

## Adoption Of Financial And Accounting Services Outsourcing Among Small Medium Entreprises

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Third Party Service (TPS) Outsourcing has been an integral part of firms' strategy operations in view of the limited resources and capabilities particularly for the small and medium enterprises (SMEs). TPS outsourcing include the adoption of financial and accounting services outsourcing (FAO) from third party instead of having internal financial and accounting operations. Despite the importance of financial and accounting function in any business operation, the least resources were normally allocated to this function as compared to other operations such as production and marketing. The study was aimed to identify the types of FAO activities and factors influence the adoption of FAO among SMEs. Questionnaires were used as the instrument for data collection and a total of 90 SMEs were participated in the study. Descriptive analysis was performed to identify the types of FAO adopted and factors considered by SMEs to adopt FAO. The study found that the *general accounting* and *taxation* were the most two functions commonly outsourced by the respondents whilst *budgeting* and *management reporting* were the least functions outsourced to third party. The other findings revealed that *accessibility to external skills expert services and competencies* were the main factor for adoption of FAO among SMEs.

**Keywords:** *Business Process Outsourcing, Financial and Accounting Outsourcing, Third Party Outsourcing.*

## Introduction

The growth of third party services (TPS) outsourcing has been in line with the government initiative towards promoting knowledge-based services to further enhance revenue streams within the broad arrays of services sector (EPU, 2006 ; SMIDEC, 2008). To most firms, the third party services outsourcing has been identified as integral part of firm's operational strategies (Dorasamy, Marimuthu, Jayabalan, Raman and Kalianan, 2010) to achieve optimum utilization of resources. TPS outsourcing was defined as the business processes which was previously done internally but now were given to the third party (Longenecker, Moore, Patty & Palich, 2003; Brown & Wilson, 2005; Rodriguez & Diaz, 2008). Other definition of TPS outsourcing includes the transfer of responsibility (Krell (2006) and sub-contracting to the outside party to achieve competitive advantages in the industry (Quinn, 1999).

Previous studies such as by Wood, Barrar, Jones & Sullivant, (2001), Nicholas & Aman, (2008a) and Hamzah, Aman, Maelah, Auzir & Amiruddin, 2010) have indicated the increasing trend of adoption of TPS outsourcing particularly in the area of financial and accounting services outsourcing (FAO) among the small and medium enterprises (SMEs). The adoption of FAO is within the similar concept of TPS outsourcing in which the financial and accounting functions which was previously managed by internal staffs but now being transferred to external third party (Nicholson & Aman, 2008b). Despite the TPS outsourcing was widely adopted in the area of Information Technology Outsourcing (ITO), the adoption of financial outsourcing (FAO) among SMEs was relatively less published. It is therefore the study aimed to identify factors influencing the adoption of FAO among SMEs. The study was conducted among 90 SMEs in Melaka and Johor

## Literature Review

TPS was not the unusual business strategy adopted by most of industry (Skrezeszewki & Cubberly, 1997) particularly in the manufacturing sectors in which contract manufacturing was among popular production alternatives in the developed countries. The advantages of adopting TPS were recognized by most firms which eventually increase the adoption of TPS outsourcing in the industry (Halim & Che-Ha, 2010).

### *Accessed to external skills and competencies*

Rapid development of information technology and telecommunication (ICT) was seen as the enabler of TPS for the service industry particularly in the area of business services including the FAO. The motivation of TPS outsourcing was found to bring many advantages including the economic value added, technology accessibility and financial efficiency to firms (Qu, Pinsonneault & Oh, 2011; Lacity, Rottman & Khan, 2010). The motivation of TPS adoption was also associated to external environment forces in line with the business competition and global economic conditions (Hickey, 2005). Supply chain relationship strategy to face competitions further promotes the adoption of TPS outsourcing among firms which required firm to choose right business partners (Hatonen & Eriksson, 2009) to leverage competitive advantages from both parties.

### *Perceived cost reduction*

Factors associated to adoption of TPS outsourcing include the perceived cost reduction as highlighted by Everaert, Sarens & Rommel (2006). Previous study by Lam and Han (2005) highlighted that TPS outsourcing will reduce cost in the long run which benefit the firm performance. The other findings on the drivers of TPS outsourcing include the improvement, cost savings, organizational structure and revenues (Ghodeswar & Vaidyanathan (2008).

