A SURVEY OF OUTSOURCING OF ACCOUNTING SERVICES IN FIRMS LISTED IN THE NAIROBI STOCK EXCHANGE

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DECLARATION

I declare that, this project work is my own original work and has not been presented for award of any degree in any university.

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This research has been submitted for examination with my approval as the University supervisor.

Signature: ___________________________ 7/11/06
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DEDICATION

This work is dedicated to;


To my parents Luka Weru and Virginiah Wambui.
ACKNOWLEDGEMENT

I would like to express my sincere appreciation to my supervisor Mr. J. Maalu who patiently guided me to make this research work valuable and successful.

I feel indebted to my many colleagues whom we shared experiences and knowledge throughout the course period. The respondents who filled and returned my questionnaires and any other person who contributed directly or indirectly to making this degree course a success.

I acknowledge my parents for their believe in the power of education. They inspired me to study hard right when I was young thus sowing the seed of academic excellence at an early age; whose fruits I enjoy and share with them today.

I also thank my wife and children for their patience and the divided attention they endured throughout the course duration.

Last but not least I would like to thank God for giving me good health and more so the resources needed to complete this course.
Accounting plays a significant role in the achievement of business objectives of an organization and in fact no business can operate without an accounting function. Accounting is the way of recording, classifying and summarizing business transactions, preparing and interpreting financial statements and reports. Gautier & Underdown (2001). Outsourcing of accounting services has become a common phenomenon in both the developed and the developing countries. Companies outsource financial services such as payroll, billing, accounts payable, tax services, internal auditing, assets management and other accounting services.

Despite today’s global popularity of outsourcing accounting services, few studies have been done in Kenya in this area. This study sought to determine the extent of outsourcing of accounting services in firms listed in the Nairobi stock exchange. A questionnaire including both open ended and close ended questions was used to collect data. For the purpose of showing the relationship among various variables, quantitative analysis was done on the data collected using descriptive statistics such as percentages, bar charts, pie charts and tables to describe the distributions.

This study sought to determine the extent of outsourcing and the factors that influence outsourcing of accounting services in firms listed in the Nairobi stock exchange; benefits arising from outsourcing and the four firms listed in the Nairobi stock exchange as at 31st October 2005.

The population of interest was all the forty eight firms listed in the Nairobi stock exchange as at 31st October 2005. A questionnaire including both open ended and close ended questions was used to collect data. For the purpose of showing the relationship among various variables, quantitative analysis was done on the data collected using descriptive statistics such as percentages, bar charts, pie charts and tables to describe the distributions.
From the study it was found that seventy three percent of the firms had practiced outsourcing of accounting services between 2001 and 2005. However the extent and the categories of tasks outsourced varied across the firms covered by the study.
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CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Concept of outsourcing

Many organizations today operate in a competitive business environment where they have to stake out their market position by attracting and pleasing their customers to achieve organizational objectives. After assessing the business environment, they have to come up with a game plan and approaches on how to accomplish their business objectives else they be edged out of their markets by their competitors. This game plan can be about how to reduce costs, increase revenues and profits generated by the firm’s products which becomes the strategy of the organization. In developing an organization’s strategy, management evaluates all alternatives available and chose the best direction that enables them focus on markets, customer’s needs and allocate their scarce resources, Thompson & Strickland (2003).

There are generic strategies that a business can adopt depending on the competitive orientation of its market place, these are low cost, differentiation or focus strategies Porter (1985). Which ever strategy a firm chooses it must create ways, develop capabilities and look for opportunities on how to both reduce costs and focus on customer needs in a rapidly changing business environment to survive in the long run. Other business Stakeholders demands and expectations are also changing day by day thus putting a lot of pressure on firms to perform better and meet their needs.
In view of above, outsourcing is one such a strategy that an organization can choose among other alternatives to improve its competitive position. In outsourcing the firm leverages on third party service providers’ expertise to perform its non core activities and focusing more on core ones to achieve competitive advantages for the business, Goolsby & Whitlow (2004).

The idea of outsourcing has its roots in the ‘competitive advantage’ theory propagated by Adams Smith (1776) in his book ‘The Wealth of Nations’ in that, a firm should specialize in producing products that it is good at to achieve competitive advantage. It should leave other tasks to other firms that also have competitive advantages in them. However over the years the meaning of term outsourcing has undergone a big change since IT has become the backbone of businesses worldwide thus bringing them closer together and transforming their operations. This technology driven revolution has placed managers in an uncertain and ever increasing competition thus have to focus on what they can do best. Many companies cannot afford the time or financial resources required to concentrate on every function or process necessary to run their business (Samuel, 1999).

In the 1960s and early 1970s, companies pursued growth and expansions through mergers and acquisitions. In the early 1980s the practice was to expand through diversification, which stretched resources and declined their performance (Cooper, 1994). During the late 1980s and 1990s emphasis changed to concentration on core business functions and outsourcing of non-core functions. This was brought about by
globalization, liberalization and privatization concepts in global markets and economies. This placed firms under a lot of pressure to perform else they close their business due to competition. Firms were made to rethink and review their operations hence pursued programs that focused on cost reduction and customer satisfaction, Hammer & Champy (1993).

Firms started analyzing their operational processes and categorizing them between core and non-core tasks, this process is referred to as value chain analysis. Core activities are those that gave them competitive edge, firms had to focus on them and think of about outsourcing other non core activities through external vendors who would provide the same services at a lower cost or better service at the same cost, Samuel (1999).

In many organizations there are many processes and activities that occupy a lot of management time yet are not strategically critical activities, particularly so for middle level management. These activities are routine and they form the primary business value chain processes thus requiring a lot of resources to administer and deliver. Instead of the firm spending a lot of time and resources on these activities, they can be done much more cost effectively and competently by other businesses specializing in them. If this is so, businesses can enhance their competitive advantage by outsourcing these activities leading to a leaner and flatter organization structure. The outsourced company becomes responsible for design and implementation of the business process under strict guidelines regarding requirements and specifications from the outsourcing company, Pearce & Robinson (2003).
Outsourcing in this context can therefore be defined as simply obtaining work previously done by employees inside the organization from sources outside the organization, Pearce & Robinson (2003). Outsourcing occurs where organizations decide to buy in services or products that were previously produced in house. The process is beneficial to both the outsourcing organization and the service provider as it enables the outsourcer to reduce costs and increase quality in non-core areas of business and utilize their expertise and competencies to the maximum in their core areas, Johnson & Scholes (2003).

According to Ogachi (2002), Kenyan business environment has put a lot of pressure for firms to increase efficiency & productivity by cutting down costs and place more focus on the customer needs hence the need to outsource non-core business services. Examples of outsourced services in Kenya are payroll, IT services, training, recruitment, security, cleaning, messenger & mails delivery, supply chain, maintenance, finance services, staff transport e.t.c.

Kirui (2001) carried out a case study on outsourcing of Logistics activities at British American Tobacco, which revealed a lot of benefits that accrued from outsourcing transportation of raw materials and the final product. Other functions outsourced by British American Tobacco Kenya included Computer hardware maintenance services, security, catering services, cleaning services, staff housing and market research. Tarlochan (2001) survey of the outsourcing of human resource management services
among manufacturing firms in Nairobi revealed its growing prominence in the corporate Kenya.

Outsourcing of accounting activities is deeply getting roots in the western, European and Asian countries, Davis & Tsucalas (2004). However despite outsourcing of other services and corporate functions gaining acceptance in Kenya, many organizations shy away from outsourcing accounting function while others have done it on piecemeal basis Ogachi (2002). Kinyua (2000) researched on outsourcing of selected financial activities among quoted companies in Kenya. These were payroll, general accounting (book keeping), financial reporting (preparation of financial statements) and tax compliance (VAT, corporate tax, import and excise duties etc). His findings were that several firms outsourced certain financial services considered complex though none core to the business like taxation services. His research indicated that 46.9 % of Public companies practiced outsourcing of financial activity (s) in Kenya, 86.7 % of these public companies started outsourcing financial services on or before 1996, meaning outsourcing of financial services was not a new concept. However the financial services outsourced by these companies varied with virtually all outsourcing tax and payroll services and none was outsourcing financial reporting and general accounting services.

1.1.2 Accounting services and Nairobi Stock Exchange

Accounting department exists as one of the key department in many organization charts and it plays a significant role to the achievement of the business objectives and goals. It
is involved in the recording, classifying and summarizing business transactions, preparation and interpreting financial statements and reports, Glahtier & Underdown, (2001). In many organizations the accounting function report to the head of finance together with other functions such as IT, strategy development, business finance and management reporting. Accounting function is also central to the company’s service delivery and quality achievement as well as its cost structure.

