EFFECTS OF OWNER ACCOUNTING PRACTICE COMPETENCIES ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA. A CASE OF KASARANI SUB COUNTY, NAIROBI CITY COUNTY

BY

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DECLARATION

I declare that this dissertation is my original work and has not been previously submitted or published elsewhere for award of degree. I also declare that this contains no material by other people except where due reference is made and author duly acknowledged.

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Sign ____ Date ______________________

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ABSTRACT

The study was carried out in the field of finance and accounting practices competencies with focus being on the performance of Small and Medium Enterprises (SMEs). The study had four variables which had several indicators to determine their effect on financial performance. Performance is contingent to many factors; This study sort to establish the influence of owner accounting practice competencies on the financial performance of SMEs operating in Kasarani Sub-County, in Nairobi City County, Kenya. The Kenyan Small and Medium Enterprise sector immensely contributes to economy and employment generation. However, its financial performance is still dismal as evidenced by the high collapse rate of SMEs in Kenya and specifically in Nairobi City County where very few SMEs survive up to the third generation. This might be attributed to poor accounting competencies by the SME Owners/Managers in the country. There is limited research on the relationship between; accounting information system, human resource accounting, accounting outsourcing and owner accounting orientation, and how they influence performance of SMEs in Kenya. Hence there is dire need for research such as the current one to establish these relationships. It is in this light, that the present study was conducted to lock this knowledge gap by providing recommendations on suitable approaches that can improve performance of SMEs in Kasarani Sub County. In its main objective, the study assessed the effects of owner accounting practice competencies on the financial performance of small and medium enterprises in Kasarani Sub County in Nairobi City County**.** Four specific objectives were developed and four hypothesis were tested to ; Establish Effects of Accounting Information Systems, Effects of Human Resource Accounting, Influence of Accounting Outsourcing and Effects of Owner Accounting Orientation on Financial Performance of SMEs in Kasarani Sub County, Nairobi City County. The study is anchored on three theories; Resource Based view Theory, Transactional Cost Economics Perspective and Human Capital Theory. The study utilized a descriptive research design, having the Kasarani Sub County's 754 SMEs as its target population and using 254 respondents as its sample size. The study employed stratified sampling to determine the number of respondents from each ward of Kasarani Sub-county, selected randomly using simple random sampling. In its data collection, structured questionnaire was used as a tool to collect primary data. Validity and reliability tests were done on the research tool before administration. Quantitative analysis technique was employed to produce descriptive statistics and inferential analysis carried out thereafter to establish a study model. The findings established that; accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation had statistically significant influence on financial performance of SMEs in Kasarani Sub County, Nairobi City County. The study revealed that, at (5%) or 0.05 level of significance, there exists positive and significant relationship between accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation are estimators of financial performance among SMEs in Kasarani Sub County and that 27.19% change in financial performance of Kenyan SMEs is explained by these variables. The results of the study support the theories anchoring the study and empirical literature. The study recommends for further similar research on SMEs operating in the other sub counties in Nairobi City County and also those outside Nairobi City County, since the current study was restricted to Kasarani Sub County and the Results cannot therefore be generalized.

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DEDICATION

I dedicate this work to my husband Okoth, my children Wambui, Wangu, Adero, Minjo and Misenya for your moral support, for your encouragement, patience and understanding when I was undertaking this quest and could not be there when you needed me.

ACRONYMS AND ABBREVIATIONS

AIS	Accounting information systems
AP	Accounting Practices
CAIS	Computerized Accounting Information Systems
GDP	Gross Domestic Product
HCT	Human Capital Theory
HRA	Human Resource Accounting
ICT	Information Communication Technology
RBV	Resource-Based View
ROA	Return on Asset
ROE	Return on Equity
ROTA	Return on Total Asset
SME	Small and Medium-Sized Enterprises
SPSS	Statistical Package for Social Sciences
TCE	Transaction Cost Economics
ERP	Enterprise Resource Planning
CPA	Certified Public Accountant
ATC	Accounting Technician Certificate
ACCA	Association of Certified Corporate Accountant

OPERATIONAL DEFINITION OF TERMS

Accounting Information Systems (AIS) are tools which, when incorporated into the field of accounting practices, are designed to help in the management and control of areas related to organization's economic-financial performance. They refer to complete collection of business components that comprises entire inputs, gathering and reporting of financial transactions information (Muhindo *et al.*, 2014; Nzomo, 2013).

Accounting Outsourcing is defined as the strategic use of an external third party professional accountant to perform all or part of an organisation's back office functions within the organisations environment (Ray, 2009).

Human Resource Accounting (HRA) is defined as the process of identifying and measuring data concerning human resource and communicating this information to interest parties (America Accounting Association, 1973).

Human Resource refers to the set of individuals who make up the workforce of an organization or a business entity **(**Syed, 2009).

Intellectual Capital Accounting is a method of measuring and reporting the range of human and knowledge based factors that create sustained economic value in a business enterprise (Fincham, & Roslender, 2003).

Owner Accounting Orientation are competencies that relate to the ability of the owner of the SME to organize so as to enhance the accounting function competitively in different contexts, to apply its technical capabilities in a way, which successfully attains the SME's goals. Competence in organizing, directing, and controlling networks of SMEs' assets add value in their own right as the managerial resource which binds the dispersed and the disparate assets and financial performance of the SME(Namusonge, 2014).

Performance of SME is defined as a measurable result of the level of attainment of organizational goals or measurable result of the organization's management of its aspects, or mechanism for improving the likelihood of the organization successfully implementing a strategy (Daft & Marcic, 2001).

Profitability is referred to as the ability to make profits steadily over a long period of time. Profits itself means various items to purely different people (Adewoye & Akanbi, 2012).

Small and Medium Enterprises (SMEs) are registered enterprises with less than 100 employees. They are businesses with six to 50 employees or with annual revenues of less than 50 million Kenya shillings. Small and Medium Enterprises in Kenya constitute a category to demarcate the small and big business categories. (Namusonge, 2014; Rok, 2010).

CHAPTER ONE

1.1 Introduction

In this chapter, the study provides a background of the study for explaining its fundamental evidence. It sets the motivation to the study as well as the extent of the study. The main contents of the chapter are; a general study background, a statement of the problem for the study, the objectives guiding the study, research questions as well as the justification of the study and its scope.

1.2 Background of the study

Evidence has shown that Small and Medium-Sized Enterprises (SMEs) are business entities in the private sector which make a significant claim towards economic development of most countries in the world today. This is through their substantial revenue generation and more prominently on the Gross Domestic Product (GDP) growth (Gichuki, Njeru, & Tirimba, 2014). The significant contribution to generation of employment by these enterprises is unmatched by any other entity in the private sector (Opinya & Rotich, 2015). Globally, many countries have experienced this undebatable contribution by SMEs to their economies. However, the most pronounced beneficiaries of this development are the developing countries because they dominate the economic landscape (Amoako, 2013).

