

## Reasons behind Outsourcing accounting services for small businesses in Afghanistan

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### Abstract

**Introduction:** Outsourcing accounting service is contemporary strategy for enhancing financial functions of small and medium business to gain competitive advantages in market. This research article is designed to assess the importance of outsourcing accounting services for small and medium-sized businesses in Afghanistan by investigating the potential benefits such as reduction in operational cost, access to external professionals and technologies, focuses on core business activities and risk mitigation benefits. This research article emphasizes on reasons that why should small and medium business utilize outsourced accounting services for the enhancement of their financial performance. Through an existing literatures analysis, this article offers potential insights into how outsourcing accounting services can be beneficial for small and medium businesses to enhance their financial performance and obtain competitive advantages in market. The detailed analysis of existing literatures provide comprehensive understanding of outsourced accounting services for small and medium business owners in Afghanistan.

**Objective:** the aim of this research is to investigate the reasons behind outsourcing accounting services for small businesses and explore the key benefits and challenges face in this process for small businesses in Afghanistan.

**Methods:** this research paper utilizes a literature review methodology to investigate the potential aspects of outsourcing accounting services for small sector Business in Afghanistan. The literature was searched based on relevance to the topic and related research papers selected published within the last five years in well-known journals

**Result:** the findings of research indicates the different aspects of using outsourcing accounting services for small businesses in Afghanistan including potential benefits and challenges face in this process, the significant benefits of using outsourcing accounting services listed as cost savings, access to expertise and forces on core business activities while the challenges associated with outsourcing are listed such as leak of financial data, lack of control over financial data and dependency on external expertise

**Conclusion:** the conclusion part indicates that outsourcing accounting services provide significant advantages and play as a vital strategy to enhance financial operations and access to professional experts

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which can lead the business to improve operational performance and obtain business success in the market to provide employment opportunities and reduce poverty level in lower and middle classes in Afghanistan.

**Key words:** Small business, outsourcing accounting services, Benefits of outsourcing, challenges of outsourcing accounting services

### 1. Introduction

Small and Medium enterprises play crucial role in economic growth and development of a nation and widely known as a backbone of economy, contributing significantly to GDP, Job creation, innovation, tax generation and reduction of unemployment rate and poverty level in economy. Generally small and medium enterprises operate in various sectors, including retailing, manufacturing, poultry and agricultural activities. However, despite their notable contributions, small businesses may face various challenges like lack of investment facilities, government supports, and access to skillful workers in Afghanistan. To overcome these challenges, many small businesses choose Outsourcing options, specifically in accounting and finance functions. Finance and accounting outsourcing is the process of transferring the rights and authorities of finance and accounting functions to external service provider to exercise the benefits of cost reduction and access to professional experts to overcome financial challenges. The purpose of this study is to illustrate the benefits and implications of outsourcing finance and accounting services to small businesses. Outsourcing provides various opportunities for small businesses to leverage external professional experts, effectively organize business operations and minimize cost. This research examines the outsourcing functions of accounting and finance for small businesses to explore its strategic importance on cost reduction, increasing operational efficiency and access to external professional experts while comparing these possible benefits to its challenges, moreover this research aims to deepen understanding of outsourcing financing, benefits of outsourcing, challenges of outsourcing and implication of outsourcing finance for business growth.

### 2. Literature review

Small business are generally known as companies that independently owned and perform their operation with limited employees, revenue and market size. These companies are play vital role in economic growth by providing job opportunities, innovation and supporting local communities to reduce poverty level. Small businesses are often explained according to their size (typically less than 500 employees) and range from local retailing shops and service providers to small technological companies. Small business are defined by various research scholars according to their findings and perspectives, The US Small Business Administration (SBA, 2020) defined small business according to employees and revenue-based, stated that small businesses are those who operate in local bases and have employees less than 500, this definition helps to differentiate small businesses from medium and large companies. European commission (2003), defined small businesses as enterprises having less than 50 employees and annual revenue do not exceed 10 million euro. Additionally the Kauffman foundation(2010), explained small business as private owned enterprises that have less than 500 employees and play crucial role in boosting economy by creating jobs opportunities and innovations. Moreover OECD (organization for economic cooperation and development), defined small businesses as enterprises with less than 250 staffs which play vital role in economic growth and employment opportunities. However these definitions convey the common meanings based on number of employees, annual revenues and crucial roles in economic growths.

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#### 2.1. Concept of outsourcing accounting:

The concept of outsourcing accounting relies on the process of hiring an external specialized company or individual service provider to handle an organization accounting functions. This arrangement provides facilities for small businesses to access professional experts, enhance operational efficiencies and significantly reduce costs. The concept encompasses a various accounting services, including bookkeeping, payroll and financial reporting. Outsourcing accounting defined by various scholars according to their perspectives. According to (Auzair et al.,2013), outsourcing accounting services is a process of enabling companies to reduce their operational costs by hiring external expert instead of holding full-time accounting staff, office space and training costs. (Maelah et al., 2012), Stated that Outsourcing is an arrangement of providing access to professional experts and specialized staff that may not be available internally.