Accounting tasks can be categorized as routine and non-routine tasks. The tasks of recording, classifying, summarizing financial transactions and preparation of financial statements are routine. They involve the day today processing of payables, receivables, payroll, general ledger processing, costing, cashier, internal audit, bank and other reconciliation, preparation of accounts and financial reports etc. These tasks are similar in all organizations and are commonly referred to as back office accounting activities, hence innovative approach to outsource the above tasks is of particular importance. Non-routine tasks such as tax returns, financial analysis, external year-end audit and preparation of ad hoc non-routine strategic decision-making reports could be retained in house.

Nairobi Stock exchange is a market that deals in exchange of shares and stocks of publicly quoted companies. Willing buyers and sellers using authorized stockbrokers as their intermediaries transact on a centralized dealing place called trading floor by way of an open out -cry auction. As at 31st October 2005, there were forty eight companies quoted in the Nairobi Stock exchange, Daily Nation Tuesday, (November 1, 2005).
These firms were categorized under various investment segments as follows; Agricultural four firms, commercial services eight firms, finance and investment eleven firms, Industrial and Allied sixteen firms and alternative investment market nine firms.

Listed companies operate in diverse business segments and environments; they also formulate and implement strategies in a competitive business world. The more popular the company’s shares the higher are their market value and vise versa. These companies are under pressure from the stakeholders to deliver superior year on year performance and returns called dividends. Due to this demand they are ever looking for innovations and cost saving opportunities in their operations that enables them to focus on value adding activities to increase the market value of their shares. Outsourcing of non-core functions offers them this opportunity, thus enabling them focus more on their core functions that drive competitive edge.

Listed firms are generally big and are required by their stakeholders to publish their financial reports hence confidentiality of accounts is not of significant importance or a secret of a few owners thus presenting a big opportunity to outsource their accounting services. Experiences and strategies of these firms are learning examples for other non-quoted companies who copy and imitate them; therefore findings from them can give indications of the general trend in the wider Kenyan market.
While there are many rules and regulations that govern the accounting profession worldwide, there is none that prohibits the outsourcing of accounting services to external service providers. However Companies Act and accounting professional bodies stipulates guidelines on the external audits where independent persons other than those who prepared the accounts are required to express an opinion on accounts. Due to this requirement the firm’s external auditors cannot be outsourced to provide accounting services.

1.2 Research problem

Most companies cannot afford the time or financial resources to concentrate on every function or process necessary to run their business. Faced by an ever-changing competitive business world, organizations are findings that there is only time and resources to focus on what they can do best. We are also in a world driven by information technology, which is certainly changing the way business transactions are being run. Information, money and even services can now move across the planet with a click of a computer mouse. Business cycles that formerly required months now have been reduced to minutes in today’s e-driven market place.

To solve this paradox, many organizations are turning to outsourcing as the best way to survive and even thrive in this new world of e-Business. By divesting themselves of their non-core processes they are able to improve their level of service, cut down costs, free up time and capital to concentrate on what is most important such as how to differentiate themselves and compete with others.
All business processes and functions are essential and important, however not all create value to the business. Accounting services are important to a business and none can do without them, hence they must be performed extremely well. However despite accounting services being important, that does not mean they are a core function. The skills and technology used in accounting is not unique to an organization. Same guidelines, concepts, laws, regulations and standard accounting computer software all over the world govern and facilitate the accounting profession. This presents many opportunities for outsourcing all the accounting routine tasks and the finance department staff can concentrate on other strategic task that adds more value to their businesses.

Outsourcing has become an accepted business tool because companies of all sizes and shapes have recognized that they can become more profitable, build shareholder value and stay on the cutting edge of change by handing over the non core tasks to companies that consider them their core competencies. Research carried out Davis & Tsucalas (2004) covering Europe and United States revealed that outsourcing of accounting services is a common phenomenon in developed world and is growing fast.

Despite today’s popularity of outsourcing, few researches have been done locally in the area of strategic outsourcing of accounting services. A Research on outsourcing of selected financial activities conducted in year 2000 revealed that no company quoted in Nairobi stock exchange outsourced general accounting services and financial reporting despite their routine nature; however 46% of the companies outsourced tax and payroll
services, Kinyua (2000). A lot of changes in outsourcing have taken place locally and globally over the time driven by Internet and information technology thus resulting to standardized integrated accounting software some of which has International business remote terminal links.

Once a business invest in a standard accounting computer software, financial services of payroll, billing, accounts payable, tax services, internal auditing, assets management, product costing and other accounting services are examples of services that many Kenyan companies have opportunities to outsource locally and internationally. Third party accounting services providers can efficiently transform business accounting processes using a well crafted Service Level Agreement thus driving overall costs down.

1.3 Research objectives

The Objectives of this study where to determine the:

1. Extent of outsourcing of accounting services by companies listed in Nairobi stock Exchange.

2. Benefits arising from outsourcing of accounting services.

3. Factors that influence the outsourcing of accounting services.
1.4 Significance of research

To outsourcing companies: It will identify the benefits that arise from outsourcing, the risks and barriers of outsourcing. It will enable them to adopt outsourcing as a strategy to improve their firm’s profitability and growth. In particular it will provide finance managers with alternatives to managing their departments.

To consultancy firms: It will shed light to them on opportunities existing in this area of outsourcing.

The researcher: It was inspired by my own professional background in accounting and finance whose findings will give me more insights about experiences of Kenyan firms in outsourcing of accountings services. In the process I will contribute positively in this fast expanding concept of outsourcing in my own professional area.

To academic world: It will be an added contribution to the existing literature in the field of strategic management in general and outsourcing in particular. It will act as a stimulus for further study and research to compliment and extend present studies carried out in Kenya in this area.
CHAPTER TWO: LITERATURE REVIEW

2.1 Outsourcing as a corporate strategy

A corporate strategy is the game plan that a firm chooses to remain competitive in its market place; this can be about how to reduce costs, increase revenues and profits generated by the firm’s products. In developing a corporate strategy, management evaluates all available alternatives and chose the best one which enables it to focus on its markets and customers needs. This enables the organization to allocate its scarce resources to achieve its set objectives, Thompson & Strickland (2003).

Outsourcing is one such a strategy that an organization can choose among other alternatives to improve its competitive position. When outsourcing for competitive advantage you focus on core competencies. Today’s highly competitive environment demands that businesses streamline their operations. Competitive advantage lies in core competencies. “Core competencies are activities or processes that critically underpin an organization’s competitive advantage. They create and sustain the ability to meet the critical success factors of a particular customer groups better than other providers in ways that are difficult to imitate”, Johnson & Scholes (2003).

Core competences must be perceived and recognized by customers or other powerful stakeholders in the business environment and they form the basis of strategies for developing new strategies. An organization therefore needs to analyze carefully all the activities in its value chain and categorize them between the ones that drive core
competencies (core activities) and the ones that do not (non core activities). Outsourcing non-core activities free management time and resources to focus on activities that are core. There is a strong need to outsource identified non-core activities due to rapid changes in internal and external business environments. From a strategic point of view the principle of outsourcing is that outsourcing services or tasks that the outside supplier can provide better value than an in-house provider is more beneficial to the organization. Activities that drive core competencies should not be outsourced since they are the ones that provide competitive advantage, Thompson & Strickland (2005).

The emergence of Business process Re-engineering (BPR) has brought an increasing need for firms to seek outside firms to perform activities done in house, Anderson (1998). This is a process by which a business rethinks and radically redesigns its processes to create best value to its customers to remain competitive. BPR focus on time, process and cost advantage, Anderson (1998). BPR strategically structures an organization around value creation focusing on processes that meets customer needs. Outsourcing has been adopted in the world as a strategy to gain competitive advantage as a by-product of BPR process. Competitive advantage is founded on three Cs, which are the drivers or forces of outsourcing, Hammer & Champy (1993). These are Customers demand for high quality products, Competition driven by low price and cost cutting measures such as trimming the labor force and Change in business environment Randall (1993).
Cost leadership is one of the industry wide Strategy that a firm can adopt. To be a low cost producer, a firm must find and exploit all sources of cost advantage through specific competences that drive cost down in the value chain (Porter, 1985). Some activities in an organization are so standardized and routine that the cost of their provision can easily be reduced substantially by outsourcing them. The organizations will then focus on managing what it controls best thus keeping the cost down, Johnson & Scholes (2003).

In a Finance department the accounting tasks of recording, classifying, summarizing financial transactions and preparation of financial statements is routine and non-core to the business competitive advantage. Therefore the routine day-to-day activities of processing payables ledger, receivables ledger, payroll, general ledger processing, costing, cashier, bank and other reconciliation, preparation of accounts and standard financial reports etc. can be outsourced. The non-routine core tasks such as financial analysis, preparation of ad hoc strategic decision-making reports, development of strategic plans and innovation models could be retained in house. These reports focus on providing market driven information that focus on competitors, customers and linking them to product. This enables a firm to create new competencies and capabilities that drive competitive advantages Roslender et al. (1998).

