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Relationship Between Accounting Outsource Based On Assets Specificity Employed For Accounting Functions And Financial Performance Of Small And Medium Enterprises In Nigeria.

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Abstract: *The overall objective of the study was to investigate the relationship between accounting outsource based on Asset Specificity employed and the financial performance of Small and Medium Enterprises (SMEs) in Nigeria which necessitated a formulation of a hypothesis that there is no significant relationship between accounting outsource based on asset specificity and the financial performance of SMEs in Nigeria. The target population of the study are the SMEs in three Geo-political zones of Southern part of Nigeria consisting of 22,917 SMEs as contained in the report of collaborative study of National Bureau of Statistics and SMEDAN in the year 2010. Applying a two-stage sampling technique applied chronologically on the target population, a sample size of 411 respondents was obtain for the study. Both primary and secondary data options were explored with the main aim of making sufficient data available for the study. Structured Questionnaires were used to collect primary data from the respondent organisations and the secondary data involved the collection of the Annual Financial Reports of the respondents' organisations for the 5-year period covering 2008 to 2012. Both the Descriptive and Inferential Analyses were carried out on the data with aid of Statistical Package for Social Sciences 23. The findings of the Regression analysis show that there is a significant negative relationship between the accounting outsource based on asset specificity and the financial performance of SMEs in Nigeria. Consequently, the specific assets acquired for accounting functions by an organization must be optimally utilized to benefit profit before thinking of contracting the functions to an outsiders.*

Keywords: *Asset Employed, Capital Employed, Human Assets, Interdependence, Service-Providers.*

I. Introduction

Asset specificity concerns opportunity costs of investments made to support an activity (Speklé, 2004). Central concern is whether investments made in specific assets can be redeployed (Williamson, 1985). If the assets cannot be redeployed, the investments will be considered a loss in case of determination of this activity that exploits these assets. Imagine, for example, machinery that can only produce one component. If it cannot be used for the production of anything else, nor be of any use in a similar organizational unit of another company, opportunity costs of investing in this machinery are significant and asset specificity is high. This situation gives rise to outsourcing decision problems. This situation creates undue dependencies that in turn leave room for opportunistic behavior of exchange partner. Hence, Asset Specificity is another factor that plays an important role while making the outsourcing decision by successfully applied valuable assets to specific transactions. For instance, assets specificity refer to expertise, competence, knowledge, skills and capabilities concerning the accounting functions. There are two types of specific assets including physical assets (land, equipment and machinery etc.) and human assets (skills, ability, knowledge etc.). To gain and sustain resources include physical technology, plants and equipment, geographic position, access to raw materials whilst human capital resource contains training, experience, judgment, intelligence and relationships inside individual, managers and workers in the firm.

According to Dorasamy et al., (2010) when asset specificity is low it is most likely that core business transactions might be governed by outsourcing. Moreover, the human asset specificity is a vital for internal audit and outsourcing accounting services from a professional accountant (Everaert et al., 2010). Furthermore, Everaert et al., (2010) found that there is a significant association between accounting outsourcing and asset specificity. Therefore, TCE and Strategic View literature argue that asset specificity is a vital part to consider in outsourcing decisions (Watjatrakul, 2005; Everaert et al., 2010).

The proposition here is that when asset specificity of the accounting functions increases, firms are expected to internalise those functions for a good performance in terms of asset utilization (Speklé et al., 2007). Conversely, low asset specificity of accounting functions would motivate firms to outsource accounting functions (Widener and Selto, 1999). Based on the above arguments, accounting functions should be externalised or outsourced when the organisation's investments assets for executing the accounting functions are not specific or have low specificity (e.g., low firm-specific routines, knowledge, language and skills) (Everaert et al., 2010). In line with Nicholson et al. (2006), it is expected that, as accounting functions become more customised to a firm and more specialised, asset specificity rises and, accordingly, shifting accounting activities to a professional (external) accountant can be difficult and costly.

SMEs in Nigeria: An Overview

There lacks a universal definition of SMEs across countries, the CBN communiqué No 69 of the special monetary policy committee meeting of April 15, 2010 acknowledged the existence of several definitions of SMEs. Nigeria with the introduction of National Policy on MSMEs has addressed the issue of definition as to what constitutes micro, small and medium enterprises (MSMEs). The definition adopts a classification based on dual criteria of employment and assets (excluding land and buildings) as shown below:

Table 1: Definition Criteria of Micro, Small & Medium Enterprises in Nigeria

S/N	Size Category	Employment	Asset (=Nm) Excluding Land & Building
1	Micro Enterprises	Less than 10	Less than 5
2	Small Enterprises	10 to 49	5 to less than 50
3	Medium Enterprises	50 to 199	50 to less than 500

Source: National Policy on MSMEs

If there exist a conflict between employment and assets criteria, the employment-based classification will take precedence (National Policy on MSMEs).

In Nigeria, SMEs sector plays a pivotal role through several pathways that goes beyond job creation. They are growth-supporting sector that not only contribute significantly to improve living standards, but also bring substantial local capital formation and achieve high level of productivity of SMEs. To effectively harness the potential of the SMEs, the sector became particularly a focus of attention during the era of the Structural Adjustment Programme (SAP, 1986). Thus SAP policy saw the rising profile of increased number of SMEs. As form of encouragement, the policy was adopted to use the sector as a stepping stone for both job creation and industrialization(NBS-SMEDAN, 2010). To address the problems of access to credits and establish SMEs as polar axis for Nigeria's industrialization, Small and Medium Industry Equity Investment Scheme (SMIEIS) was initiated by the Central Bank of Nigeria in collaboration with Bankers Committee in June, 2001.

