
<td>.506</td>
<td>4.939</td>
<td>.000</td>
<td>.334</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Outsourcing Accounting Services

Evaluating the Model Predicted by Corporate Strategy

Following the confirmation of existence of a significant relationship between corporate strategy and outsourcing accounting services, model 1 in Table 11 and Table 12 was evaluated. Model 1 had an $R^2 = .245$, which meant that corporate strategy explained 24.3% of the variance in outsourcing of accounting services. The model provides a weak fit, but shows that corporate strategy played a potential role in outsourcing of accounting services in Kiambu County. This relationship is presented by the fitted model below;

$$OAS = 1.802 + 0.561 \text{CS}$$

Equation (4.8)

The direct relationship between corporate strategy and outsourcing accounting services shows corporate strategy had a $\beta_4$ value = 0.561 as shown in equation (9). Corporate strategy explained 56.1% of the variations in outsourcing of accounting services. A unit increase in corporate strategy resulted in a 56.1% increase outsourcing of accounting services. The positive relationship between corporate strategy and outsourcing accounting services meant that corporate strategy could significantly predict outsourcing of accounting services.

Integrated Model

The study assumed a linear relationship between the determinants and outsourcing of accounting services and using OLS examined the following multiple linear regression model. The multiple regression equation took the form of:

$$Y = X_1 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon_i$$

Equation (4.9)

Where:

- $Y$ = Outsourcing of accounting services
- $\alpha_0$ = Constant term associated with the regression model
- $\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients of independent variables $X_1$, $X_2$, $X_3$ and $X_4$ respectively
- $X_1$ = Managers` knowledge
- $X_2$ = Managers` trust on external accounting
X_3 = Competence of external accounting
X_4 = Corporate Strategy

\( \varepsilon_i \) = error term, which is normally distributed with mean zero

The four determinants were integrated to determine their predictive ability on outsourcing of accounting services. The resulting ANOVA output displays model 1, 2, 3 and 4, all had sig. value = 0.000, which meant the 4 models were significant in explaining the relationship between the determinants and outsourcing of accounting services.

### Table 13: ANOVA Statistics of Integrated Model

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>13.948</td>
<td>1</td>
<td>13.948</td>
<td>33.672</td>
<td>.000^b</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>29.410</td>
<td>191</td>
<td>.414</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>43.358</td>
<td>192</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regression</td>
<td>14.506</td>
<td>2</td>
<td>7.253</td>
<td>17.598</td>
<td>.000^c</td>
</tr>
<tr>
<td>2</td>
<td>Residual</td>
<td>28.851</td>
<td>191</td>
<td>.412</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>43.358</td>
<td>192</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regression</td>
<td>16.514</td>
<td>3</td>
<td>5.505</td>
<td>14.150</td>
<td>.000^d</td>
</tr>
<tr>
<td>3</td>
<td>Residual</td>
<td>26.844</td>
<td>192</td>
<td>.389</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>43.358</td>
<td>193</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regression</td>
<td>17.465</td>
<td>4</td>
<td>4.366</td>
<td>11.466</td>
<td>.000^e</td>
</tr>
<tr>
<td>4</td>
<td>Residual</td>
<td>25.893</td>
<td>192</td>
<td>.381</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>43.358</td>
<td>193</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Outsourcing of accounting services
b. Predictors: (Constant), Managers’ knowledge
c. Predictors: (Constant), Managers’ trust on external accounting
d. Predictors: (Constant), Competence of external accounting
e. Predictors: (Constant), Corporate strategy
Table 14: Integrated Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.567&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.322</td>
<td>.312</td>
<td>.64360</td>
<td>.322</td>
<td>33.672</td>
</tr>
<tr>
<td>2</td>
<td>.578&lt;sup&gt;b&lt;/sup&gt;</td>
<td>.335</td>
<td>.316</td>
<td>.64200</td>
<td>.013</td>
<td>1.355</td>
</tr>
<tr>
<td>3</td>
<td>.617&lt;sup&gt;c&lt;/sup&gt;</td>
<td>.381</td>
<td>.354</td>
<td>.62373</td>
<td>.046</td>
<td>5.161</td>
</tr>
<tr>
<td>4</td>
<td>.635&lt;sup&gt;d&lt;/sup&gt;</td>
<td>.403</td>
<td>.368</td>
<td>.61707</td>
<td>.022</td>
<td>2.496</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Managers` knowledge
b. Predictors: (Constant), Managers` knowledge, Managers` trust on external accounting
c. Predictors: (Constant), Managers` knowledge, Competence of external accounting
d. Predictors: (Constant), Managers` knowledge, Corporate strategy
e. Dependent Variable: Outsourcing accounting services

The coefficients of model 3 were subsequently examined as displayed in Table 4.22. Two independent variables were significant: managers` knowledge (p-value =.023) and competence of external accounting (p-value =.026). The study deduced that managers` knowledge and competence of external accounting could therefore predict outsourcing of accounting services at 95 % CI.

Conclusions and Recommendations

The first research objective was to examine the effect of budget credibility on strategic change. Following a linear regression analysis, to identify how manager`s knowledge determines the growth of SMEs in Kiambu County. A model integrating all the determinants in Table 4.21 further confirms that managers` knowledge significantly influenced outsourcing of accounting services. This finding is supported Everaert et al. (2007) asserted that SMEs lack of necessary skills, whereas external accountants frequently are extremely specialized in this matter. In effect, external accountants are in a unique position to provide professional and accounting services such as systems analysis, design, and implementation and support advice to their clients (Breen et al, 2003).

References