2.2 Outsourcing process

Outsourcing must be done carefully, systematically and with explicit goals. Companies that rush into outsourcing without carefully understanding what they want to gain may
find themselves mired in a contracted battle with a chosen vendor or the recipient of services that worsen rather than improve them. Bendor – Samuel (1999), the world’s top outsourcing authority identified a five-step model.

The first stage is the Investigation stage: This is the planning stage where the objectives and scope of outsourcing are defined and feasibility of outsourcing is determined before a decision to proceed. The effort is planned in terms of time, budget and resources needed. Levels of services required by the vendors are specified and an interface between services to be outsourced and those to be left in house are identified after which a Request for proposals is developed.

The second is the Tendering stage: This stage involves inviting bids from potential vendors using a Request for Proposal to the general public through a media advertisement or other suitable means. Responses are collected from vendors and analyzed and short listing of suitable vendor is done. The outsourcing market is competitive and suppliers will be competing not only with each other but also with existing in house services, Large (1999). In selection of vendors you need to consider among other things; Going concern of the vendor: The vendor’s life should be up to the foreseeable future. Particular Skills: The vendor should have the particular skills required to perform activities to be outsourced. Sole supplier: If the vendor is the sole supplier of a particular skill the firm has to be careful in assessing risk due to absence of competition. Size of the vendor: A vendor whose numbers of employees are few may have strong skills vested entirely in
one individual leaving the firm vulnerable. Competitive binding is costly and time consuming though transparent and open.

Selection can also be approached through sole vendor sourcing and procurement where the client firm approaches a vendor and upon negotiation, appoints it to perform a service instead of going for competitive bid. This ensures culture and strategies compatibility and not just the size of the deal, marketing value and other advantages of competitive bidding.

Secondly the firm can negotiate with vendors sequentially until it finds a fit thus eliminating the bidding costs. In a non-competitive bidding process a firm can use the “Three R’s” concepts, which are References, Relationships and Reputations to select a vendor. However in the current world of good corporate governance a firm can be condemned for lack transparency and accountability.

Third is the Negotiation stage: This is where the negotiations are done with the selected vendor, also called the strategy and process stage. Factors to consider can be ranked as follows; Commitment to quality, price, reputation, flexible contract terms, scope of resources, additional value added capacity and existing relationships.

Fourth is the Implementation stage: A contract is developed, reviewed and signed after which its performance starts. Fifth is the Relation management: The outsourcing relationship with the vendor is managed and maintained or Changes in the outsourcing relationship are renegotiated if necessary and re-implemented. Performance
measurement, motivation and continuity are perfected i.e. to terminate it, continue or decision to bring the function back in house is made. Before embarking on the above process, Bendor (1999) further concludes that outsourcing clients should do a thorough internal analysis (value chain analysis) and make it clear what can be outsourced, what cannot and how it impact other facets of their operation. This information together with customer expectations of service levels should be communicated.

2.3. Benefits of outsourcing

Greater and high value services by independence professional staff. By their very nature of specialization, outsourcing providers bring extensive worldwide, world-class resources to meeting the needs of their customers. Partnering with an organization with world-class capabilities can offer access to a wide variety of skills and experiences, Thompson & Strickland (2003). Different people possessing different skills come with new ideas and look at business processes from different angles. Blending and rotating team members in an outsourced arena offers different expertise such as information technology review, business process specialists, trend and analytical review, Njehuri (2005).

Lower costs: It may be possible to reduce cost by outsourcing those activities where the organization is not very experienced, Johnson & Scholes (2003). Sometimes the organization is under pressure to push unit costs down; outsourcing can be one best alternative. Direct staff related costs and benefits are increasing by the day e.g. Salary, medical costs, paid leave (annual, sick off, maternity, compassionate etc), retirement costs, insurance, training, recruitment etc., PWC salary review (2005). Many firms may not
afford to pay accountants in future, but they can lower costs by outsourcing to enjoy benefits of third parties economies of scale. The costs saved can be reinvested in other areas like sales and marketing, Davis & Tsukalas (2004).

Focus of management time, attention and resources to key strategic issues of the business that focuses on customer needs, thus effectively transforming their market profile. The single most compelling reason for outsourcing is that management’s resources and attention are focused on core business tasks, Pearce & Robinson (2003). Many finance department staff spend a lot of time and resources doing routine paper work as to advising the business and developing strategy models that enables the business succeed in its market place. Once the routine tasks are outsourced Finance department resources are left to focus on business strategy related issues that add value and return to the business Lackow (2000).

Outsourcing is a by-product of business process reengineering, it allows an organization identify non-critical activities that contribute little to organizational capabilities and core competencies. It therefore enables the business to realize the anticipated benefits of reengineering by having an outside organization, which is also already reengineered to world-class standards to take over the process. Outsourcing enables the business to enjoy innovations generated else where with little or no investment made. Third party providers will innovate to world-class capabilities, which they pass over to their clients, Thompson & Strickland (2003).
Business partnership's and shared risks. There are tremendous risks associated with the investments that an organization makes; these risks may inhibit the firms from taking up profitable business opportunities. When companies outsource they became more flexible, more dynamic, and better able to adapt to changing opportunities. E.g. investing in a warehouse to adapt to an abrupt sales growth where warehousing is outsourced leaves the vendor to invest yet this growth may be short term, Lackow (2000).

Flexibility to adapt to changing opportunities, where in-house staff becomes too familiar with their colleagues at their work place resulting in them becoming part of the system or culture web. They become rigid thus overlook procedures and controls, hence they are not able to detect and advise management of any weaknesses. Staff demands increase by the day making management spend valuable man hours in conflicts resolutions. Outsourcing will bring new faces from different environment that looks at things differently, Njehuri (2005).

Down sizing and retrenchments are becoming popular in today's world. The moral and financial technicality involved in retrenchments becomes a big bottleneck when firms plan to downsize. Outsourced services are pegged to a time frame contract that can be terminated or changed as renewals falls due without directly hurting someone in house, Njehuri (2005).
Staff motivation Outsourcing leaves an organization with core lean staff that can be developed and motivated. It can remunerate them in line with their skills, market standards, strategic challenges and capabilities thus boasting their morale and drive. These employees also benchmark themselves against outsourced tasks hence deliver whatever services are being required of them in the most efficient way possible, Mintzberg & Quinn, (1991).

It enhances entrepreneurial capacity expansion and economic growth in a country. Although outsourcing can result to job loss in the short run, these jobs can be replaced with newer ones and better paying ones in the long run. Outsourcing creates a spirit of enterprising where entrepreneurs look for opportunities windows to exploit in. This result to more businesses being set up, employment created and hence economic growth. The future holds huge potential for outsourcing of low end as well as high-end knowledge based jobs.

2.4 Disadvantages of outsourcing

In-ability of management to manage supplier performance: Suppliers need to be educated on the organization’s strategies, priorities and standards and how their work influences the final performance of the company outsourcing, Kirui (2001).

Failure to motivate the supplier to consistently perform to required standards. There is need to develop relationships that suit both business. The outsourcing firm needs to
evaluate the following factors when choosing the supplier, i.e. short term or long term tie up, are there others competing suppliers, is it a one off project or not. Then performance targets are set and rewarded accordingly once meet as vendors are also in business and can go elsewhere, Thompson & Strickland (2003).

In house staff has insider information that makes them well acquainted with organizations processes and problem solving. This drives efficiency and interfaces all the areas of the organization and synergies decision-making process. Staff of the vendor may conflict with others in the organization. It is important also to keep secrets of the organization in a competitive world. Outsourced persons may chance such secret and leak it to the outside world and bring the business down, Njehuri (2005).

Limited resources: The outsourced vendor may lack resources to match the current and future needs and challenges of the business. This may make them unable satisfy the growing needs of the business which leads to disagreements and termination of the contract. Ignorance of customer unique needs due to lack of skills, knowledge and inability to focus on what create value to each customer. Ignoring the importance of leverage i.e. access to scarce resources, ability to substitute expensive resources for cheap ones, process expertise and access to capital, Lutta (2003). Outsourcing is becoming popular by the day because of its obvious advantages. Organizations should weigh the available options in selecting the firm to outsource from and what to outsource, otherwise wrong outsourcing can lead to business failure, Njehuri (2005).
2.5 Why outsourcing fails

Most organizations are uncertain on outsourcing hence have difficulties in making decisions on which activities in the value chain they should undertake themselves and which ones to outsource (Johnson & Scholes, 2003). There are great opportunities in some areas but significant risks in others. Thus uncertainty inherent in outsourcing is one of the greatest barriers to outsourcing of accounting services. According to Kirui (2001) 95% of outsourcing cases failed, there are risks of choosing wrong outsourcing vendors and companies should outsource carefully to eliminate them.