In its continued search for solutions towards a vibrant and virile SMEs sector, and to entrench the sector into the main stream of the Nigerian economy, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established in 2003. The agency is a 'one stop shop' for nursing and nurturing SMEs in Nigeria. Consequently, this agency has since inception been in the forefront of developing and promoting SMEs in Nigeria. SMEs are distributed by clusters within regions. We have the Aba leather and the fashion SMEs clusters, Nnewi has the automobile SMEs cluster, Lagos has the Otigba ICT SMEs cluster, Abeokuta and Oshogbo the tie and dye SMEs clusters and Kano has the leather SMEs clusters. There is no reliable database on SMEs in Nigeria and so it is difficult to accurately determine the number of SMEs in Nigeria. However, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) using data collected from the National Bureau of Statistics (NBS) is working on the publication of its first comprehensive database of small businesses in Nigeria (leadership newspaper 05/03/2012).

Despite the endless efforts on SMEs in Nigeria, many believe that these efforts of government have generally yielded poor results (Ogboru 2007). Given the large domestic market and plethora of raw materials in Nigeria, there is little progress in terms of manufacturing value -added products, either for import substitution, exports, or employment creation. The small holder agricultural sector has also not fared better and the country spends millions of dollar to import food and other vital products and services. Nigerian SMEs have not fared particularly well because of hostile operating environment among other challenges. Aremu and Adeyemi (2010) observed that most SMEs in Nigeria die within their first five years of existence due to insufficient capital, lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, irregular power supply, infrastructural inadequacies (water, roads etc), lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber staff, cut-throat competition.

Statement of Problem

The decision regarding which business functions to be internalised and which should be outsourced is crucial to the competitiveness of firms (Fei Chan, 2005). According to the literature companies' activities, regardless of their sizes, can be broadly divided into core activities and support activities. Support activities are usually back-office functions that include among others: Human Resource Management, Information System, Accounting and Logistics. Rationally, support activities are outsourced on long-term basis while and core activities on short-term to respond to demand swings from time to time. The reason for this is that the support activities are less important but still necessary for company's proper and continuous functioning hence they are not a source of competitive advantage that require incessant review for prompt adjustments. Therefore, it is crucial to ensure their undisturbed implementation at appropriate level of quality and costs.

The focus of this study was accounting functions as a member of support activities of the organization. The knot to untie here is how small and medium Enterprises ensure undisturbed implementation of accounting functions at appropriate level of quality and cost in the face of uniqueness or specificity of assets employed to carry out the functions by the organisations?

Objective of the Study

The aim of this study is to investigate the relationship between accounting outsource based on assets specificity employed for accounting functions and financial performance of Small and Medium Enterprises in Nigeria. **S**pecific objectives are:

1) To determine how accounting outsource based on specificity of physical assets employed for accounting functions affects the financial performance of SMEs in Nigeria.
2) To determine how accounting outsource based on specificity of human asset employed for accounting functions affects the financial performance of SMEs in Nigeria.
3) To determine the degree of interrelationship between the accounting functions and tasks in other subunits of the organization.

For the purpose of this study, typical accounting functions will be defined to include both basic processing tasks and value-adding tasks such as: General Ledger processing, Accounts Payable / Receivable functions, Payroll processing,

Fixed Asset accounting, Inventory accounting, Budgeting, Costing, Management accounting and Taxation. Therefore, to satisfy the above-mentioned objectives the following hypothesis of the study is pertinent:

Ho:There is no significant relationship between accounting outsource based on asset specificity employed for accounting functions and the financial performance of SMEs in Nigeria.

Theoretical And Conceptual Framework

According to Williamson in the modern transaction cost economics, firms exist because all complex contracts with outsiders are incomplete. The cost of completing transactions on the market increases, when their complexity increases, or when asset specificity increases (they involve assets that are worth more within a relationship between two parties than outside it). At some point, it makes sense to conduct transactions within the firm but there are limits to the size of firms (Grossman et al., 2005). Williamson (1984, 1985) suggests that the transfer of transactions to the market changes firm's governance mechanisms (adaptability) and measurement (incentive) features. Three transaction characteristics are critical for the size of firms: frequency, uncertainty, and, in particular, asset specificity (Williamson, 1985). Williamson is regarded as the originator of modern transaction cost economics. This theory helps to show that SMEs are firms established to gainfully organize various factors of production which are obtained through the price mechanism in the market. The theory therefore, shows that apart from the cost of factor inputs, there exist other costs that include: cost of negotiation and concluding separate contract which must be incurred by SMEs to properly document and monitor the other party (expert outside the business).

There is Resource Dependence theory (RDT) which originally was formalized to discuss the relationships between organizations. From the competitiveness point of view, RDT proposes that companies exchange resources to reduce uncertainty (Oh, Gallivan & Kim, 2006). Companies who lack critical resources form relationships with others in order to obtain these resources. Information System (IS) outsourcing is a very typical example of the application of RDT between clients and vendors. The level of the resource dependency is formulated in terms of the resource value, number of candidate vendors supplying these resources, and the switching cost between vendors in case of failure. The degree of this dependency can be seized through the contract clauses. A higher number of 27 contract clauses means the client is more dependent on the vendor. If the firm acquires these resources, the dependency level decreases. In addition, this may increase the dependency of others on the particular firm. Therefore, we can imply that RDT is a power theory as well.

