



Do Manager's or Owner's Trust Matter? Effect of Trust in External Accountant and Decision to Outsource on SMEs Performance in Kenya

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Abstract

Small and medium-sized enterprises (SMEs) play a crucial role in driving economic growth and generating employment opportunities around the world. Despite their importance, SMEs often struggle with limited management skills, insufficient capital, and a shortage of human resources. These challenges make it difficult for them to adapt to the constantly evolving business environment. As a result, many SMEs rely on outsourcing services from external providers e.g external accountants to enhance their organizational performance. Professional accountants can provide SMEs with the essential skills and competencies needed to operate effectively by outsourcing non-core services to them. This enables SMEs to focus on their core business operations while relying on external expertise to handle other essential functions. The main objective was therefore to determine the mediating effect of outsourcing decisions on the relationship between trust in external accountants and the performance of SMEs in Kenya. The study was informed by the theory of the Agency. The study population consisted of 335 registered SMEs in Uasin Gishu County. This study adopted an explanatory research design. Multiple regression model was used to test the hypothesis. The findings showed a positive and significant effect of the trust of the owner / manager on the outsourcing decision ($\beta_1 = 0.220$). The regression model showed that the outsourcing decision had a positive and significant impact on the performance of SMEs, $\beta = 0.4358$. Accounting firms should perform their work properly, inform small and medium-sized enterprises correctly, and provide best advice to managers / owners of small and medium-sized enterprises in order to build trust and meet ever-increasing demands of SMEs.

Keywords: Manager's/Owner's Trust, Decision to Outsource, SMES Performance.

INTRODUCTION

Firm performance donates to the success of the firm in the market, which may have various outcomes. It applies to the achievement and outcomes of the enterprise's financial policy and firms' operations (Aifuwa, 2020; Verreynne & Meyer, 2010). Improved firm performance provide satisfaction to investors and is always shown by profitability, increased market share and increase in market share prices (Kanakriyah, 2021; Cho & Pucik, 2005). Profitability shows previous ability of the firm to generate profit (Glick et al., 2005). Growth indicates the enterprise's previous potential to expand its operations and operation and market value means external valuation and belief in the future ability of firms to enhance its profitability (Taouab & Issor, 2019; Verreynne & Meyer, 2010).

It is generally acceptable, based on evidence from practitioners and researchers, that SMEs create jobs and are source of income to individuals in most developed and developing

economies, making them very important for both economic and social development (Juntunen et al., 2022; Samujh & Devi, 2008; OECD, 2009; IFAC, 2010). Current statistics in many countries show that small and medium-sized businesses are completely predominant. Essentially, most of these SMEs make up more than 70% of all registered companies and therefore have a significant impact on the gross domestic product (GDP) and create a lot of job opportunities to many individuals globally (Hidayet et al., 2010).

Nevertheless, SMEs are not in a position to compete successfully in global arena because they do not have managerial capabilities, ever changing business environment and resource constraints. (Tazilah et al., 2019; Marriott & Marriott, 2000). The challenges that confront SMEs and other companies in retaining a competitive advantage in the market have become a major concern by managers, owners and policy makers globally (Cahyaningtyas & Ningtyas, 2020; Dorasamy et al., 2010; Bozzurro et al., 2008). Business management has therefore become more complex and market needs to re-think its business strategies in order to remain to be competitive in the market (Rodrigue and Robaina, 2004).

In order to overcome these difficulties, empirical studies proposed that small and medium-sized companies must source their operations by changing what they have initially done within the firm and, in general, certain tasks that require professionals, such as accounting, (Mahboub, 2021; Kotabe & Mol, 2009). Today, in Global arena, firms are embracing strategies that help them cut costs and remain competitive in the both national and global markets which are always unstable such as hiring independent accountants who provide qualified accounting services (Tazilah et al., 2019; Everaert et al, 2016). SMEs therefore need to cut their overhead costs and come up with new ways of doing business by efficient utilization of external available resources in order to remain and even improve its competitiveness in national and even in global markets, (Mahboub, 2021; Mahmoodzadeh et al. 2009). According to OAOI (2007), adopting outsourcing strategies allows SMEs to cut overheads costs and focus on their core business operations, which would enhance growth, management and efficiency of small and medium-sized enterprises in both national and global business arena.