African countries are generating much of their wealth and development through SMEs which represent a huge number of enterprises in the region (Gichuki, *et al*, 2014). Kenya is not in isolation as it equally enjoys the benefits offered by SMEs as they generate up to 75% of the jobs created in the country as well as contributing 18% of the country's GDP (Opinya & Rotich, 2015). As recognition of their contribution and need for development, the government of Kenya is implementing programs and projects such as vision 2030 intended to promote these entities through improving their productivity and growth (Opinya & Rotich, 2015).

SMEs in Kenya are however, facing serious challenges in ensuring their growth and sustained financial performance. The growth of SMEs in Kenya is faced with challenges as evidenced by the fact that three out of every five SMEs collapse within the first year of operation. This threatens the growth of SMEs to larger enterprises as well as continuing contribution towards economic development. One of the challenges facing SMEs is lack of proper accounting records to the extent that owners are not able to determine the performance of their entities on a timely basis hence weakening controls and proper planning (Gichuki, Njeru & Tirimba 2014).

Literature has shown that by making informed accounting decisions, business enterprises are able to make larger strides towards their sustainable growth (Amoako, 2013). Such decisions are usually made out of possession of appropriate owner accounting competencies. Such competencies have proven to be essential strategic analysis in costing, target pricing, cost of quality, benchmarking and strategic performance management among others. SMEs require appropriate techniques and concepts for providing accurate information for managerial decision making for improving sustainable growth. Thus, it is worthwhile assessing the effects of appropriate owner accounting competencies based on their attributes such as technical behaviour (Gichaaga, 2014).

SMEs management ought to make informed economic decision that would lead to their performance. As Amoako (2013) suggests, these economic decision are established upon reliable accounting information, where effective accounting principles are responsible for the generation of an adequate accounting system. It is worth noting that the accounting practices are influenced by accounting systems being utilized, thus influencing the financial reports of

SMEs. This is based on the premise that accounting systems deals with economic transactions as well as events arising from SMEs' day to day business operations (Muhindo, Mzuza & Zhou, 2014). It is in this respect that poor or absence of accounting system is the primary cause of failures amongst SMEs. Therefore, it is worth taking into consideration management systems such as; technology, human resources, the professionals and the owner orientation that affect the accounting practice of the SMEs in order to improve business performance.

Although the SME owner/manager might possess substantial accounting skills, acquisition of internal stewardship as well as accounting outsourcing would efficiently optimize accounting resources. A mix of the three, entrepreneurial accounting skills, stewards' skills and the accounting outsourcing create a wider spectrum for accounting decision making (Enofe, Mgbame, Sunday, & Ovie, 2013). An effective and efficient utilisation of the accounting stewards is determined by the skills, ability, quality, perception and character of the staff. Okpako, Atube and Olufawoye (2014) state that for the staff to provide management with adequate and sufficient accounting information for effective and efficient decision making, management must invest in the staff, and provide assurance of adequate use of their human resources. Accordingly, creating the core competencies, skills, knowledge and innovation capacity adds value to accounting stewards and enables growth of the SMEs (Izedonme, Odeyile & Kuegbe, 2013). The SMEs owners need to ensure that management accounting stewards possess adequate knowledge, skills as well as competencies needed for effective production in that accounting premises that would cope with the rapidly changing and complex business environment for the achievement of sustainable growth of the SMEs.

SMEs are predominantly owner–managed and sole proprietorship is the norm. Consequently, competences of owners/managers importantly drive the growth of the SMEs, where sufficient owner/manager accounting competencies significantly contributes to the success of the

SMEs. On the contrary, lack of excellent accounting competencies highly threatens the survival of the SMEs. Simply saying that poor or absence of competencies majorly constraints the growth, development and sustainability of the SMEs as an obstacle. The SME is at risk when owner/manager does not possess the appropriate accounting skills and knowledge, and becomes disastrous when the owner either does not recognise the need for this expertise or is not willing to seek advice. However, positive attitude towards accounting and managerial competencies of the SME owner/manager significantly contributes to enhancing success of SME and is critical for the potential development of these enterprises. The accounting and managerial competencies can be attained through training and accounting skills development (Byaruhanga, 2014).

1.2.1 Accounting Information Systems

Accounting Information System (AIS) produces information that backs the production and delivery activities within the SMEs through; collection, processing, dissemination and storing important transactions and report for the entities' important decision making (Muhindo *et al*., 2014). Importantly, AIS is used in general accounting practices for offering potential application, where it enhances proficiency in financial reporting and management accounting and is also used as an auditing technique. Since AISs are used as accounting techniques, they provide the user with facility for profitability analysis and financial ratios analysis as well as enhancing budgeting (Daoud & Triki, 2013). Basically, they are used as profit centers for the business owners. For this reason, AISs are precinct within accounting practices for ensuring information quality enhanced by system quality and competency of accounting personnel (Ismail, 2009).

1.2.2 Human Resource Accounting

The effective optimization of the ability of the human resources in accounting highly contributes to the business success, making human resource the greatest asset at the disposal of the businesses (Enofe, Sunday & Ovie, 2013). The main factors of consideration in an accounting human resource are their; skills, knowledge, and experience, which can potentially be applied in production of useful accounting services. Effectiveness and efficiency in utilization of the accounting human resource largely bound the factors such as the skills possessed, ability of the human resource, quality of the human resource, and how the human resource perceives issues and its character. For the human resource to be an important and vital asset for the SMEs, the business enterprise should create value in it through Human Resource Accounting (HRA) (Becker, 1993). HRA plays an important role in providing SMEs with information concerning the cost of employees.

HRA is required by the SME for the; creation of the core competence of the human resource, creation of knowledge and enhancing innovation, and creation of value of the creation. For the SMEs to ensure a competitive advantage, they should importantly consider the human resource as the most competitive weapon (Izedonme, Odeyile & Kuegbe, 2013). In using HRA, SME sector would be able to enhance optimization of its workforce, where the HRA enriches the human resource comprehensive through human capital development. HRA establishes programs for developing competencies of the employees, by investing their skills, and knowledge and therefore facilitates the performance of business enterprise (Izedonme et al 2013). This enhances the achievement of business goals and in the long run survival and sustainability of the SMEs.

