

## Outsourcing accounting services and accountability: evidence from small and medium scale enterprises in Osogbo, Osun State, Nigeria

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### Abstract

**Purpose:** This study investigated the influence of accounting activities outsourcing on accountability in small and medium-scale enterprises (SMEs) in Osogbo, Osun State, Nigeria.

**Methodology:** The survey research design was employed for the study, with the population of the study consisting of 120 registered small and medium-scale enterprises (SMEs) operating in Osogbo. The convenience sampling technique is adopted by selecting 100 respondents from the SMEs to make up the sample size of the study. Data for the study was collected using questionnaires. The study adopted correlation and regression analysis to examine the relationship and effect of the explanatory variables on the dependent variables.

**Results and conclusion:** The study found that accounting activities outsourcing has a positive significant effect on transparency while it has a negative effect on the relevance of financial activities. Also, accounting activities outsourcing has a non-significant effect on accountability. The study therefore recommends that SMEs should engage professional accounting services to improve transparency, ensure outsourced accounting functions are properly monitored to maintain relevance, and complement outsourcing with internal controls to enhance overall accountability.

**Implication of findings:** The implication of this study is that outsourcing accounting activities can improve transparency in SMEs but may reduce the relevance of financial information if not properly managed. It also suggests that outsourcing alone does not guarantee accountability without adequate supervision. SMEs should therefore manage outsourced accounting functions strategically to enhance transparency, relevance, and accountability.

**Keywords:** Accountability, Transparency, Relevance, Small and medium-scale enterprises.

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### 1. Introduction

Accounting outsourcing is a strategy that has gained great significance among Small and Medium-Scale Enterprises (SMEs) that target enhancing financial management and accountability in the organisation. This is an activity of outsourcing professionals who undertake important accounting processes including bookkeeping, tax preparation, internal audit and financial reporting so that SMEs are left to concentrate on the core business processes. Studies such as Adekoya & Ojediran (2024), Akosile & Oladele (2023), Mohammed & Adamu (2020) in Nigeria have indicated that accounting functions of outsourcing could be associated with a significant improvement in the quality of financial reporting because professionally administered accounting services were found to be more precise, timely, and adhered to reporting standards than non-expert management (Adekoya & Ojediran, 2024; Mohammed & Adamu, 2020). The potential to support the financial controls, which are resource limitations and the lack of internal skills in the SMEs of the Osun State, is the opportunity that outsourcing presents to the entity, which is the ability to guarantee the presence of accurate accounting records and increase the trustworthiness of the stakeholders towards financial reporting. Nevertheless, the available empirical evidence indicates that the degree to which outsourcing affects accountability is reliant upon the nature of the outsourced services, the characteristics of the firm, as well as the skills of external providers (Adekoya & Ojediran, 2024; Mohammed & Adamu, 2020). Accountability of accounting activities outsourcing on accountability among Osun State SMEs is important in terms of its implications on financial transparency, governance, and sustainable business performance.

Performance of any organisation would depend critically on ability to carry out a set of activities that results in the delivery of a valuable products or services to the populace. "This could contribute to the survival, growth, and prosperity of the firm (McIvor, 2008). Akosile and Oladele (2023) note that the impact of accounting records on the performance of business organizations has continued to attract significant research and practical attention in accounting, particularly in improving financial management and decision-making among Small and Medium-Scale Enterprises (SMEs). 60% of Small and Medium-Scale Enterprises (SMEs) businesses either rely on unqualified accountants or bookkeepers to record their financial transactions, or they prepare their accounting records based on personal judgment rather than proper accounting practices. Outsourcing therefore gains more relevance in modern business environment where competition is the order of the day. Businesses currently outsource non-core activities of their operations. Majority of these operations are crucial, while others are of lesser importance but, not minding how crucial or important they are, they all contribute immensely to the operation of the enterprise. Greece and many other firms across Europe, opt for outsourcing of their non-core operations to external vendors (Banerjee & Williams, 2009). In recent years such as 2012 to 2025, outsourcing of operations in sectors that could provide a competitive advantage to small, medium and larger enterprises is a completely new method that has emerged. This development has led to the development of information and communication technologies which central role is to increase activity rate within a competitive environment. (Kang, 2009).