In Modern Structure of Organisational Theory, organizations are rational institutions whose primary purpose is to accomplish established objectives; rational organizational behavior is achieved best through systems of defined rules and formal authority (Bernard, 1990). Organizational control and coordination are key for maintaining organizational rationality. There is a 'best' structure for any organization, or at least a most appropriate structure in light of its given objectives, the environmental conditions surrounding, the nature of its products and/or services, and the technology of the production process. Most problems in an organization result from structural flaws and can be solved by changing the structure (Hitt et al., 2007). The relevance of this theory to this study is that beginning of administrative wisdom is the awareness that there is no one optimum type of management system. Situations in which the environment changes rapidly thus require less corporate rigidity, more participation, and more reliance on workers to define and redefine their positions and relationships. Hence the theory acknowledges the existence of both formal and informal elements and to some extent, the existence of external environments, especially technology. Therefore, outsourcing of a business process, like accounting function, definitely has some impact on the hierarchical structures of the organization. Therefore the organization structure determines what part of and when to outsource accounting functions just like any other business process.

In Open System Theory of organisations, the primary focus of research and theory building shifted from the internal characteristics of organizations to the external dynamics of organizational competition, interaction, and interdependency. The organization as open systems perspective views organizations as systems of interdependent activities embedded in and dependent on wider environments (Mintzberg, 2009). Cohen & Levinthal (1990) explain that one cannot understand the structure and behavior of an organization without understanding the context within which it operates. They explain further that no organization is self-sufficient, and thus organisations must engage in exchanges with their environment in order to survive. Organizations need to acquire resources from their environment, and the importance and scarcity of these resources determine the extent of organizational dependency in and on their environment. Below is the conceptual framework for the study:

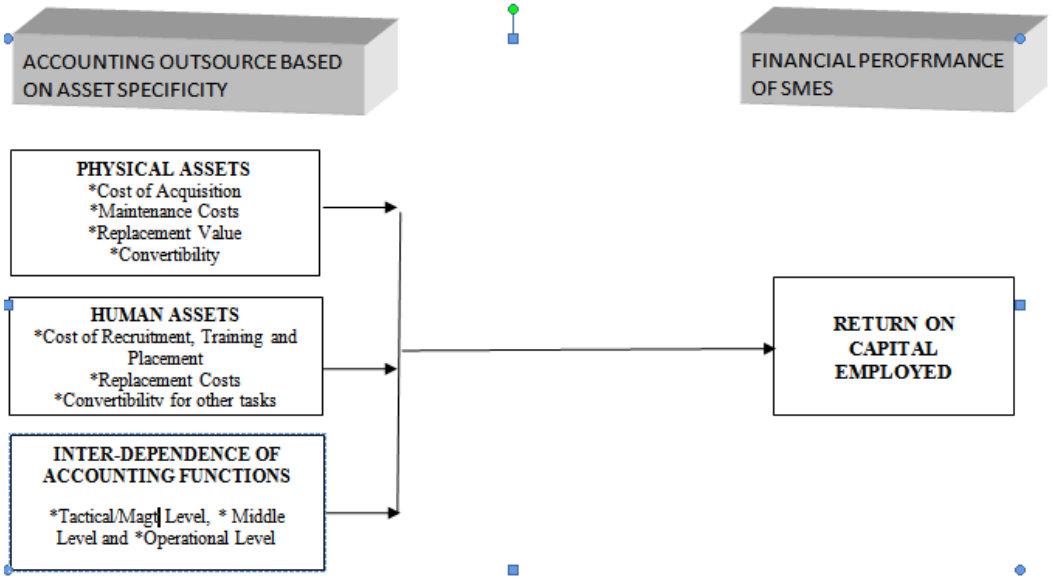

Figure 1 Conceptual Framework for the study

II. Materials And Research Methodology

The overall objective of the study was to investigate the relationship between accounting outsource based on Asset Specificity employed and the financial performance of Small and Medium Enterprises (SMEs) in Nigeria. The target population of the study are the SMEs in three Geo-political zones of Southern part of Nigeria consisting of 22,917 SMEs as contained in the report of collaborative study of National Bureau of Statistics and SMEDAN in the year 2010. The sampling technique adopted was a two-stage sampling technique applied chronologically as follows: stratified and simple random sampling techniques. The SMEs were first stratified into industry using official industries as recognized by the NBS-SMEDAN study. Thereafter a simple random approach was employed in selecting respondent SME organizations from the first three states that recorded the highest number of SMEs for each industries so identified. This exercise produced a sample size of 411 used for the study. Both primary and secondary data options were explored with the main aim of making sufficient data available for the study. Structured Questionnaires were used to collect primary data from the respondent organisations and the secondary data involved the collection of the Annual Financial Reports of the respondent organisations for the 5-year period covering 2008 to 2012 for the extraction of the financial performance indices. The data were subjected to various statistical screening for reliability of the instrument and validity of the variables (in terms of Construct and Convergent validity). Regression Analysis was carried out on fact findings on the relationship between the accounting outsource based on asset specificity and the financial performance of SMEs in Nigeria.