1.2.3 Accounting Outsourcing Practices

As Feizpour and Jamali (2009) puts it, the growth of SMEs is determined by the manner in which it focuses on its core activities. In case where the SME lacks effective resources, then it should proudly outsource such to compensate for the resource gaps. In accounting circles, accounting outsourcing practices is used to offer an alternative for absence of adequate accounting resource for the purpose of ensuring business continuity. This is owing to the fact that most SMEs are exposed to lack of necessary accounting competencies vital for their survival (Blackburn *et al*., 2010). In this case, accounting function outsourcing offers the most appropriate alternative for the sustainability of SMEs in the competitive business environment and especially for reducing their financial burden that they occasionally suffer from (Jayabalan et al., 2009).

1.2.4 Owner Accounting Orientation

The SME owner accounting orientation is an essential requirement for performance and competitiveness of the enterprises (Amoako, 2013). Those owners with greater professional experience are well versed with the effective factors in accounts and would reliably apply appropriate practices and thereby seize opportunities. Further, high education qualifications of the owner are a vital factor for driving the performance of the SMEs. Education and especially in business fronts has been a critical success factor for financial performance of SMEs (Lopez & Hiebl, 2015).

In fact, excellent management accounting competencies by the owner are of uppermost importance in order to lead an innovative SME to success and be ahead of competition. Owner of SMEs develop unclear accounting knowledge based on their own experiences and thus render the SMEs' accounting practices less objective (Odar, Kavcic, & Jerman, 2012).

Hence, the SME is at risk of collapse when owner does not possess or utilize the appropriate accounting skills and knowledge (Lucas, Prowle, & Lowth, 2013). Any owner may acquire excellent education and experience in their specific areas. However, they may lack accounting competencies which threatens the SMEs' survival and restrain their growth, development and sustainability.

1.2.5 Concept of Organizational Performance

Organizational performance has attracted a lot of interest in the recent decades for its widespread relevance in most human activities. Performance is an opinion or perception of reality, which explains why it's measured with different instruments and its definition is ambiguous. In most cases, notions such as; efficiency, earning, profitability, competitiveness and productivity are used to describe performance. According to Didier Noye (2002), performance is achieved when the outcome matches the objectives of the task at hand. So, performance is not just a mere outcome but it is achieved by the results reviewed after comparing the objectives and the outcome.

Performance is future-oriented, and it is reflected by how different products of an organization perform (Michel Lebas 1995). Hence performance is highly dependent on organization capability to assess and respond to future business environment. Wholey (1996), argues that performance is a reality that exists in people's minds, if at all it exists somewhere. Performance may be linked to economy, efficiency, effectiveness and equity; it may also be described by products, consequences and components, and how they impact on the economy.

Performance of SMEs has been traditionally conceptualized in terms of financial measures, such as Return on Total Asset (ROTA), Return on Equity (ROE). According to Saeed, Shekoofeh, and Mahnaz (2013) Return on Equity (ROE) has been established as a firm performance measure and certain factors have significant influence on ROE. There has been established a relationship between proper record keeping and profitability of SMEs due to inadequate record keeping, the small scale operators could not assess their performances effectively. Thus, in order to enhance the profitability of SMEs, there is need for adequate record keeping which will help the owners to keep track of the performance of these enterprises.

1.3 Statement of the Problem

Proliferation of the SME sector has been identified as being among the key solutions to the problem of job creation facing Kenya today (Koech, 2015). However, despite the enormous potentials of the SMEs sector and its immense contribution to sustainable economic development as well as contribution to employment in Kenya, its performance is still dismal. This is evidenced by the high collapse rate of SMEs (Dyer & Whetten, 2006), with over 60% of SMEs closing down within their first year of operation, 40% less than 2 years and 66% less than 6 years (Gichuki, *et al.*, 2014). Only 10% to 15% survive to a third generation. Hence there is dire need for research such as the current one to establish the causes of poor performance of SMEs in Kenya and specifically in Nairobi City County where very few SMEs survive up to the third generation. Most of the SMEs in the County collapse after the first family generation due to lack of accounting strategies of the enterprises. This failure has turned to be the 'deathbed' of SMEs in Kenya (Dyer & Whetten, 2006).

Various studies have been conducted on accounting competencies and SME growth. It was established that attracting, hiring and employment of competent staff leads to improved financial performance of SMEs (Rajashekharaiah, 2014). Anuonye (2015) found no relationship between staff competence and growth of firms in Nigeria. Locally, Mulyungi *et* *al*. (2015) study established that entrepreneurs' competencies offer a practical means of addressing the performance of SMEs. Odhong', Were and Omolo (2014) concludes that having specific human management practices affects organizational performance to the extent of obtaining sustainable competitive edge. Muhindo *et al.*. (2014) revealed that use of accounting information systems has a significant relationship to profitability of SMEs.

Although the Kenyan SME sector immensely contributes to economy and employment generations, its financial performance is still dismal as evidenced by the high collapse rate of SMEs in Kenya and specifically in Nairobi City County where very few SMEs survive up to the third generation. This might be attributed to poor accounting competencies by the SMEs in the country. Numerous studies conducted on SMEs' accounting competencies have largely left a gap on the relationships between owner accounting practice competencies on financial performance of all SMEs in Kenya. Suffice to say there is limited research on the relationship between; accounting information system, human resource accounting, accounting outsourcing and owner accounting orientation, and how they jointly influence performance of SMEs in Kenya. Hence there is dire need for research such as the current one to establish these relationships.

1.4 Objectives of the study

The following were the general and specific objectives of the study.

1.4.1 General objective

The main objective of this study was to assess the effects of owner accounting practice competencies on the financial performance of small and medium enterprises in Kenya**.**

1.4.2 Specific Objectives

The main objective has been broken down into the following specific objectives:

i. To establish the effects of accounting information systems on financial performance of small and medium enterprises in Kasarani Sub County.
ii. To establish the effects of human resource accounting on financial performance of small and medium enterprises in Kasarani Sub County.
iii. To establish the influence of accounting outsourcing on financial performance of small and medium enterprises in Kasarani Sub County.
iv. To find out the effects of owner accounting orientation on financial performance of small and medium enterprises in Kasarani Sub County.

1.5 Research Questions

The study answered the following questions

i. What are the effects of accounting information systems on financial performance of small and medium enterprises in Kasarani Sub County?
ii. What are the effects of human resource accounting on financial performance of small and medium enterprises in Kasarani Sub County?
iii. What is the influence of accounting outsourcing on financial performance of small and medium enterprises in Kasarani Sub County?
iv. What is the influence of owner accounting orientation on financial performance of small and medium enterprises in Kasarani Sub County?