Accountability is an organisational governance structure that makes businesses document, report, and defend their financial operations to the stakeholders, including the owners, creditors and control bodies (Adekoya & Ojediran, 2024). For Small and Medium-Scale Enterprises (SMEs), accountability is crucial because these businesses often handle significant resources and are more vulnerable to financial risks due to weak internal controls and informal record-keeping systems. Appropriate accounting systems promote transparency, limit fraud, and promote plausible decision-making-end results, which are vital to organisational sustainability and trust by stakeholders (Akosile & Oladele, 2023). In this regard, the outsourcing of accounting services has become one of the strategies to improve accountability in SMEs (Mohammed & Adamu, 2020). Accounting outsourcing refers to the practice of outsourcing financial services, whereby a third-party professional takes care of the following financial management services: bookkeeping, financial reporting, tax preparation and internal audits (Akosile & Oladele, 2023). Empirical studies indicate that outsourcing accounting operations can improve financial reporting quality, as professionally managed accounts are generally more accurate, timely, and compliant with regulations compared to non-professional records (Adekoya & Ojediran, 2024). Also, outsourcing decreases the pressure on the SMEs to sustain in-house skills and enables them to use scarce resources in the core business activities and the strategic planning (Mohammed & Adamu, 2020). Improved financial reporting quality, in its turn, is linked to the increase in accountability, since clear records enable the stakeholders to bring managers to account in terms of financial performance and compliance.

Nevertheless, even though the advantages of outsourcing accounting functions in terms of performance and quality of reporting have been proven, there is still a gap in the literature on the particular impacts of the practices on SME accountability in the Osun State. Although studies in Nigeria, such as Adekoya and Ojediran (2024) in Lagos State, found that outsourcing improves financial reporting quality, and research on broader SME populations has shown a positive link between outsourcing and business efficiency (Mohammed & Adamu, 2020), little is known about the impact of accounting outsourcing on accountability mechanisms in SMEs in Osun State. This gap motivated the present study, which examines the effect of accounting activities outsourcing on SME accountability in Osun State, providing context-specific evidence to guide managers, policymakers, and professional service providers toward improved financial governance and business

sustainability. This study will be of great significance to SMEs, stakeholders, firm and accounting practitioners in Nigeria. This study is significant to stakeholders as it shows how outsourcing accounting activities can improve transparency and accountability in SMEs. Investors and business partners can rely on more accurate financial reports, SME owners can enhance governance and decision-making, and accounting practitioners can better tailor their services to support SME performance. The objective of this study is to examine the effect of accounting outsourcing activities on accountability (transparency and relevance) of SMEs in Osun State, Nigeria.

## 2. Literature review

Accounting plays a key role in the success of SMEs, helping business owners keep track of finances and make better decisions. Many studies have looked at how outsourcing accounting tasks can improve financial reporting and efficiency, but little is known about how it affects accountability in SMEs, especially in Osun State. This literature review explores previous research to understand how outsourcing accounting activities can influence accountability in small and medium-sized businesses.

### *Concept of outsourcing*

Outsourcing is a practice in which businesses of production of goods or rendering services are contracted out to a third party. It focuses on contracting those aspects of business where the organization involves does not have the required expertise to another entity with such expertise and focuses on only those areas with necessary expertise. In the past, many businesses handled all activities internally. However, where internal operations are expensive, outsourcing serves as a cost-saving strategy that enhances competitiveness and promotes survival in the modern business environment (Anderson & McKenzie, 2022). There are many services that an organization may outsource which may vary from marketing, facilities management, accounting, computer aided design, human resource management and to legal documentation to mention a few (Dorasamy et al., 2010).

Additionally, studies in various contexts have linked accounting outsourcing to enhanced organizational performance and cost efficiency, with tax service outsourcing associated with improved profitability in SMEs (Rezazade et al., 2023). Scholars also examined the factors influencing outsourcing decisions, such as transaction costs, firm strategy, and trust in external accountants, highlighting the theoretical grounding of outsourcing within transaction cost and resource-based views (Kamyabi & Devi, 2025).