Trust between owners or managers of SMEs and external accountants is key dependent of outsourcing relationships between the owners or managers of these enterprises (Cahyaningtyas & Ningtyas, 2020; Gainey & Klaas, 2005). Existence of trust in this relationship decreases the Agency's costs by reducing the risk of opportunism or otherwise removing the Agency's conflict that exist between the principal and the agent, thereby enhancing its performance (Blackburn et al., 2018; Gainey & Klaas, 2005). The theory further supports the view that, where trust is predominant, the agency's dispute is minimized and a long-term partnership between the principal and the agent is formed which enhances efficiency and effectiveness and therefore improving the enterprise's competitiveness and performance (Jones, 1995). The higher the perceived trust in managers or owners and professional accountants, the greater the probability that SME owners or managers will prefer to outsource accounting activities (Blackburn et al., 2018; Everaert et al., 2010; Kim & Lee 2007).

Despite Cahyaningtyas & Ningtyas (2020); Fukuyama (1995) argument's in their empirical studies, that trust do not have significant effect on the performance of SMEs, (Mahboub, 2021; Tomašević et al., 2023; Olimpia et al., 2006) have shown how good relationships and trust in this relationship could lead to higher efficiency and performance of small and medium-sized enterprises. (Corcoran & McLean, 1998), Martinez and Ramos (2004) argue that through contract engagements, contributes to stronger win-win relationship, which will enhance efficiency and performance of an enterprise. Existence of trust between the parties, leads to low overhead costs and reduced financial loss, inefficiencies and minimal conflict

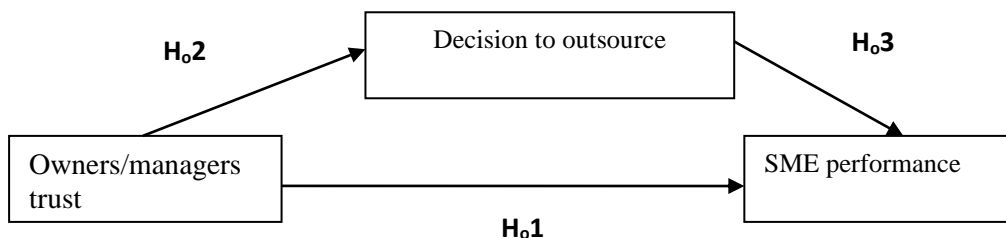
of interest, thus increasing operational and financial performance (Đurović et al., 2023; Bozzurro et al., 2008).

Brian (2012) asserts that outsourcing is a contractual relationship between external service providers performing activities for one or more of the firm's non-core functions. On the other Strategic outsourcing entails outsourcing certain activities of a firm to enable it focus on core businesses of the enterprise (Click, 2005). For this reasons, pragmatic long-term collaboration between the parties is required with an emphasis on mutual benefit rather than a mere seller buyer relationship (Click, 2005). Empirical research asserts that there is a direct positive effect between trust by owners or managers in external service providers and the decision to outsource professional services from them (Greenberg et al., 2008).

Previous studies have shown that most SMEs source accounting activities to professional accountants (Mahboub, 2021; Everaert et al., 2010). Mahboub, (2021) studied on factors influencing outsourcing of accounting functions in Lebanese small medium-sized enterprises and found that trust have significant effect on outsourcing choices. Everaert et al. (2006, 2007, and 2010) in their studies found that over two thirds (67%) of SMEs had outsourced accounting activities to professional accountants in Belgium during the period of study. In addition, they found that trust determine outsourcing of accounting function. In Australia, Carey et al. (2006) found that majority firms outsource audit activities to professional accountants. In Norway, Gooderham et al. (2004) established that most small and SMEs employ professional accountants as providers of professional activities. In United Kingdom, numerous empirical studies have established that most SMEs utilize the services foreign professionals, meanings outsourcing decisions especially accounting practices is a global phenomenon (Berry et al., 2006; Scott and Irwin, 2009; Sian and Roberts, 2009). In Malaysia, Jayabalan et al. (2009) asserts that most SMEs outsource accounting operations to external accountants indicating that SMEs must outsource accounting activities to professional accountants for their survival in this dynamic business environment.