1.6 Justification of the Study

The study's main purpose was assessing the effects of the owner accounting practice competency on financial performance of Kenyan SMEs**.**

The study findings and recommendations would be beneficial to various stakeholders. The study provided recommendations and findings to help the Kenyan SMEs in the private sector, policy makers in the National and County governments in Kenya, and international agencies like donors in making informed decisions about the financial performance of SMEs and hence help improve SMEs performance.

1.6.1 National Government

The National Government would find the study findings and recommendations relevant in developing policies and legislation that promote SMEs and thus creating an avenue for sustainable growth and developments characterized by employment creation, reduced poverty and stimulate growth.

1.6.2 County Governments

The County Governments would benefit from the study findings and recommendations on how they can help strengthen the SME sector and thus spur economic development and employment opportunities through enhanced performance in their respective counties. The county governments would benefit through; improvements in their investments, improving the county citizens' life standard, job creation, and reduction in poverty levels; hence achieving desired economic development.

1.6.3 Policy Makers

The findings of this study would be significantly help policy makers in their policy formulation, especially when formulating National and County governments' policies governing the growth of SMEs within the republic of Kenya. The policy makers would use the findings in their recommending for strategies necessary for improving the capacity of SMEs and revenue generation from the counties to stir economic growth and development. The National government and its agencies would use the findings to come up with strategies for policies to support the growth, survival and sustainability of SMEs.

1.6.4 SMEs Owners

The study would be of value to SMEs Owners in Kenya as the findings and recommendations will address any gaps which might be identified that could lead to improvement in financial performance.

1.6.5 The Public

The study findings would be important in enhancing an understanding to the general public on the mechanisms for spurring financial performance of SMEs by ensuring that potential entrepreneurs have adequate information on how to start and run successful business ventures.

1.6.6 Academicians and Scholars

The study added knowledge in the field of accounting practices and SMEs financial performance, making it useful to academicians and scholars.

1.6.7 Researchers:

The study was a window opener for further research, by researchers and scientists, within accounting areas and especially in SMEs sector.

1.7 Scope of the Study

The main focus of the study was assessing the effects of owner accounting practice competencies on the financial performance of SMEs in Kasarani Sub County. The research was carried out at Kasarani Sub County of Nairobi City County and covered the 754 registered SMEs owners in the Sub County.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter gives a review of the related literature with regards to variables influencing owner accounting practices and financial performance. It contains a review of literature by various authors which was beneficial to the study. This study reviews theories and empirical studies that explain the effect of owner accounting practice competencies on the SMEs' financial performance. These theories were useful for the development of the study's conceptual framework and critically analysed the empirical studies in identifying the research gaps.

2.2 Theoretical Review

This study considered certain theories useful in explaining the relationship between the study variables and more specifically the influence of owner accounting practice competency and financial performance of Small and Medium Enterprises. The theories and literature which were found beneficial to the study were; the Resource-Based View (RBV), Transaction Cost Economics perspective (TCE) and Human Capital Theory (HCT).

2.2.1 Resource-Based View theory

The main emphasis of the RBV is creation of competitive advantage by enterprises and links outsourcing valuable resources (McIvor, 2009; Gottschalk and Solli-Sæther, 2005) with firm performance. The outsourced resource should be capable of adequately improving firm performance in as much as they are rare and inimitable. The RBV advances that any firm seeking for outsourced resource should sufficiently assess the potentiality of outsourcing on improvement of its firm performance (Irwin, Hoffman and Lamont, 1998). The assessment would be able to reveal the manner in which resource under consideration relates to the firm performance since the core concern of the RBV is the relationship between development of the resources and capabilities for competitive performance (Gainey and Klaas, 2003).

This study considered RBV as being relevant in theoretical basis, since it identifies the numerous specific dimensions that render SMEs more vulnerable than larger enterprises (Gooderham *et al*., 2004). RBV argues out that smaller SMEs are vulnerable to competitive pressures as well as insufficiency in competencies, which highly threatens their survival (Blackburn *et al.*, 2010). Accordingly, the theory advises on seeking for outsourcing various technical competences for militating against the vulnerability of these enterprises. In fact, it suggests that the SMEs should seek external accountants' services for ensuring their survival.

The outsourcing practices would be important for achieving superior financial performance as compared with competitors (McIvor, 2009). This is based on the fact that SMEs are forced to identify mechanisms for improving financial performance in the presence of the dynamically changing competitive environment (McIvor, Humphreys, McKittrick & Wall, 2009). In the accounting area, SMEs have actually faced problems that are different from large enterprises owing to their low ability to acquire accounting services (Jayabalan, Raman, Dorasamy & Ching, 2009;). As such they would preferably be seeking to outsource accounting services as an alternative to having their own accounting function for sustainable competitive benefit. This is on consideration that outsourcing the accounting functions might lead to significantly reducing the burden suffered by SMEs (Jayabalan *et al.,* 2009). Based on the RBV, outsourcing the accounting function would allow access to accounting practices at affordable rates (Everaert *et al.,* 2006), which is an important resource.

2.2.2 Transaction Cost Economics Perspective

The perspective of Transaction Cost Economics (TCE) is increasingly becoming the most common standard framework for describing the performance of firms in their accounting functions (Everaert *et al*., 2006). TCE explains what causes different firms to perform variously and the reason that some firms opt to outsource professional accounting function. It argues out that transaction cost of a certain required accounting functions drives firms into opting for outsourced accounting service (McIvor, 2000, 2009). Thus, TCE provides the theoretical framework for understanding the cost effectiveness of outsourced accounting services by arguing that such an alternative importantly assist lessen SMEs' transaction costs (Everaert et al., 2006, 2010; Carey et al., 2006).

More specifically, TCE argues out that the firm outsourcing services, for example should weigh out the relative cost of transactions having own accounting staff and that of outsourced accounting services (Hamzah, Aman, Maelah, Auzair & Amiruddin, 2010 ; McIvor, 2000, 2009; Marshall, McIvor and Lamming, 2007). Although the outsourced accounting service and having own accounting staff (internally performed accounting) are the key consideration in the TCE, the theory further highlights other fundamental considerations. It associated the transaction costs to other key attributes such as; frequency of the transactions, trust, specificity of the asset (physical and human assets) and behavioural as well as environmental uncertainty. TCE considers these attributes as predictors of whether a function in accounting is most efficiently performed having own accounting staff (internally) or outsourced accounting services is better.

2.2.3 Human Capital Theory

The emphasis of human capital theory (HCT) is on the role played by the human resource by arguing that people add value which has its contribution to the performance of the firm (Becker, 2001). In this case, the HCT considers the human resources as an asset which should be highly valued by investing in for worthwhile returns and hence improve financial performance. The suggestion by the theory is that when a firm invests on the human resources, it would significantly gain economically (Sweetland, 1996). In the case of the present study, the economic benefit associated with investing on the human resources is the financial performance improvement. Thus, for an SMEs to considerably achieve financial performance it should value its accounting staff by investing in it.