III. Results And Discussions

Background Information

This section describes the characteristics of the respondents. Their social-economic profiles were characterized by an array of attributes of outsourcing of typical accounting functions. These activities were analyzed to get a thorough understanding of the general social-economic profiles of the different SME operators in the business ventures. Characteristics of respondents were looking at the position of the organisation's representative completing the questionnaire, the representative's educational level, sector of the firm, firm's age and firm's size. The following Table-1 contains the background information surveyed:

Table 2: Background Information

Variable	Frequency	%			Frequency	%
Position Respondent in Organisation:				**Firm's Age:**		
Owners /SMEs Operators	263	64.0		Less than 2years	49	12.0
Managers	148	36.0		2-5years	165	40.0
				6-10years	177	43.0
Educational Level:				11-15years	12	2.8
University Degree	291	70.8		Above 15years	8	2.0
Below University Degree	120	29.2				
				Firm's Size		
Category of Business Venture:				11-30 employees	112	27.3
Manufacturing Sector	119	29.0		31-50 employees	98	23.8
Non-Manufacturing Sector	292	71.0		51-100 employees	119	46.5
				101-200 employees	10	2.4
Source: Field Data (2015)						

Position of the Respondent in the Organisation: The descriptive results indicated that (64%) of the respondents were owners/SMEs operator while the remaining (36%) were managers who are employees of the SME organisation. This result

showed that good number of the owners of SMEs were able to make themselves available to give qualitative responses to the questions raised by the researchers. The managers who responded to the questionnaires were directly involved in day-to-day running of the business' affairs hence, they were able to give qualitative responses too as represented in the Table 2 above.

Educational Level: Table 2 above describes educational level of each respondent representing each organization. The results of the educational level of the respondents show that 291 respondents (representing 70.8%) had university education and 120 respondents (representing 29.2%) had lower than university degree. The implication of this result is that more of the respondents are literates and appreciate the importance of the study. Consequently, they were able to donate qualitative data to the study.

Category Business Ventures: There were 12 sectors officially approved for the operations SMEs in Nigeria (SMEDAN-NBS, 2010). Consequently, this study drew her sample from all these sectors using the proportion of their numbers in their entire population of SMEs in Nigeria vis-à-vis our sample size of 411. The entire distribution of the firms across the official sectors of SMEs in the sample size for the study is graphically presented thus:

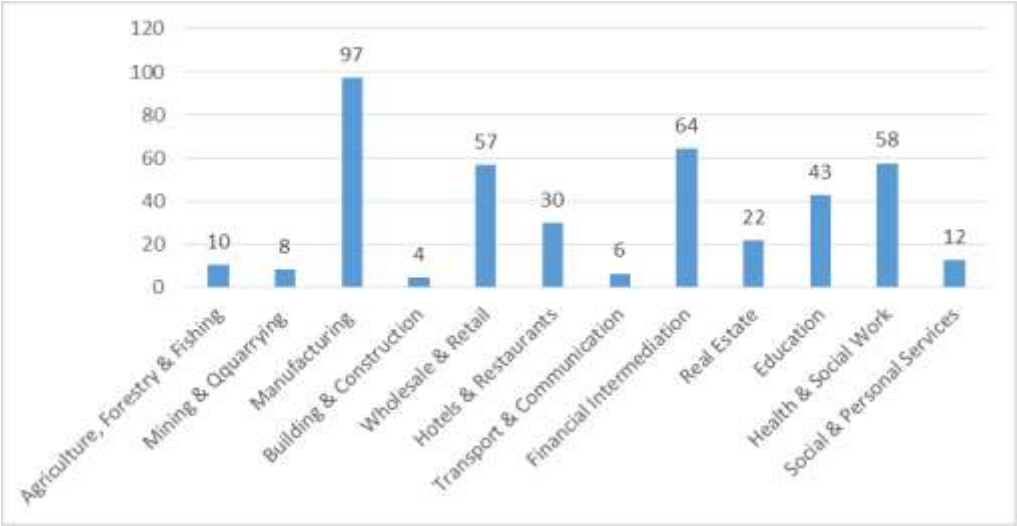

Figure 1: SMEs Official Sectors in the Sample

This official sectorial distribution of SMEs in Nigeria forms the basis of grouping the entire sampled organizations into Manufacturing and Non-Manufacturing for easy data diagnostic, analysis and interpretations. Consequently, the total number of Manufacturing SMEs and Non-Manufacturing SMEs for this study are: 119(29%) and 292(71%) respectively.

Firm's Age distribution: The Table 2 above provides ages of SMEs to show how long they have been in Nigerian business environment. The study wanted to find out the age of individual firm under the study. The study sought to determine the distribution of age of the firms in order to determine whether age had any influence on outsourcing decision of accounting functions as was argued by Kompo (2011) that personal variables such as age, gender, and the level of education among others affected business decisions taken in the organization. From the results, 2% of the firms were above 15 years old, 2.8% were 11 – 15 years old, 43% were 6 – 10 years old, 40.2% were 2 – 5 years old and 12% were under 2 years old. The fact that majority (88% of the SMEs) had operated above 2 years guarantees the required experience needed for data reliability because these organisations in this category had high probability of having the experience the research sought to find out in terms of executing their accounting functions and the impact on their financial performance over the years.