#### 2.2. Benefits of outsourcing accounting services

##### **Cost Efficiency**

Cost reduction is among top reasons that has been investigated by various research scholars. Reduction of overhead costs remain main reason behind choosing outsourced accounting services. Some researchers found costs-reduction as primary reason behind outsourced accounting services, hiring and maintaining in-house staffs involve expenses such as salaries, trainings, and office space or equipment, while outsourcing is scalable, it means businesses can pay only when the need. Some studies revealed that outsourcing provides higher growth rate for small businesses because they can reinvest their saved-moneys into business improvement activities. Numerous researchers found that outsourcing significantly impact on the reduction of operational costs for small businesses by eliminating the needs for hiring in-house staff and the associated costs of recruitment, trainings and salaries

##### **Access to professional experts and technologies**

Access to external professionals and advanced technology is the second and most studied reason behind outsourced accounting services. The strategic motive of this approach is to utilize external knowledge and latest technologies without investing in in-house resources.

Studies explored that outsourcing accounting service is a strategic option for small businesses looking for specialized-professionals, external-knowledge and latest technologies. This strategic decision not only improves the quality of financial management but also helps small businesses to maintain competitive edge in market.

##### **Focus on core business activities**

Focus on core business competencies is the most significant reason behind outsourcing accounting services. This strategic approach helps small and medium enterprises to delegate accounting functions to specialized external service providers and focus more on their core business activities. This strategic decision allows businesses to stay focused on what they can do best. According to RBV theory businesses can delegate their financial tasks to external service providers to ensure effective financial management while focusing only on core competencies.

##### **Scalability**

The ultimate goal of every business is to grow and expand their boundaries with introducing new product, market development and diversification, most of small and medium businesses failed in their financial management while they growing. Scalability is significant advantage of outsourcing, helping businesses to handle their growing financial needs without requiring the businesses to increase their internal resources

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and expenses. In simple terms when business grows its financial management needs increase. Outsourcing accounting services help the businesses to adjust their needs without increasing more staffs and resources.

Studies revealed that outsourcing accounting service helps the business to reduce need for expensive internal recruits, as the business grows the outsourced service providers help business to manage growths and flexibly adapting changes.

#### **Reliability and efficiency**

Outsourced accounting service providers are equipped with knowledge, professional skills and modern technologies. It helps small and medium enterprises to have reliable, accurate and standardized financial management. Various research was conducted and suggested that business can utilize professional experts, latest technologies and advanced reporting system by outsourcing their financial tasks with flexible and scalable ways without expensive hiring and investing in internal resources. Studies found that businesses that outsourced their financial tasks, gained significant improvement in their annual performance. It allows small businesses that their accounting services be handled by external specialized experts to reduce overhead costs, avoid costly errors and maintain standardized financial performance.

#### **2.3. Impact of outsourcing accounting service on Small-business performance:**

According to the findings of existent researches, outsourcing accounting service has significant impact on the performance of small businesses, particularly in terms of cost reduction, access to specialized experts and focusing on core business activities.

Here we discuss key impacts of outsourcing accounting on small business performance, supported by findings of recent published researches.

Ashraf and Saeed (2021) conducted research to investigate the cost and associated risk implications of financial outsourcing services for small and medium enterprises. The objective of the research was to examine the true cost reduction and associated risk of outsourcing in small and medium businesses. The study employed mixed-method of data collection combining qualitative and quantitative data obtained from the financial performance analysis of 100 enterprises. The research found that outsourcing financing has significant cost savings but has the risk of dependency on third party which could raise risk associated with poor service quality.

Kamita and oluoch (2018), investigated to assess the impacts of outsourcing in transparency and quality of financial reports. The objective of research was to investigate whether outsourced finance improves or impairs financial transparency and quality of financial reports in small businesses. The research has used both descriptive and chi-square methods and data were collected from a sample of 284 firms through questionnaire, comparing the quality of financial reports of outsourced with in-house accounting. The finding revealed that outsourced accounting has significant improvement in financial transparency and improved the quality of reporting as compare to in-house accounting. These researches investigations provide a comprehensive findings of how outsourcing financing services impact on small businesses from cost reduction and access to professional experts to associated challenges.

Isaksson and lantz (2015), conducted research on impact of outsourcing strategies on financial performance of small businesses in Sweden. The term outsourcing defined as strategic use of external resources to perform internal-handled activities. The purpose of this research was to examine the impacts of outsourcing

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strategies on financial performance of small businesses, the primary and secondary data were collected through questionnaire from 700 small firms and their annual reports in Sweden. The findings indicated that outsourcing strategy didn't show any significant impacts on the financial performance of small business.