The theory provides some guidelines on the main areas that the firm should actively consider when investing on the human resource for achieving its objective of improved financial performance (Sweetland, 1996). The theory suggests the firm should considerably invest in the assuring good health, proper nutrition, high level education, growth and development of its employee. By so doing, it will significantly gain by having motivated workers, who would work effectively geared in increasing their productivity. Increased productivity has always been associated with improved financial performance. Importantly, HCT argues that investing on educational level of employees is a source of labour productivity for financial performance (Becker, 1993; Shultz, 1993; Becker, 2001).

The theory further postulates that for the firm to assess the contributions of the human capital to financial performance, education and practical experience play key roles in the productivity of the human capital (Lazear, 1998). According to HCT, training is important for guaranteeing the sustainability of human capital. Employees with vast knowledge and skills, acquired from training, are considered a valuable resource to the business for they are useful in utilising their firm-specific knowledge for the benefit of the company. Thus, training provides an opportunity for the employees to contribute to the firm's core competence and accordingly the firm is provided with competitive edge over its competitors thereby associating the theory with the firm's resource based view (Barney 1991).

In addition to training, the SMEs may further invest in developing it human resources as well as attracting and retaining competent human capital. By so doing, the firm will be exposed to achieving better financial performance that would lead to better returns from such investments (Spender, 1996). According to Schuller (2000), proficient skills, knowledge and human resource competences are vital for determining whether organizations and firms will achieve better financial performance or not.

2.3 Empirical Review and summary of knowledge gaps

The literature review has highlighted a number of gaps. The reviews indicate that none of the studies have been conceptualized to examine these gaps which have been identified in the literature review and knowledge gap as detailed in appendix IV. The studies are explained in details hereunder as per the study objectives.

2.3.1 Effects of Accounting Information Systems

Muhindo *et al* (2014) studied SMEs in Uganda's Kampala City to assess the impact that accounting information systems (AISs) had on their profitability. This study established that AISs had an impact on SMEs profitability. However, most of these SMEs were not applying AISs in their business and as a result the financial performance of the SMEs was poor leading to low or absence of profitability from their investment. The study revealed that AIS had significant positive relationship with profitability of SMEs. Thus, between AIS and profitability of SMEs there exists a significant positive relationship. This led to the study recommending for adoption of AIS in the SME business management. In Jordan, a study by Abdallah (2013) found that accounting information systems had an impact on the quality of financial statements submitted to the Income Tax and sales Department. The study recommended focusing on the development of the devices used in the department, training and development of the staff on an on-going basis to enable them to continue to perform their jobs and improve the quality of financial statements in the department.

Amoako (2013) study indicates that the application of accounting information to support assessment of financial performance by SMEs in Ghana is inefficient. The results in the study by Daoud & Triki (2013) indicated that as the top management involvement and external expertise had an impact on the AIS, the AIS influences firm performance. The interaction effect of accounting staff competency with the AIS has a positive impact on firm performance improvement. The study notes that accounting practices are determined by top management commitment to the Enterprise Resource Planning (ERP), system deployment project and by qualified external expertise; and the practices are also influenced by the information quality produced by the accounting information system and by the ERP system quality. However, information quality and ERP system quality do not have a significant effect on firm performance.

Izedonme *et al*. (2013) revealed that human resource accounting as intangible asset had a positive and insignificant impact on organizational performance. Gunawardana (2013) study investigated security controls in Computerized Accounting Information Systems (CAIS) in the Selected Listed Companies in Sri Lanka. The results of the study highlighted a number of inadequately implemented CAIS security controls and significant differences among listed companies regarding the adequacy of implemented CAIS security controls. Findings of this study would help SMEs to better understand and secure their AIS in order to achieve success in their financial performance.

A study by Nzomo (2013) indicated that Accounting Information Systems are important mechanism for organizations' effective management, decision-making and controlling activities. It showed that there exists a relationship between AIS and organizational performance. The study concluded that AIS are critical to the production of quality accounting information on a timely basis and that the communication of such information to the decision makers has a greater impact on the organizational effectiveness.

2.3.2 Effects of Human Resource Accounting

Onyam, Usang and Eyisi (2015) established a significant relationship between HRA factors; training cost, development cost and the profit of the bank. Thus organizational performance is dependent upon the performance of the individuals that make up the organization. The study therefore recommended for enhancement of the retention of education and training of staff so as to avert wastage of knowledgeable investment. A study by Okpako, Atube and Olufawoye (2014) established that HRA increases the asset value of organizations by enhancing more profit, equips management to make effective and efficient decision to move the organization forward. It increases investment in organization because investors have the assurance of adequate use of their resources as a result of the value of human resource and gives shareholders and stakeholders adequate and sufficient information on the position of the organization which can also be used to determine the profitability and stability of such organization. The HRA variables are positively related to firm growth. However the study by Okpako *et al*. (2014) failed to provide proof that these variables cause that high performance. A study should be conducted to examine the extent to which implementing progressive HRA variables will result in improved operation and financial performance, a gap that the present study seeks to fill.

Rajashekharaiah (2014) asserts that training and development is also attracting, developing, and retaining a diverse workforce that helps in providing the different skills required in maintaining and improving the firm performance. The study by Rajashekharaiah (2014) recommended that firms should encourage employees' performance and firm performance through providing opportunity for the employees to utilize their full potential and thereby creating a high performance organization. Moghaddam, Kakhaki and Pakdelan (2014) study shows that HRA affects employees' performance by enhancing their knowledge, skills, behaviours and commitment, and empowers them in making decisions while performing their tasks.

2.3.3 Influence of Accounting Outsourcing

The study by Jayabalan *et al.* (2009) on outsourcing of accounting functions amongst SMEs in Malaysia revealed various facets of outsourcing practices among SMEs touching the accounting functions. The study concluded that outsourcing of accounting functions is an option for SMEs in order to maintain a competitive advantage in the business environment as outsourcing could lessen the burden borne by SMEs.

A study by Desai (2007) on finance and accounting outsourcing predicted that the presence of accounting outsourcing factors would provide a firm with a competitive advantage. Finance and accounting outsourcing may strongly influence the choice of future organizational form and structure thus making it important to develop an early understanding of this industry. Although the study addressed issues in accounting literature to advance an understanding of a fast-growing phenomenon and the outsourcing of accounting services, it fell short of clearly explaining how accounting outsourcing influenced the performance of SMEs. The same issues have not been addressed previously; a gap that the present study seeks to fill.