Firm Size: According to Nigeria National Policy on Micro, Small and Medium Enterprises (MSMEs), A Micro Enterprise is an organisation whose total workforce is less than ten employees while a Small Enterprise is an organisation with a total workforce of ten employees but not exceeding forty-nine employees and a Medium Enterprises is an organisation with a total workforce of fifty employees but not exceeding two hundred employees. In the light of this, this study made use of 210 firms (51%) whose total workforce is between 11 and 50 employees in the category of what officially constitute Small Firms and 201 firms (49%) whose total workforce is between 51 and 200 employees for Medium Firms category. The Small and Medium Scale Enterprises being studied were given almost equal volume of representation in the sample size of 411. Consequently, this position enhanced the study from obtaining a balanced view or unbiased position of each of the business categories as far as the effect of outsourcing accounting functions on financial performances is concerned. This position is presented in the Table 2 above.

Descriptive of the Study Variables

The respondents were asked to give the estimate of their organisations' investment in specific physical assets employed for the execution of accounting functions within their organizations. The essence of their responses was to cross-tabulate the Investment in specific assets used for accounting functions with the Return on Capital Employed (ROCE) made for each year of study. This assisted the researcher to determine the difference in ROCE made by the organizations that outsourced and those that did not thus, obtaining the effect of outsourced accounting functions on financial performance of organization was facilitated. Table 3 below shows the different levels of investment in physical assets employed for accounting functions. This was cross-tabulated with the ROCE for each year of the study and also Average ROCE for the 5-year period. The average (mean) for both In-Housing and Outsourcing were obtained for each level of Investment. Thereafter, a simple weighted average was computed to arrive at the total ROCE for both Outsourcing and In-housing

situation. Major findings revealed that there is inverse relationship between outsourcing of accounting functions and the investment in specific physical asset employed. More of outsourcing was done at the lowest level of Investment while this was reduced as this investment increases. However, there was a direct relationship between the In-housing of Accounting functions and the investment in specific physical asset employed. As the level of Investment increases, the organisations in-house the more of the accounting functions.

Therefore, from Table 3, at Investment level of: =N0 - =N50 (Outsourcing 84% and In-housing 16%); =N51 - =N200 (Outsourcing 74% and In-housing 26%); =N201 - =N500 (Outsourcing 65% and In-housing 35%); =N501 - =N1,000 (Outsourcing 23% and In-housing 77%) and Above =N1,000 (Outsourcing 18% and In-housing 82%). The final effect showed that the firms that outsourced their accounting functions made a total ROCE of 13.60 against 10.86 made by firms that in-housed these functions. There is a net financial gain of 2.74 resulting from outsourced financial functions.

Table 3 Investment in Physical Assets for Accounting Functions and Financial Performance.

Asset Investment =N'000	ROCE 2008 Mean	ROCE 2009 Mean	ROCE 2010 Mean	ROCE 2011 Mean	ROCE 2012 Mean	Average ROCE 5years	OAF_M Mean	Simple Weighted Average 6x7	IAF_M Mean	Simple Weighted Average 6x9
	1	2	3	4	5	6	7	8	9	10
=N0 - =N50	4.66	4.92	5.2	5.4	5.8	5.196	.84	4.35	.16	0.83
=N51 - =N200	4.78	5.09	5.15	5.46	5.99	5.294	.74	3.94	.26	1.38
=N201 - =N500	4.85	5.21	5.45	5.6	6.28	5.478	.65	3.56	.35	1.92
=N501 - =N999	4.04	4.2	4.38	4.38	4.59	4.318	.23	0.99	.77	3.31
Over =N1,000	3.71	3.93	4.17	4.17	4.67	4.13	.18	0.75	.82n	3.42
EFFECT								**13.60**		**10.86**

ROCE = Return on Capital Employed
OAF_M = Average Outsourced Accounting Functions
IAF_M = Average In-Housed Accounting Functions

The respondents were asked to give how much of the equipment in their accounting department is especially designed or unique compared to equipment used for similar activities in other companies. This question was necessary in order to ascertain the degree of specificity of physical assets being employed to execute accounting functions in the respective organisations. The responses obtained were analyzed in table 4 below. Considering the size of the organisations, out of the 210 small enterprises sampled, 190 (90.5%) affirmed the uniqueness of the equipment employed in the accounting departments of their organisations relative to the other organisations engaging in similar functions and 161respondents(80.1%) out of 201 respondents for the medium enterprises. Also, by considering the sectors of the respondents' organisations, out of the 119 small enterprises sampled for Manufacturing sector, 114 (95.8%) affirmed the uniqueness of the equipment employed in the accounting departments of their organisations relative to the other organisations engaging in similar functions and 280 respondents(95.9%) out of 292 respondents for the SMEs in Non-manufacturing sector. This results clearly shows that the equipment employed for the accounting functions by the SMEs in Nigeria are specific and high, for instance, Accounting Software Packages.

Table 4 Uniqueness of Equipment in Accounting Department of Respondent's Organisations.