### *Concept of accountability of SMEs*

Accounting is “the language of business” whose role in recording and reporting accounting processes related to business transactions cannot be over emphasized. It is a useful tool for making business decisions and assessment of performance of an enterprise. (Kurniawati et al., 2013). Small and Medium scale Business Accountability entails the responsibility of managers in business enterprises to keep precise, transparent, and dependable financial statements and to explain to the stakeholders such as owners, investors, creditors, and governmental bodies the basis of financial decisions. Well-developed accountability systems guarantee financial discipline, mitigate the chances of fraud, increase managerial performance appraisal and increase the confidence of the stakeholders in the financial disclosures. Nevertheless, accountability is one of the issues faced by many SMEs because of a lack of financial knowledge, informal accounting policies, and poor internal controls of financial information, which prevent them from making timely and accurate financial reports (Rezazade et al., 2023). In the absence of sound accountability systems, SMEs may experience bad governance, mismanagement of funds, as well as inability to access external finance which has a negative impact on their growth and sustainability. Accountability can be improved with good accounting practices and reporting structures that will make sure that SMEs do not operate in a way that does not match the accounting standards and expectations of the stakeholders.

### ***Accounting outsourcing and SMEs accountability***

The relationship between accounting outsourcing and accountability in SMEs is theoretically based on the concept that outsourcing has the ability of enhancing the quality, accuracy, and reliability of financial information; which are main constituents of accountability. By outsourcing to qualified professionals, the records may be kept better, standards may be met and timely financial reports may be prepared, all of which will lessen the information asymmetry and improve the confidence of the stakeholders. Empirical studies involving the Nigerian SMEs have shown that outsourcing accounting services that include bookkeeping and internal audit are also effective in terms of financial reporting (Adekoya & Ojediran, 2024) which in turn, implies accountability since the stakeholders are provided with reliable financial information. On the same note, the existing body of research related to accounting outsourcing such as the study of Adekoya and Ojediran (2024), Akosile and Oladele (2023), Nguyen et al. (2024) also demonstrated that outsourced accounting services are more cost-effective and more profitable, which indicates more significant organisational gains (Rezazade et al., 2023).

### ***Theoretical framework***

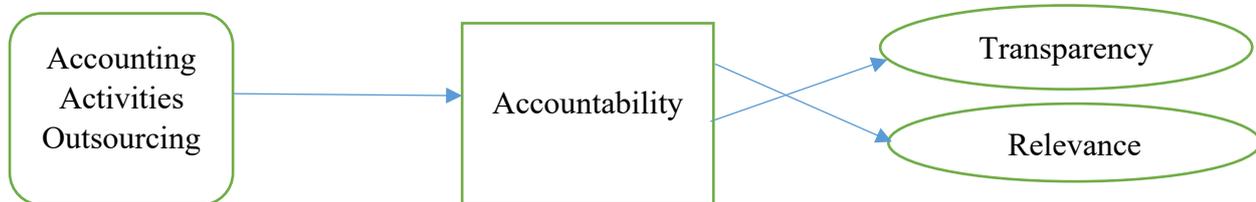
The theoretical framework provides the foundation for understanding the relationship between accounting activities outsourcing and accountability in SMEs. It explains the key theories that guide the study and helps interpret how outsourcing practices can influence financial transparency, relevance, and governance. By grounding the research in established theories, the study gains a structured approach to analyzing and explaining the observed outcomes.

**Transaction - cost theory:** Transaction Cost Theory (TCT), originally developed by Coase (1937) and later expanded by Williamson (1985), provides a useful theoretical lens for explaining firms' decisions to outsource accounting activities. The theory posits that organisations seek to minimize the total costs associated with economic transactions, including not only production costs but also transaction costs such as coordination, monitoring, negotiation, and enforcement costs. This theory considers the cost of outsourcing a product or services (cost factors) in the organization. Its concentration is on whether the outsourcing strategies of the product or services result in cost benefits to the organization. This theory, therefore, is about cost savings which is the most valued driver of outsourcing emphasized in this theory. (Wang et al., 2008). This therefore has made differences in wage levels in different countries to leverage on the expenses of the enterprise. The organization in turn benefits from the expertise available across the globe to cut down the cost of production of goods or services by outsourcing areas where expertise cost could be too much for them to bear. Many companies across the globe have used this theory to outsource some of their operations to other countries. Overall, Transaction Cost Theory offers a robust theoretical foundation for exploring the influence of accounting activities outsourcing on accountability in SMEs by highlighting how cost minimization, governance choices, and transaction characteristics drive outsourcing decisions and determine organisational outcomes.