### *Core Competencies and Operational Flexibility*

Kremic, Tukel & Rom (2006) suggested that adoption of TPS outsourcing enable firms focus on its core competencies whilst the non-core functions left to the third party to take care. It will give firms flexibility to operate in the environment where resources are limited. This was in line with other findings by O'Donovan (2010) and Bucki (2012) in which the TPS outsourcing will make possible for the firms to concentrate in what they can do best and have the skills and competencies. Despite the several of advantages of TPS outsourcing, studies have also revealed the perceived downside risks which include loss of confidential information (Dorasamy et al. 2010), poor quality, loss of intellectual property (Song, 2008) and unfulfilled expected quality of services (Aman & Rahman, 2011). It can be concluded that motivation of TPS outsourcing generally has been recognized by firms despite its possible drawbacks. It was interesting to further find reasons for SMEs in their decision to adopt TPS outsourcing particularly in the area of FAO.

## **Methodology**

This research employed the quantitative research design in which survey was used as the instruments for data collection. Section A of the questionnaire captured the demography of the firms (SMEs). Section B captured the factors influence the adoption of FAO namely *access to expertise, focus on core competencies, perceive cost reduction and operational flexibility*. The Five-likert scale was adapted to measure respondents opinion in which (1) being the *strongly disagree* and (5) representing the *strongly agree* for the statements given. In view of the multiracial business owner environment, questionnaires were written in three main languages namely Bahasa Malaysia as the National language, English and Mandrin. The owner and senior officer of the firm were the main target respondents to answer the questionnaires. A total of 350 questionnaires were distributed to potential respondents in the targeted areas. A total of 90 questionnaires were returned, fully answered and valid for further analysis. Descriptive analyses were performed to answer the research questions.

## **Results**

The respondents SMEs participated in this study can be summarized as information depicted in Table 1:

**Table 1: Type SMEs**

SMEs	Frequency	Percentage
Sole proprietorship	5	5.5
Partnership	15	16.7
Private limited company (Sdn Bhd)	70	77.8
Total	90	100

The finding revealed the General Ledger (GL) and Taxation were the most services outsourced by SMEs whilst Budgeting and Management Accounting were the least outsourced. Table 2 highlighted the details services outsourced.

**Table 2: List of FAO Services**

Type of FAO services	Frequency	Percentage
General Ledger	75/90	83
Taxation	70 /90	78
Audit	44 /90	49
Account Payable and payment	22/90	24
Billing	12/90	13
Banking and Insurance processing	16/90	18
Account receivable & Collections	21/90	23
Budgeting	3/90	3
Management Reporting	1/90	1
Others	1/90	1

Number of outsourced functions within the firm indicated the level of adoption of FAO in which 1 - 2 functions indicated low adoption, 3 functions being moderate and 4 and above being highly adoption of FAO. The finding indicated that most of SMEs adopted minimum 2 functions of FAO. A total of 19 respondents SMEs outsourced only one function. Only two respondents firms outsourced five functions related to finance and accounting and regarded as the highest level of adoption in the this study. Detail of frequency adopted functions and level of adoption is depicted in Table 3.

**Table 3: Outsourced Functions and Level of Adoption**

Number of functions outsourced	Frequency	Percentage	Level of adoption
≥ 6	0	0	High
5	2	2.2	High
4	3	3.3	High
3	4	4.5	Moderate
2	62	68.9	Low
1	19	21.1	Low
Total	90	100%	

In this study, factors associated to adoption of FAO were *accessed to skills and competencies, focus on core competencies, perceived cost reduction and operational flexibility*. The study found that accesses to skills and competencies was the highest factors associated to decision to adopt FAO whilst the perceived cost reduction being the lowest consideration for the decision to outsource. Table 4 highlighted the mean score of each factors.

**Table 4: Mean Score of Factors**

Factors	Min	SD
Accesses to skills and competencies	3.9444	0.46300
Operational Flexibility	3.8167	0.50957
Focus on Core Competencies	3.8100	0.51237
Perceived Cost Reduction	3.7600	0.62137

The analysis showed that accesses to skills and competencies were the main factor and consideration for adoption of FAO. The other factors including the cost saving consideration were relatively important by SME as shown by the mean score and standard deviation for each factors as shown in the Table 4.

#### **Discussion And Conclusion**

The study found that access to external skills and competencies were considered as the top priority by SMEs which is consistent with the earlier study by Morgan (2012). The lack of internal capability encourages SMEs to outsource some of financial functions to third party due to the availability of supply of services outside the firm. The hiring of financial experts as a fulltime workers may result in long term commitment on human resources which eventually affecting the cost of human resources to the firm profitability. Flexibility of operation was also revealed as the important consideration found in this study. This finding was supported by the earlier studies by Bengt (2005) and (Quinn & Hilmer, 1994). Focus on core competencies remain the significant factor for consideration in the FAO adoption among SMEs. This finding was consistence with earlier study done by Kremic et al., (2006).

It can be concluded that the factors considered for the adoption of FAO among SMEs in this study, remained consistence with the earlier studies in which main factors including focus on core competencies, accesses to external expertise, flexibility and costs reduction were important consideration for adopting any TPS outsourcing including the FAO.

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