2.3.4 Influence of Owner Accounting Orientation

Locally, a study by Mulyungi, Mukulu and Waititu (2015) concluded that the skill based management characteristics are predictors for the export performance of agri-based export oriented SMEs. The study by Mulyungi et al. (2015) found that the focus on entrepreneurial competencies offers a practical means of addressing the performance of SMES. However, SMEs in Kenya are faced by lack of appropriate knowledge and skills, limited access to information technology and dependency on poor and obsolete technology.

A study by Amoako (2013) revealed that SMEs in Ghana do not maintain proper books of accounts because owners do not appreciate the need to keep accounting records, lack the necessary accounting knowledge and blame the cost of hiring accounting professional. Consequently, the application of accounting information to support assessment of financial performance by SMEs in Ghana is inefficient. As critical as accounting information is in managing relationships with the outside world, owners and managers need to understand the role of such information in the form of clear financial statements in ensuring proper justification for business transactions and state of affairs. The study by Amoako (2013) highlighted the state of owner accounting knowledge among Ghanaian business entities but the effect of either possessing accounting knowledge or lack of the same did not significantly feature in the study. The present study will extend these findings to the Kenyan SME sector and seek to establish whether possessing accounting knowledge in any way affects the financial performance of the entities.

Oseh (2013) found that due to the increasingly importance of competitiveness of enterprises of all sizes, SMEs need to provide opportunities for the exchange of knowledge and the enhancement of capabilities, to strengthen the long-term competitiveness of these enterprises. Achievement of these opportunities is attributable to presence of a manager with high proficiency in international skills and experience, understanding of export, strategic orientation, and financial management skills as well as networking. The study by Hashim (2012) shows that managers/owners professional experience and skills are critical for business ventures. The study by Oseh (2013) shows that owner education and business ventures characteristics are useful in export management, however, there is no clarity on the effects of owner education and business ventures characteristics on financial performance of SMEs, a knowledge gap the present study seeks to fill.

2.3.5 Performance of SMEs

Ahmad & Zabri (2015) stated that the performance of an organization may be viewed as the extent to which the organization has been successful in attaining its planned targets. In this respect, performance measures include among others; productivity, cost, quality, delivery schedule, market share, sales growth rate, operating profit, cash flow from operation, return on investment, new product development, research and development activity, and personnel development. Previous research has shown that Accounting Practices (AP) competences play an important role in safeguarding the efficiency in the management of firms and can improve performance. Accounting practice competences also permit firms to compete in the market place and reduce the likelihood of business failure (Ahmad & Zabri, 2015).

In a regional study of Nigeria (Enugu), Waiganjo, Mukulu and Kahiri's (2012) study assert that performance was measured in terms of ROTA and ROE. The study shows that HRA has direct and positive influence on firm performance using ROE as firm performance proxy.

Similarly, Muchandingona & Kalema (2012) carried out a study to discuss how organizations may leverage on the balanced scorecard to improve its financial perspective. The results demonstrated that value creation strategies are paramount in improving organization's financial perspective.

Saeed, Shekoofeh, and Mahnaz conducted a study in (2013) to investigate relationship between HR and value added efficiency of human capital with return on equity (ROE) as a firm performance measure. The result of the study shows that there is significant positive relationship between HR and value added efficiency of human capital with ROE.

This study indicates that performance of SMEs can be measured in financial terms such as: the percentage of turnover in terms of; profit, Return On Asset (ROA), Return on equity (ROE), increase in sales volume and turnover. Performance can also be measured in non-financial terms such as: Number of years in business, Number of employees, Number of business units, Regularity of accounts/financial reports. It helps management's decisions regarding an organizations performance by selecting indicators, collecting and analysing data, assessing information against performance criteria, reporting and communicating and periodically reviewing and improving this process. This study has used financial indicators in measuring performance.

The study indicates that the performance of SMEs is influenced by AIS as indicated by Information quality and information system quality. The attributes of the accounting information produced by these information systems are relevance, frequency, information scope, timeliness, level of aggregation and integration. The information system should provide relevant information in real time and should frequently report on the most important events and provide rapid feedback. The information system quality consists of its flexibility, ease of use, reliability, short response time and useful specific functions. The competency of accounting personnel is an important factor in the success of the accounting information system. The staff needs skills to enable them to control the functioning of the AIS and add value to SMEs, which would ensure performance of these enterprises.

The current study indicates that performance of SMEs is influenced by HRA. HRA accounts for ensuring recruitment and retention of qualified and experienced accounting staff as well as proper distribution of roles and capacity to enhance SME performance capabilities. The indicators of HRA are; academic qualifications, professional qualifications, experience, training, adequacy of staff, capability. Training employees is part of human resources framework. SMEs also have to leverage the capabilities and skills of its employees by encouraging individual learning and creating a helpful environment, in which knowledge can be created, shared and applied to SME performance.

Lastly, the study observed that the owner accounting orientation which traverses over education, skills and experience, understanding of accounts and financial management skills, networking as well as attitude and perception affects performance of SMEs. The accounting orientation of the owner/manager has also been found to have a sustainable positive relationship with performance and competitiveness. Owners of SMEs with high strategic (proactive) orientation are more likely to have better performance of their enterprises than owners of SMEs with low accounting orientation.