According to Samuel (1999), outsourcing relationships fail for many reasons, chief among them are unrealistic expectations; lack of a formal bid process; so called relational contract that assume the vendor will act as a strategic partner but fail to spell out the details; and failing to manage the relationship once the contract has been signed. As outsourcing takes hold as a powerful and strategic business management tool, the contract agreement between parties becomes more important and complex than ever before.

Improper tasks analysis: Problems arise when an organization cannot adequately identify which of their competences are core and which are not. Core competences are those that are rare and unique to the organization against which they derive competitive advantage. E.g. research and development activities that bring about customer driven innovations and continuous improvements which place the organization a head of competitors. It is
important that core competences are owned by the organization and hence under taken internally, Lackow (2000).

Improper interface with other functions thus causing internal conflicts: Where functions are involved in decision-making process, outsourcing makes decision-making process becomes complicated due to suppliers failure to take responsibility of failure. Let the supplier take responsibly of the process and ensure clear accountability boundaries between the buyers and suppliers for measures of success and failures, Samuel (1999).

Buyer’s mistakes: Outsourcing without carrying out adequate research on areas to outsource and various outsourcing vendors available in the market. This enables the outsourcer find the vendor that fits his needs instead of relying too much on executive contact, not the nitty gritty details of the relationships. Like mergers and acquisitions top executives are not enough.

Allowing the suppliers led the process: Outsourcing is two ways, transfer a process and buy the results, do not dictate to the suppliers as they should be the experts and will take the responsibility. External suppliers and consultants do not understand the business well to tailor their advice properly and serve the business strategic needs as required by the business and its environment.

Buyer culture: Old culture syndrome of the buyer i.e. can let go won’t transfer the ownership of the process to someone else. Outsourcing appraisal: Signing a contract for
too long that it becomes outdated. There is need to develop short-term relationships but also maintain a long-term relationship to accommodate natural changes in business cycle and environment. Set and agree on key performance indicators that are reviewed at a specified period of time. Two-way business mentality: Treat the suppliers well as investors and reward them as agreed, expands their business, extend their contracts and market them. This motivates the parties to maintain their relationship, Samuel (1999).

### Population

The population of the study was all the forty-eight companies listed at the Nairobi stock exchange at the 26th December 2005. They were grouped according to different economic activities and exposed to different market environments and global challenges hence are expected to adopt new strategies to increase their value. A descriptive study was conducted because of the relatively small number of firms involved.

#### 3.3 Data Collection Method

Data were collected from all the forty-eight companies listed at Nairobi stock exchange as at 26th December 2005. The research was conducted in the month of May 2006. Primary data was collected using a questionnaire with structured and unstructured questions.
3.1 Research Design

In order to determine the extent, benefits and factors influencing outsourcing of accounting services by companies quoted in the Nairobi Stock exchange, a descriptive survey study was carried out. A descriptive study find out answers to the questions of how, what, who, when and where of a phenomena or a given characteristic of a subject population. Once data is collected and analyzed conclusions are made based on proportions of the population that have these characteristics, Copper & Schindler (2003).

3.2 Population

The population of the study was all the forty-eight companies listed at the Nairobi stock exchange as at 31st October 2005. These companies engage in diverse economic activities, exposed to different business environments and global challenges hence are expected to adopt new strategies to increase shareholders value. A census study was conducted because of the relatively small number of firms involved.

3.3 Data Collection Method

Data was collected from all the forty-eight companies listed in Nairobi stock Exchange as at 31st October 2005. The research was conducted in the month of May 2006. Primary data was collected using a questionnaire with structured and
un structured questions. Close-ended questions were asked to obtain ranking of
quantitative data while open-ended questions were used where participants were asked to
comment or tell about outsourcing. The questionnaire was divided into four
Sections: Section A generated general information; Sections B, C & D addressed the
Research objectives.

A mail questionnaire was sent to the respondent using “drop and pick later” method.
One questionnaire per company was sent to head of Finance department essentially
Finance director or equivalent. They were the target respondents because they are the
ones involved in organization’s Finance strategy development process. Follow up was
done via personal visits, telephone calls or e-mails to facilitate responses and also
enhance the response rate.

3.4 Data Analysis

Feedback from completed questionnaires was the basis of quantitative analysis. Data
collected from the field was edited for completeness and accuracy to ensure that
minimum data quality standards have been achieved. Descriptive methods of data
analysis based on variables covered include frequency tables, percentages, bar graphs
and pie charts. These methods were effectively used in other related studies in the past
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter contains analysis and findings from the study. The analysis and findings presented in this chapter are based on data collected from the respondents. Out of the forty eight firms targeted, thirty four responded giving a response rate of seventy one per cent which according to the researcher was adequate for the study. For the purpose of showing the relationship among various variables, quantitative analysis was done using descriptive statistics such as percentages, bar graphs, pie charts and tables to describe distributions. Cooper and Emory (1998) assert that descriptive study is used to learn the: who, what, when, where and how of a phenomenon which is the focus of this study. The analysis and findings covered thirty-four respondent firms listed at the Nairobi Stock Exchange. The response rate is presented in table 4.1 and figure 4.1 below.

Table 4.1 Response rate

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies which responded</td>
<td>34</td>
<td>71</td>
</tr>
<tr>
<td>Companies which did not respond</td>
<td>14</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>48</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data
4.2 Extent of accounting services outsourced by listed companies

The objective of the research was to determine the extent of accounting services outsourced by quoted companies. Data was captured using a questionnaire with both structured and unstructured questions during the month of May 2006 on whether a firm had outsourced any accounting services between years 2001 to 2005 and also the percentage of outsourcing on a likert scale. Participants were also given an opportunity to indicate the areas of accounting which they had outsourced over that period. The findings of this research objective are presented in the table 4.2 and figure 4.2 below.

Table 4.2 Outsourcing of accounting services 2001–2005

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>2</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Yes</td>
<td>22</td>
<td>65</td>
<td>71</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
<td>29</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data
From the findings above, sixty five per cent of the respondents had outsourced accounting services between year 2001 and 2005 while twenty nine percent had not outsourced. Table 4.3 below shows the extent of outsourcing accounting services by listed firms over the same period.

Table 4.3 Extent of accounting services outsourcing

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-25%</td>
<td>14</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>26-50%</td>
<td>11</td>
<td>32</td>
<td>73</td>
</tr>
<tr>
<td>51-75%</td>
<td>9</td>
<td>27</td>
<td>100</td>
</tr>
<tr>
<td>76-100%</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data

From the findings, forty one per cent of the firms outsourced between 0-25 per cent of their accounting services. Thirty two percent of the firms outsourced between 26-50 per cent and twenty seven percent outsourced 51-75% of their accounting services.

This means there is a growing trend on the extent of accounting services being outsourced by firms listed in the Nairobi Stock Exchange. This finding is in agreement
with those of Hammer & Champy (1993), that outsourcing has been adopted in the world to gain competitive advantage.

A further analysis into the individual accounting tasks outsourced was as follows:

4.2.1 General accounting services outsourced

The study sought to find out how many listed firms outsourced general accounting services or book keeping. The findings are presented in table 4.4 and figure 4.3 below;

Table 4.4 General accounting services outsourced

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>12</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Yes</td>
<td>11</td>
<td>32</td>
<td>68</td>
</tr>
<tr>
<td>No</td>
<td>11</td>
<td>32</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data

Figure 4.3 General accounting services outsourced

As presented in the table and figure above, thirty two percent of the respondent outsourced general accounting services while similar percentage did not. This showed
that outsourcing of general accounting and book keeping services was still being low in firms listed in Nairobi stock exchange, hence many firms have preferred to retain the function in house. This can be attributed to the fact that firms would like to keep their general accounting function in house for control and synergy with other core operational functions.

4.2.2 Financial reporting outsourced

The study sought to find out the number of listed firms that outsourced financial reporting, this included preparation accounts for external publication as required by their regulatory bodies. The findings are shown in table 4.5 and figure 4.4 below;

Table 4.5 Financial reporting outsourced

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No response</td>
<td>12</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Yes</td>
<td>20</td>
<td>59</td>
<td>94</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>6</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data
From the findings, fifty-nine per cent of the firms outsourced financial reporting while six per cent did not. The response of fifty-nine was the highest of the tasks covered by the study which indicates that many firms outsourced financial reporting. This can be attributed to the need for professional expertise to comply with the external reporting disclosures requirements of the listed companies.

4.2.3 Preparation of financial statement outsourced

The study sought to find out the number of listed firms that outsourced preparation of financial statements. The findings are presented in table 4.6 and figure 4.5 below.