According to [OAOI] (2007), adopting outsourcing strategies allows companies to reduce overhead and to concentrate on core firms' operations, which enhances effectiveness, firm's growth and efficiency of SMEs, such as outsourcing accounts payable, increases transparency, reduces the cost and commitment of SMEs which stimulate growth and hence the quality of these enterprises (Berry et al., 2006). In addition, under more unpredictable business situations, external accountants are in position to provide ways of survival and help SMEs owners or managers to achieve objectives of the organization by providing advisory services due to their experience and possession of managerial skills (Martin, 2005; Devi & Samujh, 2010). From these empirical, we can say that the higher the implicit trust between the owners or managers and professional accountants, the greater the probability that SME owners or managers will prefer outsourcing their accounting practices (Everaert et al., 2010).

Conceptual framework



METHODOLOGY

The impact of manager’s or owner’s trust in external accountant, decision to outsource and SMEs performance in Uasin Gishu is investigated in the study using the owners or managers of registered SMEs in Uasin Gishu. The questionnaires were given to either the manager or the owner of the enterprise. According to Uasin Gishu County records there are 2053 registered SMEs in Eldoret Town, (Company Registrar, 2019). The study targeted SMEs within seven sectors, namely; financial services, Retail, Telecommunication, Agriculture, Hospitality, Professional services and Workshop services. From the target population of 2053 SMEs, Taro Yamane (1973) sample size formula was used to select a sample size of 335 SMEs as shown below;

$$n = \frac{N}{1 + N_e^2} = \frac{2053}{1 + 2053 \cdot 0.05^2} = 335$$

Where:

- n = Sample size
- N = Population size
- e = the error of Sampling

This study allowed the error of sampling on 0.05. Thus, sample size was 335 SMEs.

The study used cluster sampling technique to select the SMEs where owners/managers were picked. Therefore, SMEs were divided into seven clusters (sectors) namely; financial services, Retail, Telecommunication, Agriculture, Hospitality, Professional services and Workshop services. The sample size was distributed according to Neyman (1934) allocation formula. The purpose of the method is to maximize survey precision, given a fixed sample size. The researcher then assigned random numbers to respondents in each street then calculate the max-value of the sampling interval (the number of individuals in the population divided by the number of individuals to be chosen for the sample, select a random number between 1 and the max-value, and repeatedly add the max value to select the rest of the SMEs and Choose the sample by selecting the SMEs corresponding to the number sequence obtained.

Variables measurement

All the three (3) variables that is Trust in external accountant, decision to outsource and SME performance in this quantitative approach were adapted from past literature. A five-point Likert-type scale was used to measure all variables with answers ranging from strongly disagree (1) to strongly agree (5). Specifically trust in external accountant was measured according to (Everaert et al., 2010; Hansen & Morrow Jr, 2003). Performance of SMEs was measured according to (Sarapaivanich & Kotey, 2006) and finally decision to outsource which was measured according to (Espino-Rodríguez & Padrón-Robaina, 2005; Espino-Rodríguez & Padrón-Robaina, 2004; Espino-Rodríguez, Lai, & Baum, 2008).

Model specification

Multiple Regression model was used to test the research hypotheses. Hierarchical regression analysis was conducted to check for direct effects and interactions as indicated below;

$$FPit = \beta_0 + \beta_1 MT1it + \beta_2 DTO2it + \epsilon_{it} \dots \dots \dots \text{model 1}$$

$$DTOit = \beta_0 + \beta_1 MTit + FPit + \epsilon_{it} \dots \dots \dots \text{model 2}$$

$$FPit = \beta_0 + \beta_1 MT*DTOit + \epsilon_{it} \dots \dots \dots \text{model 3}$$

RESULTS AND DISCUSSIONS

Demographic Characteristics of the Respondents

Out of three hundred and thirty-five (335) (SMEs) sampled and questionnaires administered, three hundred and four (304) respondents responded. This gives a responds rate of 90.7% percent, which was good for analysis. Table 1 shows the summary of demographic characteristics of the respondent's