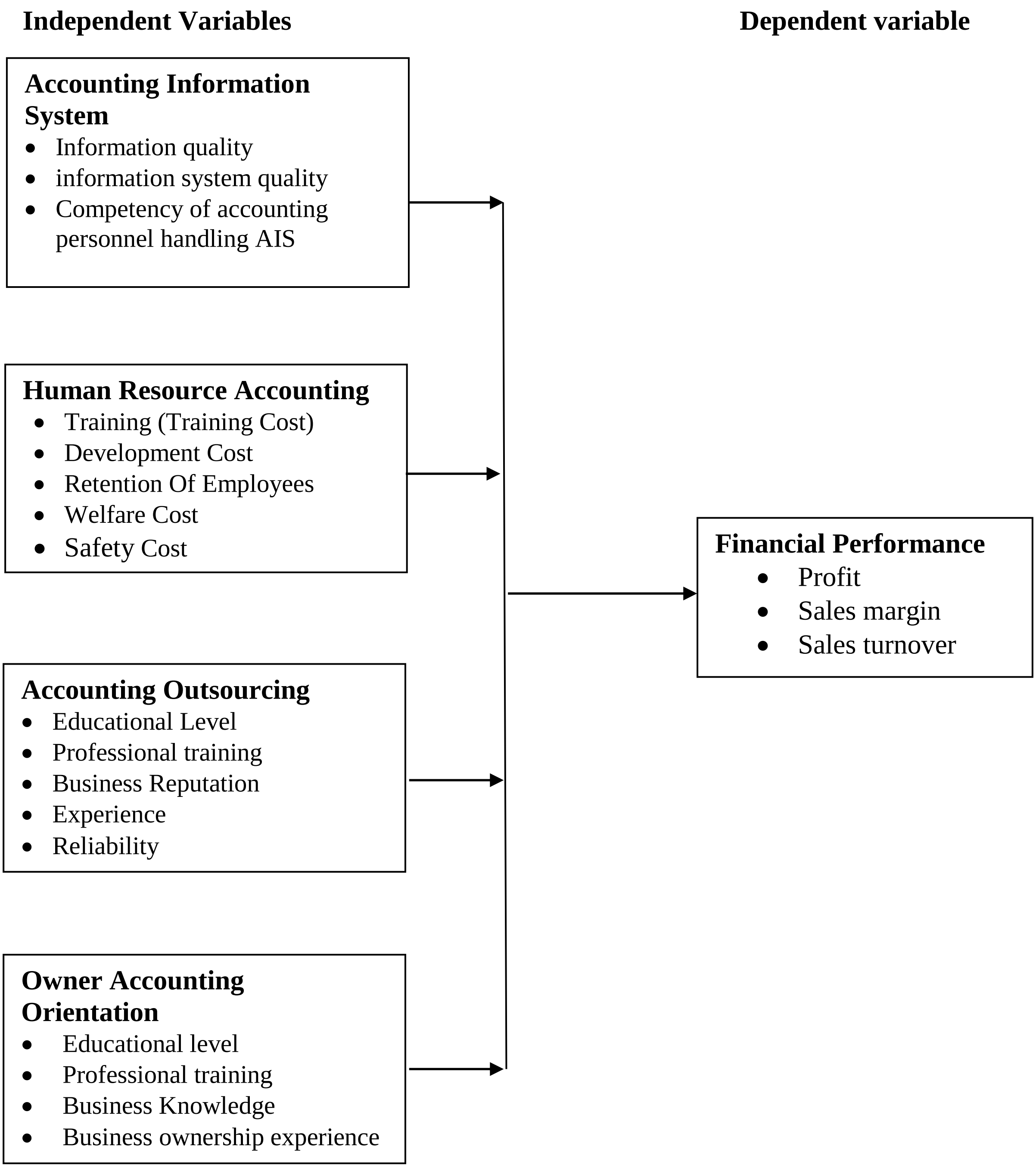
2.4 Summary and Knowledge Gaps

The review of the literature indicated that the financial performance of small and medium enterprises in Kenya is mainly motivated by accounting practice competencies. It has also revealed very few studies exist in Kenya on the extent of use of accounting practice in SMEs and the relationship between financial performance of small and medium enterprises and owner accounting practice competencies. The review therefore identifies a gap in research on use of owner accounting practice competencies among small and medium enterprises. Addressing the research questions in this study will endeavour to close this gap and add to existing knowledge about the extent of use of accounting practice competencies among small and medium enterprises and the relationship between financial performance of small and medium enterprises and owner accounting practice competencies in Kenya. This study assessed systems supporting accounting practices on performance of SMEs in Kenya in an effort to fill this gap.

2.5 Conceptual Framework

The study established a conceptual framework guided by the theories which were reviewed proposed that owner accounting practice competencies effects financial performance of small and medium enterprises in Kenya; accounting information systems, human resource accounting, accounting outsourcing, and owner accounting orientation. Thus, the study observed that accounting information system, human resource accounting, accounting outsourcing and owner accounting orientation influence the performance of SMEs. In this study; accounting information system, human resource accounting, accounting outsourcing and owner accounting are regarded as the independent variables and financial performance of SMEs in Kenya as the dependent variable as shown in the Conceptual framework in figure 1 below.

Figure 1: Conceptual Model of Effects of Owner Accounting Practice Competences and Financial Performance of SMEs



Source: Developed from the reviewed literature by Researcher (2018)

2.6 Operationalization of study variables

Operationalization of the study variables is important as it facilitates the measurement of the variables qualitatively and thus enabling the testing of the study hypothesis. The study variables comprise: Accounting information systems, Human resource accounting,

Accounting outsourcing and Owner accounting orientation which are independent variables and financial performance which is the dependent variable. Table 1 shows the summary of the operationalization of study variables.

Table 1: Operational Framework

Variable	Orientation	Objectives	Indicators	Scale of Measurement	Tool of Analysis	Location in the Questionnaire
Financial performance of SMEs in Kasarani Sub County.	Dependent Variable	To establish the joint effects of the independent study variables	- Profitability - Sales margin - Sales turnover	Ordinal using 5 point Likert Scale	Descriptive Regression Analysis	Section B question 11
Accounting information systems	Independent Variable	To find out effects of accounting information systems on financial performance of small and medium enterprises in Kasarani Sub County.	- Information quality - information system quality - Competency of accounting personnel handling AIS	Ordinal using 5 point Likert Scale	Descriptive Regression Analysis	Section C question 11
Human resource accounting	Independent Variable	To establish the effect of human resource accounting on financial performance of small and medium enterprises in Kasarani Sub County.	- Training (Training Cost) - Development Cost - Retention Of Education - Welfare Cost	Ordinal using 5 point Likert Scale	Descriptive Regression Analysis	Section D question 12
Accounting outsourcing	Independent Variable	To establish the influence of accounting outsourcing on financial performance of small and medium enterprises in Kasarani Sub County.	- Educational - Professional training - Business Reputation - Experience - Reliability	Ordinal using 5 point Likert Scale	Descriptive Regression Analysis	Section E question 13
Owner accounting orientation	Independent Variable	To find out the influences of owner accounting orientation on financial performance of small and medium enterprises in Kasarani Sub County	- Educational level - Professional training - Business Knowledge - Business ownership experience	Ordinal using 5 point Likert Scale	Descriptive Regression Analysis	Section F question 15

Source: Researcher (2018)

2.7 Study Hypothesis

Emerging from the conceptual model in figure 1, the following hypothesis of the relationship in the study was formulated:

Hypothesis 1

H_o: Accounting information system does not significantly influence financial performance of small and medium enterprises in Kasarani Sub County.

H_α: Accounting information system significantly influences financial performance of small and medium enterprises in Kenya.

Hypothesis 2

H_o: Human resource accounting does not significantly influence financial performance of small and medium enterprises in Kasarani Sub County.

H_α: Human resource accounting significantly influences financial performance of small and medium enterprises in Kasarani Sub County

Hypothesis 3

H_o: Accounting outsourcing does not significantly influence financial performance of small and medium enterprises in Kasarani Sub County.