Table 4.6 Preparation of financial statements outsourced

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No response</td>
<td>11</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Yes</td>
<td>18</td>
<td>53</td>
<td>85</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
<td>15</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data
From the findings, fifty three per cent of the firms interviewed outsourced preparation of financial statements while fifteen per cent did not. The high outsourcing rate of financial statements preparation by listed companies can be attributed to the need to comply with ever changing accounting guidelines. This might have necessitated the firms to outsource financial statements preparation from professional firms that are always updated with changes in accounting.

4.2.4 Outsourcing tax services

The study sought to find out how many listed companies outsourced taxation services for compliance purposes. The findings are presented in the table 4.7 and figure 4.6 below.

Table 4.7 Outsourcing tax services

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No responses</td>
<td>10</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>Yes</td>
<td>14</td>
<td>41</td>
<td>71</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
<td>29</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data
The study found that forty one per cent of the firms listed at the Nairobi Stock Exchange outsourced taxation services, while twenty nine per cent did not.

The higher percentage of those outsourcing can be due to the need to comply with tax laws to avoid penalties which keeps on changing. This forces the firms to outsource tax services from tax consultants.

4.2.5 Outsourcing import and excise duties

The study sought to find out whether listed firms outsourced processing, payment of import and excise duties and preparation of their returns. The findings are presented in table 4.8 and figure 4.7 below.
Table 4.8 Outsourcing import and excise duties

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>12</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Yes</td>
<td>8</td>
<td>24</td>
<td>59</td>
</tr>
<tr>
<td>No</td>
<td>14</td>
<td>41</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary source

Figure 4.7 Outsourcing import and excise duties.

The study found that only twenty four per cent of the firms outsourced Import and Excise Duties services compared to the forty one per cent who did not outsource. The low level of outsourcing can be attributed to the interface of this task with other operational departments of the organization thus making many firms retain it in house. It can also be due to few listed firms being not involved on large volumes of imports and excisable transactions to justify their outsourcing.
4.2.6 Outsourcing internal auditing

The study sought to establish the number of listed firms that outsourced internal auditing services. Findings on Internal auditing services outsourcing are presented in table 4.9 and figure 4.8 below.

Table 4.9 Outsourcing internal auditing

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>13</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Yes</td>
<td>7</td>
<td>21</td>
<td>59</td>
</tr>
<tr>
<td>No</td>
<td>14</td>
<td>41</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source.

Figure 4.8 Outsourcing of internal auditing

From the findings, only twenty one per cent outsourced while forty one per cent did not. This means that majority of the firms prefer handling their Internal Auditing themselves. This can be due to the sensitive nature of the internal audit whose findings the firms may want to deal with in house as it involves enhancing their internal control systems.
4.2.7 Outsourcing debt collection

The study sought to find out how many listed firms outsourced debt collection i.e. collection of accounts receivables. The findings on debts collection outsourcing is presented in table 4.10 figure 4.9 below.

Table 4.10 Outsourcing debt collection

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>12</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Yes</td>
<td>16</td>
<td>47</td>
<td>82</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>18</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source

Figure 4.9 Outsourcing debt collection

It was found that forty seven per cent of the firms outsourced debt collection while eighteen per cent did not. Increased in house costs of debt collection could have attributed the large number of firms outsourcing debt collection to third parties. The ever changing tactics of debtors delay and sometimes to failure to pay may have made many firms to outsource experts to collect their debts.
4.2.8 Accounts payable outsourced

The study sought to find out how many firms outsourced accounts payable management which includes the day to day processing and payments of payables. The findings are presented in table 4.11 and figure 4.10 below.

Table 4.11 Accounts payable outsourced

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>12</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Yes</td>
<td>19</td>
<td>56</td>
<td>91</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source

The study found that fifty six per cent the firms outsourced accounts payable work while thirty five did not. The routine nature of payables processing could have attribute to this high percentage of outsourcing thus freeing the staff time to concentrate on other core activities.
4.2.8 Accounts payable outsourced

The study sought to find out how many firms outsourced accounts payable management which includes the day to day processing and payments of payables. The findings are presented in table 4.11 and figure 4.10 below.

**Table 4.11 Accounts payable outsourced**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>12</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Yes</td>
<td>19</td>
<td>56</td>
<td>91</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source

**Figure 4.10 Accounts payable outsourced**

The study found that fifty six per cent the firms outsourced accounts payable work while thirty five did not. The routine nature of payables processing could have attribute to this high percentage of outsourcing thus freeing the staff time to concentrate on other core activities.
4.2.9 Outsourcing sales order processing

The study sought to find out the number of listed firms that outsourced sales order processing and customer billing. This included receipt of sales orders, processing it in the accounting systems to produce an account receivable invoice or a cash sale. The findings presented in table 4.12 and figure 4.11 below.

Table 4.12 Outsourcing sales order processing

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>13</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Yes</td>
<td>7</td>
<td>21</td>
<td>59</td>
</tr>
<tr>
<td>No</td>
<td>14</td>
<td>41</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary source

Figure 4.11 Outsourcing sales order processing

Only twenty one per cent of the firms outsourced sales and order processing compared to the forty one per cent who did not, hence sales and order processing are one of the least outsourced accounting service. This can be attributed to the fact that sales forms the source of revenue generation for all organizations and the function concerns interacting
with customers, then many listed firms considers the function core and prefer not to
outsource it.

4.2.10 Cheque writing outsourced

The study sought to find out how many quoted companies outsourced writing of suppliers
cheques for payment of goods and services rendered. The findings on this accounting
task are presented in table 4.13 and figure 4.12 below.

Table 4.13 Cheque writing outsourced

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>14</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>Yes</td>
<td>3</td>
<td>9</td>
<td>50</td>
</tr>
<tr>
<td>No</td>
<td>17</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary source

Figure 4.12 Cheque writing outsourced

Cheque writing is one of the least outsourced accounting tasks. From the study findings
nine per cent of the firms outsourced cheque writing while fifty per cent did not. Hence
many firms choose to write their suppliers cheques in-house. This may be attributed to investment in information technology where firms can purchase computer software with cheque writing facility thus retaining the function in-house.

4.2.11 Plan to increase accounting tasks outsourced

Given the findings above the study further sought to find out whether listed firms where intending to increase their level of accounting services outsourcing. The findings are presented in table 4.14 and figure 4.13 below.

Table 4.14 Plan to increase accounting tasks outsourced

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>11</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Yes</td>
<td>4</td>
<td>12</td>
<td>44</td>
</tr>
<tr>
<td>No</td>
<td>19</td>
<td>56</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source

Figure 4.13 Plan to increase accounting tasks outsourced
On plan to increase accounting tasks outsourced in the future only four listed firms responded yes while nineteen of them no, eleven did not respond. From the findings above, it can be concluded that outsourcing of accounting services is gradually being adopted by firms listed in Nairobi Stock exchange with up to seventy three percent of the respondents outsourcing up to fifty percent of their accounting activities. With the current increasing global trend of outsourcing non core business activities it is expected more listed firms will increase their level of accounting services outsourcing in the long term although reluctant to increase in the short term.

From the findings above on outsourcing of specific accounting services there are tasks still being viewed as sensitive and core to the business which explain the disparities (high and low levels) of outsourcing of accounting services. Financial reporting and preparation of financial statements where the highly outsourced tasks may be due to the regulatory framework within which quoted companies operate within. This made listed firms to outsource the services from professional experts to comply. The services of internal auditing, sales order processing and supplier payments (cheque writing) where the least outsourced. Many listed firms viewed them as sensitive to their business operations and had chosen to retain them in house.

4.3 Benefits arising from outsourcing of accounting services

The aim of this research objective was to establish the benefits which firms derived from outsourcing. Data was captured using a questionnaire and the findings on benefits of outsourcing are presented in tables, graphs and charts below.
4.3.1 Use of expertise of specialist

The study sought to find out whether use of specialist expertise (not available in house) was one of the benefits that made firms outsource accounting services. The findings are presented in table 4.15 and figure 4.14 below.

Table 4.15 Use of expertise of specialist

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>7</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>25</td>
<td>74</td>
<td>94</td>
</tr>
<tr>
<td>Fairly agree</td>
<td>2</td>
<td>6</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source

Table 4.14 Use of expertise of specialist

Eighty per cent of the firms agreed that outsourcing had the benefit of using the expertise of specialist; this then was one of the driving forces of outsourcing. It saved costs of having specialists in house but firms still enjoyed high quality service level. These findings are in agreement with those of Thomson and Strickland (2003) and Njhuri (2005) that outsourcing allows firms to enjoy benefits of specialized expertise with little in house investment.
4.3.2 Outsourcing of non core services

The study sought to find out whether firms outsource services which are core or strategic to their business. The findings are presented in table 4.16 and figure 4.15 below.