**Relational theory:** Organizations have come to understand that the success of any outsourcing lies in the satisfaction of both client-vendor relationships in relational theory. By implication, there should be clear understanding between both vendee and vendor on the terms of their contracts (Webb & Laborde, 2005). Creating a synergy between client and vendor promotes a mutual relationship that will last longer and give room for a sound contractual agreement that is properly documented and devoid of areas where there could be conflicts when contracts are entered into by parties. (Friedman & Giber, 2007). This goes a long way to strengthening the relationship between both while a number of success stories will follow. However, magnitudes of astonishing numbers of contract failure are still being recorded in the recent past despite relation theory success stories about outsourcing.

The above are the relevant outsourcing theories, however, none of these theories clearly addressed accounting activities outsourcing from the point of view of accountability, in light of this, the study uses the following hypothetical illustration to support the relevant theories and provide the foundation for the research.

### Conceptual framework



**Source:** Author's Conceptualization (2026).

Accounting activities outsourcing relates to contracting out of activities such as payroll administration, source document updating, account preparation and the likes to a third party who manages them for optimum performance on behalf of an organization. Accountability involves being responsible and accountable for the integrity and accuracy of any financial transaction or financial statement. Transparency in accounting means offering a clear, concise and balanced view of accounting activities in an organization while relevance in accountability activities outsourcing talked about information usage to reach an informed decision by an entity on its accounting system.

### Empirical review

Nguyen et al. (2024) investigated the intensity of accounting outsourcing in Vietnam, using a survey design with 236 questionnaires analyzed through regression analysis. The study found that higher outsourcing intensity positively influenced the frequency of accounting tasks, technology competence, and trust in asset specificity. While this study provides useful evidence on the operational benefits of outsourcing, its focus is limited to task frequency and technology adoption, without directly examining accountability or broader governance outcomes. Moreover, although the sample size is relatively robust, the study is context-specific to Vietnam, which may limit the applicability of its findings to SMEs in different regulatory and cultural environments, such as those in Nigeria. This highlights a research gap that the current study seeks to fill by exploring how accounting outsourcing affects accountability mechanisms in SMEs within Osun State, offering context-specific insights for managers and policymakers.

Akosile and Oladele (2023) investigated the influence of accounting records on the performance of selected SMEs in Osun State, Nigeria, using a descriptive research design. Out of 146 SMEs sampled, only 10 questionnaires were returned, and the data were analyzed using descriptive and inferential statistics. The study reported that accounting records positively affected the profitability of SMEs. However, the extremely low response rate raises concerns about the reliability and generalizability of the findings. Additionally, the study focused solely on profitability as the performance measure, without examining other critical aspects of accountability or governance. This limitation highlights the need for further research that explores how accounting practices, including outsourcing, impact accountability and transparency in SMEs, particularly within the Nigerian context.

Yekimov et al. (2021) examined the influence of accounting outsourcing in agricultural firms in Ukraine, finding that most small enterprises, particularly farms, rely on simplified accounting systems. While these systems facilitate tax compliance, they often limit effective control over production costs. The study highlighted that outsourcing accounting functions allows small agricultural firms to access professional expertise at lower cost, improve cost management, and

enhance overall accounting efficiency. Although insightful, the study is sector-specific and focused on cost control rather than broader governance or accountability mechanisms. This underscores a gap in understanding how accounting outsourcing impacts accountability in SMEs across different sectors and regulatory contexts, such as Nigerian SMEs, which the present study seeks to address.

Yekimov et al. (2021) examined accounting outsourcing in agricultural firms in Ukraine and found that most small enterprises, especially farms, rely on simplified accounting systems. While these systems ease tax compliance, they limit effective control over production costs. The study showed that outsourcing enables small firms to access professional expertise at lower cost, improve cost management, and enhance overall accounting efficiency. However, the research is sector-specific and emphasizes cost control rather than broader governance or accountability outcomes. This highlights a gap in understanding how accounting outsourcing affects accountability in SMEs across different sectors and regulatory environments, such as those in Nigeria, which the present study aims to address.

Mohammed, Abebe, and Wondim (2019) examined the impact of outsourcing on university community satisfaction in selected Ethiopian universities, using both primary and secondary data from students, teachers, and support staff across four institutions. The study found that outsourcing led to improved service quality and timeliness, reduced administrative burden, better resource management, lower operational and recruitment costs, and fewer staff complaints. Additionally, outsourced universities reported higher satisfaction levels among students, teachers, and support staff compared to non-outsourced institutions. While the findings highlight the operational benefits of outsourcing, the study focuses on satisfaction and service delivery rather than accountability or governance outcomes. Furthermore, its context is limited to universities in Ethiopia, which may reduce applicability to SMEs in Nigeria. This underscores the need for research that examines how outsourcing accounting activities affects accountability in SMEs, the focus of the present study.