Response	Firm's Size			Manufacturing and Non-Manufacturing		
	Small	Medium	Total	Manufacturing	Non-Manufacturing	Total
None	9 (4.3 %)	2 (1.0%)	11 (2.7%)	3 (2.5%)	8 (2.7%)	11 (2.7%)
Some	11 (5.2%)	39 (19.4%)	50 (12.2%)	2 (1.7%)	4 (1.4%)	6 (1.5%)
About Half	21 (10.0%)	18 (9.0%)	39 (9.5%)	6 (5.0%)	80 (27.4%)	86 (20.9%)
Most	142 (67.6%)	122 (60.7%)	264 (64.2%)	96 (80.7%)	159 (54.5%)	255 (62.0%)
All	27 (12.9%)	20 (10.0%)	47 (11.4%)	12 (10.1%)	41 (14.0%)	53 (12.9%)
Total	210 (100.0%)	201 (100.0%)	411 (100.0%)	119 (100.0%)	292 (100.0%)	411 (100.0%)

The respondents were asked to give the estimate of their organisations' investment in specific human assets employed for the execution of accounting functions within their organizations. The essence of their responses was to cross-tabulate the Investment in specific assets used for accounting functions with the Return on Capital Employed (ROCE) made for each year of study. This assisted the researcher to determine the difference in ROCE made by the organizations that

outsourced and those that did not thus, obtaining the effect of outsourced accounting functions on financial performance of organization was facilitated. Table 5 below shows the different levels of investment in human assets employed for accounting functions. This was cross-tabulated with the ROCE for each year of the study and also Average ROCE for the 5-year period. The average (mean) for both In-Housing and Outsourcing were obtained for each level of Investment. Thereafter, a simple weighted average was computed to arrive at the total ROCE for both Outsourcing and In-housing situation. Major findings revealed that there is inverse relationship between outsourcing of accounting functions and the investment in specific human asset employed. More of outsourcing was done at the lowest level of Investment while this was reduced as this investment increases. However, there was a direct relationship between the In-housing of Accounting functions and the investment in specific human asset employed. As the level of Investment increases, the organisations in-house the more of the accounting functions.

Therefore, from Table 5, at Investment level of: =N0 - =N50 (Outsourcing 92% and In-housing 8%); =N51 - =N200 (Outsourcing 86% and In-housing 14%); =N201 - =N500 (Outsourcing 71% and In-housing 29%); =N501 - =N1,000 (Outsourcing 42% and In-housing 58%) and Above =N1,000 (Outsourcing 23% and In-housing 77%). The final effect showed that the firms that outsourced their accounting functions made a total ROCE of 15.99 against 10.86 made by firms that in-housed these functions. There is a net financial gain of 5.13 resulting from outsourced financial functions.

Table 5 Investment in Human Assets for Accounting Functions and Financial Performance.

Asset Investment =N'000	ROCE 2008 Mean	ROCE 2009 Mean	ROCE 2010 Mean	ROCE 2011 Mean	ROCE 2012 Mean	Average ROCE 5years	OAF_M Mean	Simple Weighted Average 6x7	IAF_M Mean	Simple Weighted Average 6x9
	1	2	3	4	5	6	7	8	9	10
=N0 - =N50	4.66	4.92	5.2	5.4	5.8	5.196	.92	4.78	.08	0.42
=N51 - =N200	4.78	5.09	5.15	5.46	5.99	5.294	.86	4.55	.14	0.74
=N201 - =N500	4.85	5.21	5.45	5.6	6.28	5.478	.71	3.89	.29	1.59
=N501 - =N1,000	4.04	4.2	4.38	4.38	4.59	4.318	.42	1.81	.58	2.50
Over =N1,000	3.71	3.93	4.17	4.17	4.67	4.13	.23	0.95	.77	3.18
EFFECT								**15.99**		**8.43**

ROCE = Return on Capital Employed
OAF_M = Average Outsourced Accounting Functions
IAF_M = Average In-Housed Accounting Functions

The respondents were further asked to give how unique are the skills and knowledge of the accounting staff compared to the skills and knowledge of employees of other companies who work on similar activities. This question was necessary in order to ascertain the degree of specificity of human assets being employed to execute accounting functions in the respective organisations. The responses obtained were analyzed in table 6 below. Considering the size of the organisations, out of the 210 small enterprises sampled, 196 (93.3%) affirmed the uniqueness of the skills and knowledge employed in the accounting departments of their organisations relative to the other organisations engaging in similar functions and 176 respondents(97.5%) for the medium enterprises. Also, by considering the sectors of the respondents' organisations, out of the 119 small enterprises sampled for Manufacturing sector, 114 (95.8%) affirmed the uniqueness of the equipment employed in the accounting departments of their organisations relative to the other organisations engaging in similar functions and 284 respondents(97.3%) for the Non-manufacturing sector. This results clearly shows that the human skills and knowledge employed for the accounting functions by the SMEs in Nigeria are specific and high, for instance, appropriate knowledge of local and international accounting standards/practices.

Table 6 Uniqueness of the skills and knowledge of the respondent's accounting staff compared to skills and knowledge of employees of other companies who work on similar activities.

Response	Firm's Size			Manufacturing and Non-Manufacturing		
	Small	Medium	Total	Manufacturing	Non-Manufacturing	Total
Not Unique	2 (10.0%)	5 (2.5%)	7 (1.7%)	2 (1.7%)	5 (1.7%)	7 (1.7%)
Little Unique	11 (5.2%)	18 (9.0%)	29 (7.1%)	4 (3.4%)	7 (2.4%)	11 (2.7%)
Somewhat unique	33 (15.7%)	17 (8.5%)	50 (12.2%)	7 (5.9%)	55 (18.8%)	62 (15.1%)
Quite Unique	102 (48.6%)	122 (60.7%)	224 (54.5%)	91 (76.5%)	157 (53.8%)	248 (60.3%)

Very Unique	62 (29.5%)	39 (19.4%)	101 (24.6%)	15 (12.6%)	68 (23.3%)	83 (20.2%)
Total	210 (100.0%)	201 (100.0%)	411 (100.0%)	119 (100.0%)	292 (100.0%)	411 (100.0%)