**Table 4.16 Outsourcing of non core services**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>6</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Fairly agree</td>
<td>4</td>
<td>12</td>
<td>29</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>12</td>
<td>41</td>
</tr>
<tr>
<td>Disagree</td>
<td>11</td>
<td>32</td>
<td>74</td>
</tr>
<tr>
<td>Fairly disagree</td>
<td>3</td>
<td>9</td>
<td>82</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>6</td>
<td>18</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source

**Figure 4.15 Outsourcing of non core services**

From the study fifty nine per cent of the firms outsourced services which are non core. This gave them ample time to concentrate on their core activities. These findings are in agreement with the views of Johnson and Scholes (2003) that firms outsource to free more time for them to concentrate on core activities.
4.3.3 Outsourcing reduces overhead costs

The study sought to find out whether outsourcing reduced overhead costs. The findings are presented in table 4.17 and figure 4.16 below.

Table 4.17 Outsourcing reduces overhead costs

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>7</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>3</td>
<td>9</td>
<td>29</td>
</tr>
<tr>
<td>Fairly agree</td>
<td>8</td>
<td>24</td>
<td>53</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>12</td>
<td>65</td>
</tr>
<tr>
<td>Disagree</td>
<td>7</td>
<td>21</td>
<td>85</td>
</tr>
<tr>
<td>Fairly disagree</td>
<td>3</td>
<td>9</td>
<td>94</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>6</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source

Figure 4.16 Outsourcing reduces overhead costs

Forty five per cent of the firms agreed that outsourcing reduced overhead costs while thirty six per cent disagreed. These findings support the views of Davis and Tsucalas (2004) that outsourcing reduces overhead. Outsourcing leaves an organization with core staff within a lean structure.
4.3.4 Substitutes for lack of internal Expertise

The study sought to find out whether outsourcing substitutes for lack of internal expertise where outsourced vendors fill the expertise gaps which exist between in house staff and external consultants. The findings are presented in table 4.18 and figure 4.17 below.

**Table 4.18 Lack of internal expertise**

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Responses</td>
<td>6</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>2</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>Fairly agree</td>
<td>11</td>
<td>32</td>
<td>56</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>12</td>
<td>68</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>6</td>
<td>74</td>
</tr>
<tr>
<td>Fairly disagree</td>
<td>6</td>
<td>18</td>
<td>91</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>34</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source

**Figure 4.17 Lack of internal expertise**
Fifty per cent of the firms agreed that they experienced lack of internal expertise and outsourcing allowed the firms to substitute for lack of internal expertise. These findings are in agreement with those of Njehuri (2005).

From the findings above, it is clear that outsourcing brings with it benefits. Some of the most appreciated benefits as the study reveals are; use of expertise of specialists, opportunity to concentrate on the main core activities of the business, reduction of overhead and substitutes for lack of internal expertise.

4.4 Factors that influence outsourcing of accounting services

The aim of this research objective was to find out the factors that influenced outsourcing of accounting services. Data was captured using a questionnaire; the findings of the study are presented in the tables, graphs and charts below.

4.4.1 Difficulty in identifying tasks to outsource

The study sought to find out whether difficulty in identifying tasks to be outsourced was one of the factors that hindered outsourcing. There are core tasks and non core tasks and before making a decision to outsource a categorization is required. The details of the findings are presented in table 4.19 and figure 4.18 below.
Table 4.19 Difficulty in identifying tasks to outsource

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
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<td>21</td>
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</tr>
<tr>
<td>Fairly agree</td>
<td>3</td>
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<td>9</td>
<td>38</td>
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<tr>
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<td>47</td>
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<td>3</td>
<td>9</td>
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</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source

Figure 4.18 Difficulty in identifying tasks to outsource

From the study sixty two percent of the respondents disagreed that there existed difficulties in identifying accounting tasks to outsource. This is supported by the findings that only six firms attested to this fact while twenty one firms disagreed hence firms can easily identify core and non core services to outsource. They can therefore be able to make the decision to outsource non core services and retain in house the core services.
4.4.2 Resistance of staff to change

The study sought to find out whether resistance to change by staff of the outsourcing firm was one of the factors to consider in outsourcing. The details of the findings are presented in Table 4.20 and Figure 4.19 below.

**Table 4.20 Resistance of staff to change**

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>7</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Fairly agree</td>
<td>7</td>
<td>21</td>
<td>41</td>
</tr>
<tr>
<td>Agree</td>
<td>2</td>
<td>6</td>
<td>47</td>
</tr>
<tr>
<td>Disagree</td>
<td>11</td>
<td>32</td>
<td>79</td>
</tr>
<tr>
<td>Fairly disagree</td>
<td>4</td>
<td>12</td>
<td>91</td>
</tr>
<tr>
<td>Strongly disagree</td>
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<td>9</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source

**Figure 4.19 Resistance of staff to change**

Nine firms agreed that staff resistance to change was a factor to consider while eighteen firms disagreed that staff oppose change. From the findings resistance to change is not an important factor in considering whether to outsource.
4.4.3 Difficulty in evaluating outsourcing costs

The study sought to find out whether firms had difficulties in evaluating outsourcing cost.

A firm is required to do a cost and benefits analysis of outsourcing before making a decision to outsource or not. The findings are presented in table 4.21 and figure 4.20 below.

Table 4.21 Difficulty in evaluating outsourcing costs

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
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<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Strongly agree</td>
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</tr>
<tr>
<td>Fairly agree</td>
<td>5</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td>Agree</td>
<td>9</td>
<td>26</td>
<td>62</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>18</td>
<td>79</td>
</tr>
<tr>
<td>Fairly disagree</td>
<td>3</td>
<td>9</td>
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<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary source

Figure 4.20 Difficulty in evaluating outsourcing costs

From the study forty four percent of the firms agreed that there exists difficulty in evaluating the cost of outsourcing while thirty nine percent disagreed. Difficulty in cost
and benefits evaluation is a factor in deciding to outsource. If firms can separate between core and non-core services they should be able to put a cost against each activity, then they can be able to evaluate a cost and benefit analysis of the tasks they seek to outsource.

### 4.4.4 Fear of loss of control on decision making

The study sought to find out whether the fear of loss of control on decision making was a factor to consider in deciding to outsource. The findings are presented in table 4.22 and figure 4.21 below.

**Table 4.22 Fear of loss of control on decision making**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
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<td>12</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>1</td>
<td>3</td>
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</tr>
<tr>
<td>Fairly agree</td>
<td>14</td>
<td>41</td>
<td>56</td>
</tr>
<tr>
<td>Agree</td>
<td>7</td>
<td>21</td>
<td>76</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>15</td>
<td>91</td>
</tr>
<tr>
<td>Fairly disagree</td>
<td>1</td>
<td>3</td>
<td>94</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>6</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source
From the study, sixty five per cent of the firms stated that feared losing control on decision making when they outsource. Hence firms would like to keep the functions in house due to this fear have control on their decision making.

4.4.5 Information leakage from the vendor

The study sought to find out whether leakage of information by the vendors was one of the factors to consider when deciding to outsource. The findings are presented in table 4.23 and figure 4.22 below.

Table 4.23 Information leakage from the vendors

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>4</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>4</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Fairly agree</td>
<td>12</td>
<td>35</td>
<td>59</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>29</td>
<td>88</td>
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<tr>
<td>Disagree</td>
<td>3</td>
<td>9</td>
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</tr>
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<td>3</td>
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</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source
Table 4.22 Information leakage from the vendors

The study revealed that seventy six per cent of the firms believed there was information leakage by the vendors once they outsource. This was a factor influencing outsourcing of accounting services by the firms listed in Nairobi Stock Exchange. It is critical in a competitive business world to safeguard leakage of information.

4.4.6 Increasing reliance on external parties

The study sought to find out whether outsourcing could lead to a firm being over reliance on the external parties. This make the firm fail to build its own internal resource base to drive its goals achievement. Table 4.24 and figure 4.23 below presents the details of these findings.
Table 4.24 Reliance on external parties

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
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</tr>
<tr>
<td>Strongly agree</td>
<td>3</td>
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<tr>
<td>Fairly agree</td>
<td>9</td>
<td>26</td>
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</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>29</td>
<td>79</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>18</td>
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<tr>
<td>Strongly disagree</td>
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<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary source

Figure 4.23 Reliance on external parties

From the study, sixty four per cent of the firms were concerned about getting increasingly reliant on external parties. The attempt to avoid this actually affects outsourcing of accounting tasks by the firms.

From the findings the main factors identified as influencing outsourcing of accounting services where; difficulty in evaluating outsourcing cost, fear of loss of control on decision making after outsourcing, fear of information leakage from vendors and the desire to avoid increasing reliance on vendors. Difficulties in identifying tasks to be
outsourced and resistance to change by staff where not critical factors that influenced their outsourcing decisions.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This chapter contains the methodology, methodology and recommendations from the study. The objectives of this study were to establish the extent of outsourcing of accounting services by firms listed on the Nigerian stock exchange, benefits that arise therefrom outsourcing and the factors that influence when outsourcing. The study established that a total of seventy-three percent of the listed firms have outsourced accounting services between 2001 and 2005. However, the level and extent of outsourcing varied by firm and task. This implies that businesses are now realizing there are benefits of working with third-party specialist service providers to deliver many of their finance and accounting transactions referred to as shared service centers. In line with global trend, specialist service providers, the accounting and finance service outsourcing (based business services) are stepping up locally to fill this gap.