Guistiniano and Clarioni (2013) examined the impact of outsourcing on business performance through an empirical analysis of existing literature. Their findings suggested that outsourcing allows firms to access skilled resources quickly and invest them efficiently in the value chain. They also observed that increased spending on outsourcing can support employment growth and emphasized that outsourcing is not merely a cost-reduction strategy but a growth-oriented corporate approach. However, the study is largely theoretical and based on secondary literature, lacking primary data or sector-specific analysis. Moreover, it does not address accountability or governance mechanisms in SMEs, limiting its direct applicability to the context of small and medium-sized enterprises in Nigeria. This gap reinforces the need for the present study, which investigates the effect of accounting outsourcing on accountability in SMEs.

### **3. Methodology**

This research study was carried out in Osogbo, Osun State, Nigeria. Though Osogbo is regarded as a civil service state, the major occupation is farming, trading and artisan. There exist quite a number of SMEs that engage in livestock feeds and production, aquaculture production, paint production etc. This study made use of a multi-stage random sampling technique in selecting the respondents for the study from selected small and medium scale enterprises who engage in the various production activities within the Osogbo metropolis. Multi-stage random sampling was used to ensure a representative selection of respondents from the diverse SMEs in Osogbo. SMEs were first grouped by sector, and then respondents were randomly selected within each group, reducing bias and improving the reliability and generalizability of the findings. Primary data with structured questionnaires administered to 100 randomly selected respondents were used from the total population of 120 registered SMEs businesses. The data estimation techniques used for this study are correlation and regression analysis.

#### 4. Results and discussion

Reliability and normality tests were conducted to ensure the accuracy of the data prior to analyzing the effect of accounting activities on financial statement transparency and relevance.

**Table 1**

*Descriptive, correlation and reliability analysis*

Construct	Mean	SD	Cronbach's Alpha	1	2	3
1 Accounting Activities Outsourcing	4.36	.51	.646	1		
2 Transparency	4.04	.04	.726	.579**	1	
3 Relevance	2.79	.70	.653	(.244*)	(.252*)	1

Source: Author's computation (2026)

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Table 1 indicates that respondents rated Accounting Activities Outsourcing the highest, with a mean of 4.36 and a standard deviation of 0.51, suggesting strong agreement and relatively low variability in responses. Transparency also has a high mean value, with a mean of 4.04 and a very low standard deviation of 0.04, indicating consistent responses among participants. In contrast, Relevance has lower mean value, with a mean of 2.79 and a higher standard deviation of 0.70, showing more variability in opinions and comparatively weaker agreement among respondents. Also, the reliability test was presented in Table 1. In behavioral sciences, reliability tests with Cronbach's Alpha not less than 0.60 are considered enough for the study. It can be concluded from the test that the data are reliable with all the Cronbach's Alpha higher than the standard.

Table 1 also presents the Pearson correlation test conducted. It shows that Accounting Activities Outsourcing has a significant correlation with Transparency financial information. While non-significant correlation exists between Accounting Activities Outsourcing and Relevance, this test enables us to know the direction of the relationship between the dependent and independent variables of the study.

#### *Normality test*

**Table 2**

*Normality test*

Construct	Skewness	Kurtosis
1 Accounting Activities Outsourcing	-.660	-.083
2 Transparency	-1.197	1.965
4 Relevance	.526	2.240

Source: Author's computation (2026).

This results pave ways for an opportunity to deduce whether the data under study are normally distributed. George and Mallery (2010) proposed that values for skewness and kurtosis between -2 to +2 are acceptable to prove normality of the distribution. It can be confirmed from Table 2 that both skewness and kurtosis are within the range of -2 to +2, which signifies that our data are normally distributed.

#### *Regression analysis*

This section consists of model summary and determination coefficient.