Table 1: Descriptive statistics

		Frequency	%
Age	Below 25 years	75	24.7
	26-30 years	97	31.9
	31-35 years	85	28
	41-45 years	26	8.6
	46-50 years	1	0.3
	Above 50 years	20	6.6
	Total	304	100
Gender	Male	203	66.8
	Female	101	33.2
	Total	304	100
Highest level of education	Primary	22	7.2
	Secondary	48	15.8
	Vocational	137	45.1
	First degree	32	10.5
	Masters	40	13.2
	Others	25	8.2
	Total	304	100
Business type	Financial services	51	16.8
	Retail	46	15.1
	Telecommunication	58	19.1
	Agriculture	40	13.2
	Hospitality	47	15.5
	Workshop services	24	7.9
	Others	38	12.5
	Total	304	100
Business monthly income	Below KShs. 10,000	104	34.2
	KShs. 11,000 - 50,000	62	20.4
	KShs. 51,000 - 90,000	111	36.5
	Above KShs. 100,000	27	8.9
	Total	304	100
Position in business	Owner	105	34.5
	Manager	46	15.1
	Employee	153	50.3
	Total	304	100
Business existence	Less than 1 yr	55	18.1
	1-2 yrs	46	15.1
	2.1-3 yrs	20	6.6
	3.1-5 yrs	37	12.2
	5.1-10 yrs	47	15.5
	Over 10 yrs	99	32.6
	Total	304	100

Table 1 indicates that 97 (31.9%) were aged below 25 years, 75 (24.7%) are aged between 26 to 30 years while 85 (28%) are aged between 31 to 35 years, showing that over 83% of the SMEs owners or managers were aged 35 years and below. The findings also showed that

less than 16% of the SMEs owners or managers are aged above 40 years showing a clear domination of the SMEs sector by younger individuals.

The results also indicated that 203 (66.8%) of the SME owners or managers are male while 101 (33.2%) are female. Although there is clear domination of males in the SME sector in Uasin Gishu County, it also highlights that females experience difficulties in accessing the same kind of resources and opportunities for them to be successful in the SMEs sector.

The study also showed that 137 (45.1%) of the SME owners/ managers have attained vocational level of education, 48 (15.8%) have attained secondary level of education, 40 (13.2%) have attained master's level of education, 32 (10.5%) have attained their first degree, 25 (8.2%) have other education levels while 22 (7.2%) have attained primary level of education as their highest level of education. This clearly showed that majority of the SME owners/ managers were qualified in terms of their education hence high credibility of the information obtained from them regarding their business.

Background characteristics of the SMEs, revealed that 58 (19.1%) of the SMEs were in telecommunication businesses which comprises those trading in telecommunication merchandise such as mobile phones and their accessories, 47 (15.5%) were hospitality types such as restaurants, cafes, eateries and hotels, 46 (15.1%) were retail such as general merchandise shops and kiosks, 51 (16.8%) offer financial services, 40 (13.2%) are agricultural based SMEs, 38 (12.5%) are other types of SMEs within the sampling categories while 24 (7.9%) are workshops. There are different types of SMEs in Uasin Gishu County with those in telecommunication types and financial services dominating the county's SMEs business.

The study also revealed that 111 (36.5%) of the SMEs have a monthly income of KShs. 51,000 to KShs. 90,000, 104 (34.2%) have below KShs. 10,000 monthly, 62 (20.4%) have between KShs. 11,000 to KShs. 50,000 of monthly income while 27 (8.9%) have over KShs. 100,000 monthly. Kenya is currently categorized as a middle-income country and the SMEs in such category of countries contribute about 70% of GDP (Keskin et al., 2010). However, the great diversity in the SME sector means different levels of income hence a challenge to the sector profitability levels.

The results also showed that 153 (50.3%) of the respondents were employees, 105 (34.5%) were owners of the SMEs while 46 (15.1%) were managers in the SMEs. This showed that there is adequate mix of the source of data from the various cadres in the SMEs and also showed that there was diverse and rich information on the phenomenon under investigation. Finally, regarding the background information of the SMEs, the findings revealed that 99 (32.6%) of the SMEs have been existing for over 10 years, 55 (18.1%) have existed for less than 1 year, 47 (15.5%) have existed for over 5 to 10 years, 46 (15.1%) have existed for 1 to 2 years, 37 (12.2%) have existed for over 3 to 5 years while 20 (6.6%) have existed for over 2 to 3 years. This means that there is diversity in terms of the market experience from SMEs that were started recently and those which have been operating for some years.