5.2 Conclusion

5.2.1 Extent of outsourcing of accounting services

From the survey, forty-three percent of the firms outsource accounting services between 2001 and 2005. The outsourcing varied from individual task to task. Nearly one fourth of the respondents outsourced only to twenty-five percent of their accounting services while thirty-five percent outsourced twenty-six to fifty percent and twenty percent and twenty percent per cent of the respondents outsource fifty to seventy-five percent, or more.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This chapter contains the summary, conclusion and recommendations from the study.

The objectives of this study were to establish the extent of outsourcing of accounting services by firms listed in the Nairobi stock exchange, benefits that arise from outsourcing and the factors to consider when outsourcing. The study established that a total of seventy-three per cent of the listed firms have outsourced accounting services between 2001 and 2005, however the level and extent of outsourcing varied from task to task. This implies that businesses are now realizing there are benefits of working with third party specialist service providers to deliver many of their finance & accounting transactions referred to as shared business services. In line with global trend, specialist service providers for accounting and finance services outsourcing (shared business services) are coming up locally to fill this gap.

5.2 Conclusion

5.2.1 Extent of outsourcing of accounting services

From the findings, seventy-three per cent of the firms outsourced accounting services between 2001 and 2005 but the outsourcing varied from individual task to task. Forty-one percent of the respondents outsourced zero to twenty-five percent of their accounting services while thirty-two percent outsourced twenty-six to fifty percent and twenty-seven percent of the respondents outsourced fifty-one to seventy-five percent, no firm
outsourced between seventy five to hundred percent. The firms which did not outsource came from across the various segments of listed companies. They included both small and big firms, meaning that whether to outsource or not was a matter of a firm policy and not size of the firm.

The mix of activities outsourced also varied from one business unit to another. On the individual accounting tasks outsourced, financial reporting services was the most outsourced with fifty nine per cent of the firms outsourcing it followed by accounts payable with fifty six per cent. Fifty three per cent of the firms outsourced financial statements preparation while forty seven per cent outsourced debt collection. Forty one per cent outsourced tax services and thirty two per cent general accounting services or book keeping. Twenty four per cent outsourced import and excise duties while twenty one per cent of the firms outsourced internal auditing and sales order processing. The least outsourced task was cheque writing with only nine per cent of the firms doing it.

From the study firms continue to manage their policy areas such as sales order processing which touches on their customer service delivery and relationship in house. Tasks involving external regulatory bodies such as import and export duties transactions plus tax accounting activities are largely kept under their internal management and control. Internal sensitive areas of cheque writing and internal audit are also least outsourced. Services of financial reporting and financial statements preparation require specialist expertise due to strict regulatory requirements then highly outsourced. Debts
and accounts payables are routine, voluminous and costly to handle in house, hence third party specialist service providers can provide then at a lower cost.

5.2.2 Benefits from outsourcing of accounting services

The study revealed a number of benefits in outsourcing accounting services. Some of the most appreciated benefits are; use expertise of specialists, outsourcing service vendors provide specialist centers of excellence that use proven best practice, shared technology and standard business processes thus delivering improved services and efficiencies. This was agreed by seventy four percent of the respondents.

Seventy one percent of the respondents agreed that outsourced services are neither core or strategic. When non core tasks are outsourced it gives the firm an opportunity to concentrate on the main core functions of the business; outsourcing of non core business activities enables the business to invest in and focus on the growth of its brands. This improves the quality of goods and services delivered to the business customers, suppliers and key other stakeholders.

Forty five percent of the respondents agreed that outsourcing reduces overhead costs while thirty six per cent disagreed. Service providers have built up capabilities with large pool of people who have functional skills which they can offer at competitive costs. Fifty percent of the respondents agreed that outsourcing is a good alternative to tap expertise lacking internally at reasonable cost. With their expertise, the vendors can enable a business achieve the benefits of global shared business services more quickly and cost-
effectively than it can on its own. However firms must be confident and fully understand the potential risks as well as the benefits of outsourcing and how to achieve those benefits, an evaluation of costs and benefits analysis of the tasks to outsource is critical.

5.2.3 Factors influencing outsourcing activities

Among other factors, the main factors identified from the study as influencing outsourcing of accounting services are; sixty two percent agreed it was easy to identify tasks to be outsourced by the outsourcing firm. It is important for the firm to undertake a value analysis and should identify the transactional processes to handover to a third party service provider and the ones to retain in house. This approach is known as ‘right sourcing’ because it consist use of a mixture of ‘in sourcing’ (where internal resources deliver a service in-house of core activities) and ‘outsourcing’ (where specialist external resources take on delivery of some non core selected services).

Resistance to change by staff; Twenty seven percent of the respondents agreed that resistance to change by staff was a barrier to outsourcing while fifty three percent disagreed. Outsourcing brings jobs redundancies and structural changes in an organization which affects staff hence could be resisted, however this is not a factor for listed companies. Transition to outsource should start with developing more detailed plans including what timing makes best sense for individuals and discussing these plans with colleagues to avoid resistance. During any transition, a firm is required to spend a significant amount of time in planning, training and testing so that staff does not resist the change.
Difficulty in evaluating outsourcing cost; forty four percent of the staff agreed that cost evaluation on whether to outsource or not was difficult while thirty nine percent did not feel so. The benefits of outsourcing need to be evaluated before a firm adopts this approach. If the benefits are significant then the change is required and vice versa.

Fear of loss of control on decision making as a result of outsourcing; sixty five percent of the respondents agreed that fear of loss in control of decision making was one of the factors to consider in outsourcing. The whole approach to outsourcing is defined by the business’ own commercial strategy, policies and standards. There is need to define responsibility and accountability levels using a service level agreement in an outsourcing contract which has clear cut boundaries. Firms should therefore not fear the loss on control of decision making.

Fear of information leakage from vendors and the desire to avoid increasing reliance on vendors were also agreed by seventy six and sixty four percent of the respondents respectively as factors that they considered in making outsourcing decisions. An outsourcing arrangement is a business contract like any other. While there is need to safeguard secrets of an organization in a competitive business world there is a limit to which a business can do this else it risk becoming a closed system. In order to implement outsourcing, firms need to partner with specialist service providers who uphold business morals, codes of conduct and ethics as outlined in the contract. The vendor firms can also have service teams dedicated exclusively to the outsourcing partner thus safeguarding their exposure.
5.3 Recommendations

From the study, we recommend that firms should increase outsourcing of accounting services from experts who can do them more efficiently and cost effectively. This will help firms reduce overheads and also have more time to concentrate on their core business activities that gives them competitive advantage. Forming Partnership with reputable outsourcing vendor which use proven best practice enables a business to enjoy the advantages of shared modern technology and achieve best practice transactional processes standards. This reduces duplication of costs and because the service teams are specialists in their activities they can deliver better quality services more quickly to business colleagues, customers and suppliers and other key stake holders.

However while outsourcing, firms should take into consideration the quality of service provided by the vendor, costs and also the vendors ability to safeguard confidential information which they access by virtue doing their work.

By creating a more consistent and flexible back-office accounting infrastructure using outsourcing, businesses can be able to adapt to future initiatives, environmental changes and new systems more quickly. It also provides them with greater visibility and control of the business processes, making it easier for them to meet their compliance obligations such as Sarbanes Oxley and goods corporate governance.

In the modern world of e-business there is need for creating a network of shared service centers around the globe supported by a strong reliable information technology
infrastructure. This will enable businesses across the world to outsource and manage their finance & accounting processes at lower transaction costs. The benefits of this approach can be significant with vendors having teams dedicated exclusively to the outsourcing firms which are designed and branded to make them feel like they are an extension of the outsourcing company.

**Recommendation for future studies**

This study covered or targeted outsourcing firms it did not establish where the firms outsourced their services and the benefits that accrued to the vendors from outsourcing of accounting services. A similar study should be done to establish the future of accounting services providers from the vendor point of view. This study covered only firms listed in Nairobi stock exchange; a similar study should be carried out on non-quoted companies to determine how outsourcing of accounting services can be used to benefit them through improved efficiency and reduced cost.
REFERENCES


Large, J. (1999) "Outsourcing a new way to do business". Corporate Guide to Technology in Treasury Management


Nairobi Stock Exchange Hand Book, March 1995


PricewaterhouseCoppers 2005 salary survey


I am a postgraduate student at the University of Nairobi, pursuing a course leading to a Masters degree in Business Administration (MBA). In partial fulfillment of the requirements of the stated course, I am conducting a Management Research Project entitled: “Survey of Outsourcing of accounting services in firms listed in the Nairobi stock exchange”. Outsourcing is hereby defined as use of outside resources (other organizations) to perform activities that traditionally have been handled by internal staff.