**Table 3**

**Model summary**

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	.579 <sup>a</sup>	.335	.327	.41682	1.910
2	.244 <sup>a</sup>	.060	.049	.49560	1.731
3	.132 <sup>a</sup>	.018	.006	.36816	1.684

Source: Author's computation (2026).

a. Predictors: (Constant), Accounting Activities Outsourcing

b. Dependent Variable: (1) Transparency, (2) Relevance. (3) Accountability

**Model summary**

This study conducted a linear regression to predict the influence of Accounting Activities Outsourcing on Transparency and Relevance of financial statements. As shown in Table 2, with R<sup>2</sup> of .335 and .060 for models 1 and 2 respectively indicates that Accounting Activities contribute to the Transparency and Relevance of Financial Statement. It can be noted from Table 3 that Accounting Activities Outsourcing contribute little to Accountability of financial information.

**Table 4**

**Coefficient of determination**

Model	Construct	Unstandardized beta	Standardized Beta	t	P-value
1	(Constant)	1.802		4.615	.000
	Accounting Activities Outsourcing	.631	.096	6.581	.000
2	(Constant)	4.848	.217	22.310	.000
	Accounting Activities Outsourcing	-.177	.076	-2.338	.022
3	(Constant)	2.996		8.798	.000
	Accounting Activities Outsourcing	.096	.132	1.239	.219

Source: Author's computation (2026).

Dependent Variable: (1) Transparency, (2) Relevance, (3) Accountability

Table 4 shows the coefficient of regression, which was used to investigate the influence of Accounting Activities Outsourcing, it can be deduced that Accounting Activities Outsourcing is positively significant related to Transparency of financial information. This means that when SMEs outsource their accounting activities, their financial information becomes clearer and easier to understand. In other words, using professional accounting services helps make financial reports more transparent and reliable. The implication of this is that the higher the investment in Accounting Activities Outsourcing, the higher the rate of transparency of financial information and vice versa will be. In order to ensure an efficient recording of the book of accounts in a business undertaking, Accounting Activities Outsourcing is of immense benefit. This outcome aligns with the study of Akosile and Oladele (2023), Guistiniano & Clarioni (2013), Yekimov et al. (2021), Mohammed, Abebe & Wondim (2019), Iqbal & Dad (2013) which disclosed that accounting outsourcing and recording improved SMEs financial performance.

Table 4 also indicates that a negative relationship exists between the variable Accounting Activities Outsourcing and Relevance. This may imply that there is possibility the SMEs where most of the respondents are working do not make use of Accounting Outsourcing, which may be due to the inadequate knowledge of the benefits derivable from it by the business owners. Furthermore, result in Table 4 show that Accounting Activities Outsourcing maintained a positively non-significant

relationship with Accountability (combination of Transparency and Relevance). The implication of this study is that outsourcing accounting activities can improve transparency in SMEs but may reduce the relevance of financial information if not properly managed. It also suggests that outsourcing alone does not guarantee accountability without adequate supervision. SMEs should therefore manage outsourced accounting functions strategically to enhance transparency, relevance, and accountability.

## 5. Conclusion

The findings of this study indicate that accounting Activities Outsourcing significantly improves the transparency of financial information in SMEs. This shows that engaging professional accounting services helps make financial reports clearer, more accurate, and easier for stakeholders to understand. However, the study also found a negative relationship between outsourcing and the relevance of financial information, suggesting that some SMEs may not fully benefit from outsourcing, possibly due to limited knowledge or improper implementation. Additionally, outsourcing showed a positive but non-significant relationship with overall accountability, indicating that while outsourcing can support transparency, it alone does not guarantee accountability without proper supervision and management. Overall, the study highlights that accounting outsourcing can be a valuable tool for enhancing financial governance in SMEs, but its effectiveness depends on strategic management and adequate oversight.

Hence, the study recommended that:

- i. Increase investment in accounting outsourcing to improve transparency: Since the study found a significant positive relationship between accounting activities outsourcing and transparency, SMEs should engage professional accounting services to make their financial information clearer and more reliable.
- ii. Monitor and manage outsourced accounting functions to maintain relevance: The negative relationship between outsourcing and relevance suggests that without proper monitoring, financial information may not meet decision-making needs. SME owners should ensure that outsourced tasks are aligned with their operational requirements.
- iii. Complement outsourcing with supervision to enhance accountability: Because outsourcing alone showed a positive but non-significant relationship with overall accountability, SMEs should combine outsourcing with internal controls and regular reviews to strengthen financial governance.

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