Descriptive statistics for the constructs and scale reliability

The results in Table 2 revealed that most owners/ managers were neutral with regard to having trust that the professional accountant will advise them properly, mean = 2.86 (std. dev = 1.30). Furthermore, most of the respondents were also neutral with regard to their feeling that professional accountant cares and will be available when needed, mean = 2.605 (std. dev = 1.293). The study also found that agreement with the statement that the professional engagement between the owner or manager and the professional accountant is based on mutual trust, mean = 3.342 (std. dev = 1.015).

Table 2: Owner's/Manager's Trust

	Mea n	Std. Deviation	Skewness	Kurtosis
We have confidence that the external accountant will inform correctly	2.860	1.320	0.069	-1.161
I feel that external accountant care about what happens to us.	2.605	1.293	0.102	-1.284
The relationship between the owner-manager and the external accountant is based on trust	3.342	1.051	0.122	-1.071
I feel that the external accountant will perform his duties correctly	2.858	1.329	0.330	-1.180
OWNER'S/MANAGER'S TRUST	2.959	0.736	0.429	0.003

The study also found that neutrality with the statement that the external accountant will perform their duties correctly, mean = 2.858 (std. dev = 1.358). The overall response on the owner or manager trust was neutral, mean = 2.959 (std. dev = 0.737). Normality tests indicated that skewness and kurtosis values were within the rule of thumb of +/- 1.96. (Gainey & Klaas, 2005) indicate that trust is as a believe that the accountant act in a way that puts the interest of the principal first. Presence of conflict of interest shows that there is no trust in the relationship. (Greenberg et al., 2008). The higher the conflict of interest, the higher the degree to which owners or managers will employ complex and costly management technics to protect its interests in its transactions with the professional service provider (Dyer & Ross, 2008) and this is the fear for many SMEs in developing countries. (Mahmoodzadeh et al., 2009) asserts that the SME's decision to outsource accounting activities based on the nature of the transaction and the level of trust by owner or manager in the professional accountant such that the higher the perceived trust in professional accountants, the higher is the likelihood that the owner or managers of SMEs will outsource their accounting activities and vice versa.

Decision to Outsource

Outsourcing is management strategy through which the non-essential services of an organization are transferred to professional, efficient external service providers. The results regarding this were summarized and presented in Table 3.

Table 3: Decision to Outsource

N=304	Mean	Std. Deviation	Skewness	Kurtosis
My firm outsource external accountant to....				
File VAT returns	2.51	1.44	0.364	-1.114
Prepare financial statements	2.94	1.30	-0.091	-1.248
Prepare payroll	2.72	1.58	0.464	-1.419
Audit work	3.24	1.45	-0.182	-1.204
Profit analysis	2.93	1.02	-0.030	-0.481
Financial advice	3.04	1.52	0.143	-1.594
File tax returns	2.88	1.46	0.443	-1.356
DECISION TO OUTSOURCE	2.77	0.626	0.593	0.551

According to the findings in Table 3, the mean of 2.51 (std. dev = 1.44) indicated overall disagreement with the fact that the SMEs outsource external accountants to file VAT returns. On the other hand, a mean of 2.94 (std. dev = 1.30) indicated overall neutrality with the statement that they outsource external accountants to prepare financial statements. Furthermore, most of the respondents were neutral with the statements that they outsource external accountants to: prepare payroll, mean = 2.72 (std. dev = 1.58), audit work, mean = 3.24 (std. dev = 1.45), carry out profit analysis, mean = 2.93 (std. dev = 1.02), offer financial

advice, mean = 3.04 (std. dev = 1.52) and to file tax returns, mean = 2.88 (std. dev = 1.46). The overall mean response indicated overall neutrality, mean = 2.77 (std. dev = 0.626). Regarding skewness and kurtosis all values were within the +/- 1.96 limits suggesting that though asymmetry might exist, it is not significant and that there is an insignificant measure of outliers to affect the data. This indicates normality.

The purpose of outsourcing is to reduce overhead cost and improve competitive advantage. However, the finding of this study indicate that majority of the SMEs in Uasin Gishu County do not outsource accounting activities and this can be because of the size of the business in terms of their capacity to outsource.

SME Performance

Firm performance refers to the enterprise's success in the market. The results regarding this were summarized and presented in Table 4.