To achieve this, your organization is one of those selected for the study. I kindly request you to fill the attached questionnaire to generate data required for this study.

This information will be used purely for academic purpose and your name will not be mentioned in the report. Findings of the study, shall upon request, be availed to you.

Your assistance and cooperation will be highly appreciated.

Yours truly,

Mr. W. W. Kihara

Supervisor

S. J. Maelo

Student
APPENDICES

Appendix 1: LETTER OF INTRODUCTION

LETTER OF INTRODUCTION

March 2006

Dear Respondent,

REF: REQUEST FOR RESEARCH DATA

I am a postgraduate student at the University of Nairobi, pursuing a course leading to a Masters degree in Business Administration (MBA). In a partial fulfillment of the requirements of the stated course, I am conducting a Management Research Project entitled, "Survey of Outsourcing of accounting services in firms listed in the Nairobi stock exchange". Outsourcing is hereby defined as use of outside resources (other organizations) to perform activities that traditionally have been handled by internal staff.

To achieve this, your organization is one of those selected for the study. I kindly request you to fill the attached questionnaire to generate data required for this study. This information will be used purely for academic purpose and your name will not be mentioned in the report. Findings of the study, shall upon request, be availed to you.

Your assistance and cooperation will be highly appreciated.

Yours truly

Mr. W. W. Kamau

STUDENT

Mr. J. Maalu

SUPERVISOR
Appendix 2: QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

Tick where appropriate {✓}

1) Name of the company ..................................

2) Under which of the following categories does your company belong

(a) Agriculture [  ]
(b) Industrial and allied [  ]
(c) Finances and Investment [  ]
(d) Commercial and services [  ]
(e) Alternative Investment segment [  ]

3) Respondent’s number of years in the accounting profession

(a) 0-5 years [  ]
(b) 6-10 years [  ]
(c) 11-15 years [  ]
(d) 16-20 years [  ]
(e) Over 20 years [  ]
4) How long have you been with this firm

(a) 0-5 years [ ]
(b) 6-10 years [ ]
(c) 11-15 years [ ]
(d) 16-20 years [ ]
(e) Over 20 years [ ]

5) Please tick one of the following statements that best describe your company’s annual turnover in Kshs.

(a) Up to 500 million [ ]
(b) 501 Million to 1000 Million [ ]
(c) 1001 Million to 5000 Million [ ]
(d) 5001 Million to 10000 Million [ ]
(e) 10001 Million to 25000 Million [ ]
(f) Over 25 billion [ ]

6) Indicate the percentage of staff employed in each Finance sub functions below

(a) Accounting (general ledger) [ ]
(b) Accounts Preparation & reporting [ ]
(c) Strategy & planning [ ]
(d) Information Technology [ ]
(e) Any other [ ]
(f) Total 100 %
7) What percentage of the finance department costs arise from accounting function.
   (a) 1% - 20% [  ]
   (b) 21% - 40% [  ]
   (c) 41% - 60% [  ]
   (d) 61% - 80% [  ]
   (e) Above 81% [  ]

SECTION B: EXTENT OF ACCOUNTING SERVICES OUTSOURCED

1) In the last five years i.e. between 2001 and 2005, has your company outsourced any accounting services? Yes [  ] No [  ]

2) Kindly rank the extent of agreement with the following statements.

Key: strongly Agree SA
     Fairly Agree FA
     Agree A
     Fairly Disagree FD
     Strongly Disagree SD

\[ \begin{array}{cccccc}
SA & FA & A & FD & FD & SD \\
\end{array} \]

a) The firm is not aware of what is outsourcing [  ] [  ] [  ] [  ] [  ] [  ]

b) The firm is not aware of potential benefits of Outsourcing [  ] [  ] [  ] [  ] [  ] [  ]

c) Outsourcing is expensive (financial costs) [  ] [  ] [  ] [  ] [  ] [  ]

d) The firm finds outsourcing not necessary [  ] [  ] [  ] [  ] [  ] [  ]
e) There is no suitable vendor in the market [ ] [ ] [ ] [ ] [ ] [ ]

f) Volume of financial transactions is not very high [ ] [ ] [ ] [ ] [ ] [ ]

g) All accounting activities are considered strategic [ ] [ ] [ ] [ ] [ ] [ ]

3) For firms that practice outsourcing of accounting services activities.

Kindly tick when you first outsourced.

a) Before in 2001 [ ]

b) Before in 2002 [ ]

c) Before in 2003 [ ]

d) Before in 2004 [ ]

e) Before in 2005 [ ]

4) For the last five years (2001 to 2005), tick accounting services you have outsourced or currently outsourcing.

<table>
<thead>
<tr>
<th>Services</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) General accounting (book keeping)</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>b) Financial reporting</td>
<td>[ ]</td>
<td>[ ]</td>
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<tr>
<td>c) Preparation of Financial Statement</td>
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<td>[ ]</td>
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<td>d) Tax compliance (VAT, Corporate tax etc)</td>
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<td>e) Import and excise duties etc</td>
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<tr>
<td>f) Internal Auditing</td>
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<td>[ ]</td>
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<td>g) Debt collection</td>
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<td>h) Accounts payables Mgt.</td>
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<td>[ ]</td>
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<tr>
<td>i) Sales order processing / Customer billing</td>
<td>[ ]</td>
<td>[ ]</td>
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</tbody>
</table>
j) Cheque writing / cash (payments)

k) Other accounting services - specify
1. .................................................................
2. .................................................................

5) Given the annual turnover of transactions in the activity (es) outsourced, to what extent would you rate your level of outsourcing in accounting services currently.
   a) 0% to 25% [ ]
   b) 26% to 50% [ ]
   c) 51% to 75% [ ]
   d) 76% to 100% [ ]

6) Are you planning to increase the level of accounting tasks outsourced in the future?
   YES [ ]
   NO [ ]

SECTION C: BENEFITS OF OUTSOURCING

1) To what extent do you agree with the following statements as reasons why your company has outsourced some services?

   Key: Strongly Agree SA
         Fairly Agree FA
         Agree A
         Disagree D
         Fairly Disagree FD
         Strongly Disagree SD
SECTION D: FACTORS TO CONSIDER IN OUTSOURCING

1) In making the decision to outsource, to what extent do you agree with the following?

Key: As in section C above.

SA FA A D FD SD

a) Identification of financial services to outsource was difficult
[ ] [ ] [ ] [ ] [ ] [ ] [ ]

b) Staff was resistant to have a change
[ ] [ ] [ ] [ ] [ ] [ ] [ ]

c) Cost evaluation on whether to outsource or not was difficult
[ ] [ ] [ ] [ ] [ ] [ ] [ ]

d) Selection of outsourcing vendor was easy.
[ ] [ ] [ ] [ ] [ ] [ ] [ ]

e) Drawing contract with vendor was easy.
[ ] [ ] [ ] [ ] [ ] [ ] [ ]
2) How were the providers selected?

a) Competitive bid [ ]
b) Selective selection [ ]
c) Other methods (specify)

• ........................................................................
• ........................................................................

3) To what extent do you agree with each of the following as risks of outsourcing?

Key: As in question (1) above

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<tr>
<th>SA</th>
<th>FA</th>
<th>A</th>
<th>D</th>
<th>FD</th>
<th>SD</th>
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a) There is loss of control on the decision making process [ ] [ ] [ ] [ ] [ ] [ ] [ ]
b) There is loss of command on the outsourced service [ ] [ ] [ ] [ ] [ ] [ ]
c) Information leakage occurs from the vendor [ ] [ ] [ ] [ ] [ ] [ ]
d) There is growth of over reliance on external parties [ ] [ ] [ ] [ ] [ ] [ ]
4) Rate the importance of each of the following attributes in selection of outsourcing vendor

Key: Very important VI
Fairly Important FI
Important I
Not Important NI

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<th></th>
<th>VI</th>
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<tr>
<td>a) Financial soundness</td>
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<td>b) Duration which vendor has been in occupation</td>
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<td>c) Internal skills the vendor possess</td>
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<td>d) Size of vendor’s firm (based on No. of staff)</td>
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<td>e) Vendor performs business related with outsourced</td>
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<td>f) Performances of past consultation</td>
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<td>g) Commitment to quality</td>
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<td>h) Flexible contract terms</td>
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<tr>
<td>i) Financial costs charge</td>
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<td>j) Presence of other clients seeking similar services.</td>
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<td>k) Other important attributes specify.</td>
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THANK YOU FOR YOUR TIME AND CO-OPERATION