To ascertain the importance of accounting functions in the entire business processes of the organization, the respondents were asked to state the extent of their Accounting Department's actions on the work carried out in other subunits of the organization. The responses obtained were analyzed in table 7 below. Considering the size of the organizations, out of the 210 small enterprises sampled, 167 (79.5%) affirmed that the actions of the Accounting Departments impacted to a great extent on the work carried out in other subunits of their organizations and 170 respondents (84.6%) out of 201 respondents for the medium enterprises. Also, by considering the sectors of the respondents' organizations, out of the 119 small enterprises sampled for Manufacturing sector, 101 (84.9%) affirmed that the actions of the Accounting Departments impacted to a great extent on the work carried out in other subunits of their organizations and 213 respondents (73.0%) out of 292 respondents for the Non-manufacturing sector. This results clearly shows that the Accounting Department's actions impact, to a great extent, on the work carried out in other subunits of the organizations.

Table 7 Extent of the Respondent's Accounting Department's actions on the work carried out in other subunits of the organisation.

Response	Firm's Size			Manufacturing and Non-Manufacturing		
	Small	Medium	Total	Manufacturing	Non-Manufacturing	Total
None	6 (2.9%)	3 (1.5%)	9 (2.2%)	4 (3.4%)	3 (1.0%)	7 (1.7%)
Little Extent	8 (3.8%)	12 (6.0%)	20 (4.9%)	3 (2.5%)	5 (1.7%)	8 (1.9%)
SomeExtent	29 (13.8%)	16 (8.0%)	45 (10.9%)	11 (9.2%)	71 (24.3%)	82 (20.0%)
Great Extent	113 (53.8%)	145 (72.1%)	258 (62.8%)	82 (68.9%)	164 (56.2%)	246 (59.9%)
Very Great Extent	54 (25.7%)	25 (12.4%)	79 (19.2%)	19 (16.0%)	49 (16.8%)	68 (16.5%)
Total	210 (100%)	201 (100%)	411 (100%)	119 (100%)	292 (100%)	411 (100%)

Asset specificity concerns opportunity costs of investments (in physical and human assets) made to support an activity (Speklé, 2004). Central concern is whether investments made in specific assets can be redeployed (Williamson, 1985). If the assets cannot be redeployed, the investments will be considered a loss in case of determination of this activity that exploits these assets. Imagine, for example, machinery that can only produce one component. If it cannot be used for the production of anything else, nor be of any use in a similar organizational unit of another company, opportunity costs of investing in this machinery are significant and asset specificity is high. According to Chang et al., (2009) when asset specificity is low it is most likely that business function might be governed by outsourcing and vise-visa.

Furthermore, Everaert et al., (2010) found that there is a significant association between accounting outsourcing and asset specificity. Therefore, TCE and Strategic View literature argue that asset specificity is a vital part to consider in profitability of the organisation (Watjatrakul, 2005; Everaert et al., 2010). The proposition here is that when asset specificity of the accounting functions increases, firms are expected to internalise those functions for a good performance in terms of asset utilization (Speklé et al., 2007). Conversely, low asset specificity of accounting functions would motivate firms to outsource accounting functions (Widener and Selto, 1999). The result of this descriptive analysis shows that there is high asset specificity for the assets employed by the Nigerian SMEs for the execution of their accounting functions hence, the position of Speklé et al., 2007 is applicable to ensure optimal asset utilization.

Data Diagnostic Tests

The measurement model was developed and measurement properties of multi-item constructs were analyzed for Construct Reliability, Convergent Validity, Discriminant validity and Unidimensionality of Construct by conducting Exploratory Factor Analysis (EFA) using Statistical Package for Social Sciences 23. This was done to determining each construct reliability and factor loading for each multi-items enveloped by each construct. Exploratory factor analysis (EFA) using principal component analysis with promax rotation revealed that all the factor loadings were above the acceptable threshold of 0.5 (Hair *et al.*, 2014). Item to total correlations of above 0.3 was achieved for all items in the scale. Each of the relationships between the observed variables and their respective factors were specified in an outer/measurement model. The measurement model or outer model defines how each block of indicators relates to their respective latent variables. Measurement properties of multi-item constructs were analyzed for Construct Reliability, Convergent Validity, Discriminant validity and Unidimensionality of Construct by conducting Confirmatory Factor Analysis (CFA) and the results are given below:

Table 8: Data Diagnostic Tests

Construct	Construct Reliabilty	ConvergentValidity	Discriminant Validity

	Cronbach Alpha ≥ 0.6	Composite ≥0.7	AVE ≥ 0.5	R^2 ≥ 0.17	Stone-Geisser Test (Q^2) ≥0
Asset Specificity					
Tangible Assets	0.713	0.703	0.587		0.646
Human Assets	0.698	0.787	0.772		0.642
Inter-dependence	0.836	0.812	0.767		0.781
Financial Performance	0.939	0.955	0.812	0.495	0.823

Construct reliability was assessed by computing the composite reliability and the cronbach alpha of the constructs. The Cronbach Alphas were all above the 0.6 threshold as specified for Regression analysis (Hair et al., 2006) and ranged from 0.698 and 0.939 which indicates good to excellent reliability and composite reliability of reflective items were all above the acceptable 0.7 threshold which means all the variables in the study exhibited construct reliability. Convergent validity was assessed using Average Variance Extracted (AVE) from each Construct. The AVE of all constructs were above the 0.5 threshold indicating that the latent constructs account for at least fifty percent of the variance in the items. This indicates that the measurement scales exhibited adequate measurement validity (Hair et al., 2006).