Table 4: SME Performance

N=304	Mean	Std. Deviation	Skewness	Kurtosis
Growth in sales as expected	2.625	1.165	0.703	-0.546
Growth in sales in relation to competitors	2.947	1.265	0.031	-1.058
Growth in profit as expected	2.911	1.351	0.162	-1.188
Growth in profit in relation to competitors	2.750	1.204	0.137	-1.118
Employees has increased	3.352	1.644	-0.424	-1.445
Increased market size in new market	2.589	1.194	0.884	-0.500
Growth in capital for business operations	3.444	1.064	-0.382	-1.193
We have improved our efficiency	2.618	1.108	0.813	-0.283
We have created positive reputation	2.938	1.131	-0.317	-1.137
Customers satisfaction	3.207	1.140	0.527	-1.091
High customer loyalty	3.029	1.187	0.145	-1.204
High level of new customers	3.184	1.399	-0.048	-1.392
Ability to develop new products	3.375	1.504	-0.206	-1.440
FIRM PERFORMANCE	2.99	0.584	0.000	1.577

The findings in Table 4 showed that there is neutrality in terms of growth in sales as expected, growth in sales in relation to competitors, growth in profit as expected, growth in profit in relation to competitors and increase in employees, mean = 2.625 (std. dev = 1.165), mean = 2.947 (std. dev = 1.265), mean = 2.911 (std. dev = 1.351), mean = 2.750 (std. dev = 1.204) and mean = 3.352 (std. dev = 1.644) respectively. The findings also showed overall neutrality with the statements that there is increased market size in new market, there is growth in capital for business operations, the is improved efficiency in the SMEs and there is positive reputation created, mean = 2.589 (std. dev = 1.194), mean = 3.444 (std. dev = 1.064), mean = 2.618 (std. dev = 1.108) and mean = 2.938 (std. dev = 1.131) respectively. The findings also showed overall neutrality by the respondents with regard to customer satisfaction, high customer loyalty, high level of new customers and the ability to develop new products, mean = 3.207 (std. dev = 1.140), mean = 3.029 (std. dev = 1.187), mean = 3.184 (std. dev = 1.399) and mean = 3.375 (std. dev = 1.504) respectively which indicated overall neutrality given the mean but a certain level of agreement with the statements as indicated by the standard deviation. The overall mean response for firm performance was 2.998 (std. dev = 0.584) indicating overall neutrality. The assessment of skewness and kurtosis showed that they were all within the +/-1.96 limit thus there is no violation of the normality assumption. Given the level of agreement, enhanced firm performance is a way to satisfy investors and is always shown by profitability, growth and market value (Devi & Samujh, 2010).

Correlation Analysis

The study thus carried out correlation analysis and the findings were summarized and presented in Table 5.

Table 5: Correlation Analysis

Variable	1	2	3
1.performance			
2.Managers trust	0.608**	1	
3.Decision to outsource	0.672**	0.478**	1

From the findings in Table 5, managers trust has a positive and significant relationship with firm performance ($r = 0.608$) at 0.01 level of significance. This implies that there is a probability of 0.608 that the increase in managers' trust of the external firm will increase firm performance. The findings also showed that there is a positive and significant relationship between decision to outsource and firm performance ($r = 0.672$) at 0.01 level of significance indicating that there is a probability of 0.672 that firm performance will increase with increase in decision to outsource.

Regression model

Table 6 gives a summary of the predicted model related to the given independent variables.

Table 6: Model Summary

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
(Constant)	0.554	0.124		4.470	0.000		
Managers trust	0.192	0.050	0.220	3.805	0.000	0.403	2.484
R		0.773					
R Square		0.598					
Adjusted R Square		0.593					
Std. Error of the Estimate		0.410					
F Change		111.31					
df1		4					
df2		299					
p-value		0.000					

Dependent Variable: Firm performance

According to Table 6, the R figure reveal a relatively strong correlation between predictor variables and the response variable (firm performance). This is because the R square value is positive (0.598). This means that the variation in firm performance is attributed by 59.8% change in the predictor variables.

The study also carried out the analysis of variance and the findings were summarized and presented in Table 6. It showed that the regression model accounts for more than 111 times the variation of the firm performance compared to the residuals, F-value (4) = 111.31, p-value = 0.000.