Hafeez and Andersen (2014), investigated research to examine the impact of outsourced accounting management on decision making of small and medium businesses in Pakistan. The objective of this study was to assess how factors such as competition, trust and non-routine tasks impact on outsourcing decision. The survey method of data collection was conducted to collect data from managers of small and medium enterprises of nine major cities in Pakistan, regression analysis was conducted to show relationships. The findings revealed that key factors such as trust, competition and asset specificity influencing outsourcing decisions.

Kumar (2021), performed research to identify how outsourcing can enhance operational efficiency and financial management for small businesses in India. The study focused on cost reduction, access to professional experts and time utilization as strategic factors of outsourced accounting services. The literature review methods was conducted to find relationship between these factors and financial performance of firms, the findings explored that outsourcing helps small and medium enterprises to reduce overhead costs while assisting them to save time for core business activities, additionally it recommended the needs for risk management strategies while using outsourced accounting services.

The findings from various researches indicated that outsourcing accounting functions have significant impacts on financial performance of small businesses and demonstrated positive relationship with business growth. According to the investigations of numerous research scholars, the practices of outsourcing accounting have many benefits but disadvantages also reported in some research's findings. The disadvantages of outsourcing accounting are lack of access to current books of account, problem of financial analysis of liquidity and profitability and leak of core business information (Bagienska, 2016).outsourcing accounting has significant benefits for small business but negotiating outsourcing contracts are sometimes costly and face the firms with cost-benefit trade-off (Dekker et al., 2018).

### **3. Methodology**

#### **3.1. Research design**

Literature-based design is used to reveal the primary motives behind using outsourced accounting services for small businesses. This research investigates the significant benefits of outsourcing accounting services such as reduction of overhead costs, access to external professionals and focusing on core business competencies through analyzing existing academic researches from reputable academic journals. The article synthesizes previous finding to evaluate key benefits and provide comprehensive understanding of outsourcing accounting services for small business owners in Afghanistan.

#### **3.2. Data collection**

This research article uses secondary data collection method, where relevant information is collected from research of renowned academic journals. This research provides crucial insights to highlight key benefits of outsourcing accounting function.

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### 3.3. Sampling methods

This research uses a purposive sampling methods to select the most relevant research papers from reputable journals, focusing on outsourcing accounting services for small businesses, key benefits and significant impacts of outsourcing accounting services on small business performance.

### 3.4. Data analysis

This research employs thematic analysis, where key themes are categorized such as cost reduction, access to external professional, focusing on core business competencies and reliability of financial performance. This article investigates various relevant researches to provide comprehensive understanding of outsourcing accounting functions for small business owners in Afghanistan.

### 3.5. Limitations

This study is limited to outsourcing accounting functions of small businesses, the findings may not reflect outsourcing benefits in other business functions such as IT or marketing. This finding cannot be generalized to other sectors or industries that outsource different types of services.

## 4. Findings and conclusion

This section explores synthesized findings from different studies on impact of outsourcing accounting services on small business performance. The study provides significant insights about key benefits of outsourcing accounting functions, synthesized from existing literatures. The findings highlight significant benefits of outsourcing, supported by majority researches. Kamita and Oluoch (2018), found strong positive relations between outsourcing accounting and quality of financial report in small businesses. The majority of studies found outsourcing as a best strategic option for small business growth or improvement. Additionally, cost reduction, core business activities and access to external professionals are widely investigated benefits of outsourcing accounting services. Kumar (2016) found that outsourcing helps small businesses in reduction of overhead costs and assisting them to optimize time for core business activities. Similarly, (Sofiah et al., 2013) revealed that the initial reason behind practicing outsourced accounting service was to utilize quality accounting services from external experts. The finding further supported and stated that gaining quality services, scale economy and focusing on core business activities are the primary reasons behind outsourcing accounting functions (Maelah et al., 2012). Similarly, Hoglund and Sundvik (2016), indicated that outsourcing accounting services significantly impact on financial reporting qualities of small businesses in European countries. Despite, majority of studies support these findings, but some studies reported negative findings as well. Bagienska (2016), reported negative impacts such as lack of access to current book of accounts and having less information about liquidity and profitability analysis of firms. Similarly, (Dekker et al., 2018), also reported negative impact of outsourcing on small business and stated that negotiating outsourcing contracts are costly and face firms with cost and benefit trade-off.

However, majority of studies supported the significant benefits of outsourcing accounting services. In summary this analysis reveals the significant benefits and positive impacts of outsourcing accounting on small businesses, and suggests that proper strategic processes of selecting reputable external service providers can manage associated risks. Additionally, based on the findings, it is recommended that small business owners in Afghanistan consider outsourcing their accounting services to gain these key benefits and grow their businesses to gain competitive advantages in market.



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