Two measures were used to assess the discriminant validity of the outer model. These were coefficient of determination (R^2) for the endogenous variable and the Stone-Geisser Test (Q^2). The R^2 value for financial performance (FP) was: 0.495. The Stone-Geisser Test (represented with Q^2) is the Construct Cross-Validated Communality measure for each construct. This measure was produced through a blindfolding procedure in SmartPLS and is required to be equal to or greater than 0. A Q^2 of 1 is considered to mean a perfect prediction of model scores while a 0 is considered to a weak measure. All the measures were above 0 and indicated a fair to strong prediction of the model. Construct Unidimensionality which test the normality of data was confirmed through the excess of Kurtosis over Skewness for each item of the construct. For the data to be normally distributed the excess must be less or equal to +2 and greater or equal to -2. All the items used in this study met this criteria to depict the normalcy of the data used.

Linear Regression Model of Financial Performance and Assets Specificity

The linear regression analysis models the relationship between the dependent variable which is financial performance and independent variable which is assets specificity. The coefficient of determination (R^2) and correlation coefficient (R) shows the degree of association between assets specificity and financial performance of SMEs in Nigeria. The results of the linear regression in table 9 indicate that R^2 =0.495 and R = 0.701. R value gives an indication that there is a strong linear relationship between assets specificity employed for accounting functions and the financial performance of SMEs in Nigeria. The R^2 indicates that explanatory power of the independent variables is 0.495. This means that about 49.5% of the variation in financial performance is explained by the model $FP = \beta_0 + \beta_1 (AS)$ and 70.6% is unexplained by the model. Adjusted R^2 is a modified version of R^2 that has been adjusted for the number of predictors in the model by less than chance. The adjusted R^2 of 0.491 which is slightly lower than the R^2 value is a precise indicator of the relationship between the independent and the dependent variable because it is sensitive to the addition of irrelevant variables. The adjusted R^2 indicates that 49.1% of the changes in the financial performance is explained by the model and 50.9% is not explained by the model $FP = \beta_0 + \beta_1 (AS)$. This means that asset specificity has a strong influence on the financial performance of SMEs in Nigeria. These results are consistent with the study by Everaert et al., (2010) that found there is a significant association between accounting outsourcing and asset specificity. The proposition here is that when asset specificity of the accounting functions increases, firms are expected to internalise those functions for a good performance in terms of asset utilization (Speklé et al., 2007). Conversely, low asset specificity of accounting functions would motivate firms to outsource accounting functions (Widener and Selto, 1999).

Table 9 Model of Financial Performance and Asset Specificity

Model	R	R Square	Adjusted R Square
1	.701[a]	.495	.491

a. Predictors: (Constant), Asset Specificity employed

Table 10 shows the results of ANOVA test which reveal that asset specificity has significant effect on financial performance of SMEs in Nigeria since the P value is actual 0.000 which is less than 5% level of significance. This is depicted by linear regression model $FP = \beta_0 + \beta_1 (AS)$ where FP is financial performance and AS is Asset Specificity. The P value was 0.000 implying that the model was significant. The study therefore rejected the first null hypothesis:

Ho: There is no significant relationship between accounting outsourcing based on asset specificity employed for accounting functions and the financial performance of SMEs in Nigeria.

Table 10 ANOVA of Financial Performance and Asset Specificity employed for Accounting Function

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	187.376	1	187.376	401.233	.000[b]
	Residual	191.161	409	.467		
	Total	378.537	410			

a. Dependent Variable: Return on Capital Employed
b. Predictors: (Constant), Asset Specificity

The table 11 indicates there was negative gradient which reveals that there is an inversed relationship between accounting outsourcing and the level of investment in specific assets employed for the function to realize financial gains by the organisation. This position was clearly shown in tables 3 and 5 above. In line with Nicholson et al. (2006), it is expected that, as accounting functions become more customised to a firm and more specialised, asset specificity rises and, accordingly,

shifting accounting activities to a professional (external) accountant can be difficult and costly thus negatively affecting the financial position of the organisation.

Table 11 Model of coefficients

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	6.353	.140		45.379	.000
	AS_M1	-.490	.038	-.701	-12.895	.000

a. Dependent Variable: Return on Capital Employed

IV. Conclusion And Recommendations.

The research results found that the accounting outsource based asset specificity employed for the accounting functions has a significant negative relationship with firm performance. This finding was supported by earlier studies of (Everaert et al., 2010; Alvarez-Suescun, 2010). For this particular research the results with respect to the Nigerian SMEs supported that the level of their specific asset defined by Barney (1991) are sufficient. As we know the accounting activities are mostly human oriented and large number of educational institutions give birth to thousands of new graduates to offer their services with cheap salary packages for SMEs in Nigeria. Therefore, most large number of SMEs internalized their accounting functions rather than to outsourcing to external party at a high cost for services which new accounting graduates can be employed for at a ridiculously low price. Also, the fixed asset acquired for accounting functions must be optimally utilised before thinking of contracting the functions to an outsiders. Hence, where this type of investment is high (Asset specificity increases) less is thought of outsourcing such functions so that such assets could contribute to the profit made. In management accounting contribution made by such assets is used to recover the cost of such asset which might have been tagged 'sunk cost'. This practice will enhance the profit line of the organisation in due course.

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