The Variance Inflation Factor (VIF) measures the impact of collinearity among the variables in a regression model. From the findings in Table 6, all the VIF measures are greater than 1 and less than 10 indicating that multicollinearity is not a concern.

The findings in Table .6 showed that manager's trust has a positive and significant effect on firm performance ($\beta_1 = 0.220$, p-value = 0.000) and this can be explained further by

assessing the value of the t-test which indicates that firm performance would be approximately 4 times higher given the change in manager's trust ($t = 3.805$). This implies that with each unit increase in manager's trust, firm performance will increase by 0.220 units.

Mediation testing

Mediation Effect of decision to outsource on the relationship between managers/owners Trust and firm performance

Model = 4

Y = Firm performance

X = Managers trust

M = Decision to outsource

Sample size 304

Outcome: Decision to outsource

Mediation Effect of decision to outsource on the relationship between managers/owners Trust and firm performance

Model = 4

Y = Firm performance

X = Managers trust

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Sample size 304

Outcome: Decision to outsource

Table 7: Model Summary

R	R-sq	MSE	F	df1	df2	P
.4784	.2288	.4114	89.6160	1.0000	302.0000	.0000

Table 8: Model

	coeff	Se	T	P	LLCI	ULCI
Constant	1.3738	.1525	9.0094	.0000	1.0738	1.6739
Management Trust	.4734	.0500	9.4666	.0000	.3750	.5718

Outcome: Firm performance

Table 9: Model Summary

R	R-sq	MSE	F	df1	df2	P
.7467	.5576	.1842	189.6671	2.0000	301.0000	.0000

Table 10: Model

	coeff	Se	T	P	LLCI	ULCI
Constant	.8413	.1149	7.3193	.0000	.6151	1.0695
Decision to outsource	.4358	.0385	11.3171	.0000	.3600	.5116
Managers Trust	.3241	.0381	8.5060	.0000	.2491	.3991

Table 11: Direct effect of X on Y

Effect	SE	T	P	LLCI	ULCI
.3241	.0381	8.5060	.0000	.2491	.3991

Table 12: Direct effect of X on Y

	Effect	Boot SE	Boot LLCI	Boot ULCI
Decision to outsource	.2063	.0329	.1507	.2777

The model summary for direct effect, i.e managers/owners trust on decision to outsource while controlling for firm performance showed R values of 0.4784 F=89.6160 P-value <.0000. This shows a relatively high correlation between the predictor variables and the response decision to outsource. This means that variation in decision to outsource is attributed by 47.84% change in management/owner trust. The regression model showed co-efficiency values of 0.4734 while controlling for firm performance. When mediation is introduced the co-efficiency, values changed to 0.3241 indicating that there is partial mediation.

DISCUSSION

The results from the study revealed that the manager or owner owners trust has a positive and significant impact on the firm's success ($\beta_1 = 0.220$). These results are consistent with past studies done by (Daoleuxay, 2017), (Xiao et al., 2014), (Everaert et al., 2010), (da Costa et al., 2008), (Gainey & Klaas, 2005), (Ramos, 2004), (Sharma, 1997). The regression model showed that the outsourcing decision had a positive and significant effect on firm performance, co-efficiency of 0.1764. Mediation test also showed that decision to outsource mediate the relationship between managers/owner's trust and performance, co-efficiency of 0.3241

CONCLUSION AND RECOMMEDATION

The primary objective of this study was to assess the effect of trust in external accountant, decision to outsource and SMEs performance in Kenya. This objective was guided by the following specific objectives: to determine the effect of owners/managers Trust in external accountant and SMEs performance, to determine the effect manager's or owners trust on decision to outsource and to determine the mediating role of decision to outsource on the relationship between manager's or owner's trust and performance of SMEs. The findings have showed that the decision to outsource mediates the relationship between the manager's trust, and SMEs performance. More specifically, although there were opportunities and reasons for outsourcing, many SMEs do not outsource because of their capacity to outsource, the capacity to find an external firm that meets the needs of the SMEs and trust issues related to outsourcing.

It is obvious that there are other factors not covered in this study that can have a great effect on the performance of the SMEs. For this reason, there is need to explore other factors that are important in order to increase knowledge in this area. In addition, there is need to carry out research on the perspectives of the outsourcing firms so as to identify gaps as well as possible solutions to the outsourcing phenomenon.

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