H_α: Accounting outsourcing significantly influences financial performance of small and medium enterprises in Kasarani Sub County

Hypothesis 4

H_o: Owner accounting orientation does not significantly influence financial performance of small and medium enterprises in Kasarani Sub County.

H_α: Owner accounting orientation significantly influences financial performance of small and medium enterprises in Kasarani Sub County

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology therein in detail including the description of the study research design, study area, the population targeted by the study, sampling, and sampling procedures, data collection tools and data collection techniques used, the research instrument validity and reliability testing techniques, and data analysis techniques as well as research ethics.

3.2 Research Design

A research design provides the relevant information that can effectively and efficiently address the research questions (Ahmad, 2012). Descriptive data was used to answer the research questions on; effects of accounting information systems on financial performance of small and medium enterprises in Kasarani Sub County; effect of human resource accounting on financial performance of small and medium enterprises in Kasarani Sub County; influence of accounting outsourcing on financial performance of small and medium enterprises in Kasarani Sub County; and influence of owner accounting orientation on financial performance of small and medium enterprises in Kasarani Sub County. Descriptive data also explained the relationship between the components influencing accounting practices and financial performance of SMEs in Kasarani Sub County.

The independent variable was tested individually to see whether each variable is responsible for changes in the dependent variable. Therefore, the study used descriptive research design. Descriptive research design was used to describe the characteristics of existing phenomenon and for obtaining information in the area of research on effects of owner accounting competencies and financial performance of SMEs in Kasarani Sub County. Descriptive research design was useful since it significantly describes the variables of interest by analysing their relationships and it provides valuable and appropriate answer to the research questions (Kombo & Tromp, 2006). Descriptive research makes use of six Ws (who, what, when , where, why, how) of research (Gupta & Rangi, 2014). A descriptive study was therefore deemed as the most suitable in gathering information on components influencing accounting practices and financial performance of SMEs in Kasarani Sub County.

3.3 Target Population

Target population refers to the entire group of individuals or objects to which a researcher is interested in generalizing the results of the study and having same observable characteristics (Mugenda & Mugenda, 2008). Further, a target population is the number of a real or hypothetical set of people, events or study which a researcher wishes to generalize on.

According to Kombo & Tromp (2006), target population is the set of elements that a researcher focuses upon and to which the results obtained by testing the sample should be generalized. The target population for this study consisted of 754 SMEs in Kasarani Sub County, Nairobi City County – Kasarani Sub County administration, Licenced businesses in year 2017. Kasarani Sub-County comprises of five administrative units referred to as wards. These wards include: Clay City Ward, Kasarani Ward, Mwiki Ward, Njiru Ward and Ruai Ward. The study targeted Kasarani Sub County because it is cosmopolitan and has a high number of SMEs compared to large businesses.

3.4 Sample Size and Sampling Procedure

Sampling is the process of selecting units from a population of interest to participate in a study. The individuals selected for the study are selected in such a way that they represent the whole population. According to Kothari (2012), a sample consists of the selected respondents who represent the entire population. According to Mugenda and Mugenda, (1999) a sample is a smaller group or sub-group obtained from the accessible population. This sub-group is selected in such a way that it represents the whole population and that it has the relevant characteristics of the population under review.

The sample size of this study used the Cochran's formula given by:

$$n = \frac{z^2\ pq}{e^2}$$

Where

n= desired sample size for population greater than 10,000;

z^2 = standard normal deviate; set at 1.96 , which correspond to 95% level of confidence

p = the proportion in the target population estimated to have a particular characteristics (the study will use 0.50) ;

q = 1-p ; proportion in the target population not having the particular characteristics

$e =$ degree of accuracy; taken as 5% or 0.05.

Substituting for n;

$$n = \frac{1.96^2\ *0.5*0.5}{0.05^2} = 384$$

Since the target population was 754 SMEs in Kasarani Sub County, which was less than 10,000 units, the following adjusting formula was used to compute the desired sample size;

$$nf = \frac{n}{1+(n)/N)}$$

Where;

nf= desired sample size for population less than 10,000;

n= desired sample size for population greater than 10,000;

N= population size ; in this case 754;

Hence

$$nf = \frac{384}{1+(384/754)} = 254$$

Thus the sample size was 254 respondents distributed proportionately as indicated below:

	Administrative Unit	Frequency	Percentage	Sample Size
1	Clay City Ward	195	25.86%	66
2.	Kasarani Ward	145	19.23%	49
3.	Mwiki Ward	123	16.31%	41
4.	Njiru Ward	90	11.94%	30
5.	Ruai Ward	201	26.66%	68
		754	**100.00%**	**254**

This study adopted stratified sampling to select respondents from each ward in Kasarani Sub County (Palinkas, *et al.*, 2015). The sample size for each classification of SME in Kasarani Sub County was determined as a ratio of SMEs multiplied by the sample size. Then simple random sampling technique was used to select the appropriate number of respondents for each ward.

3.5 Research Instruments

Gupta and Rangi (2014) indicate that there are several methods of collecting data. Each of them differs considerably from the other in terms of cost, time and other resources at the disposal of the researcher. These methods of data collection include; questionnaires, observation, interview guide, focused group discussions guide and schedules. The study used primary data, which was basically original in character due to its proximity to the real situation on the ground and ease of control over errors (Cooper & Schindler, 2008).

The study employed a structured questionnaire in collecting study data from primary sources. The questions in the questionnaire were designed according to the study objectives. It should be noted that closed ended questions are suitable for providing alternative answers from where respondents may select. However questionnaires were suitably suited for literate respondents and were also suitable for collecting data required in a descriptive study. It should further be noted that descriptive study requires data to be collected from respondents quickly and easily and preferably in a non-threatening way. The collected data was measured using 5 point Likert scale (1 - 5).

3.6 Reliability and Validity of the Instrument

Before the study embarked on active data collection, it first tested the instrument for validity and reliability. These tests were necessary for establishing as well as ensuring the reliability and validity of the tools designed for collection of data in the research. In fact, the testing exposed the weaknesses of the tools and provided for its respective review and improvements through editing, to ensure that the tool was appropriate for collecting the desired data and at the expected time span. It is during this time that the researcher identified any possible problems associated with the tool (Kvale, 2007).

3.6.1 Reliability Tests

Reliability, which is the stability or consistency of scores over time, measures the degree to which the entire tool is free of error and in effect the items in the instrument would yield consistent results. Reliability tests were carried out for establishing critical issues of the study which included; sources of data, data collection methods, time taken in data collection, biasness and accuracy of the tool (Kvale, 2007). As a test t, the questionnaire was administered to 26 respondents for answering and submitting the questionnaire within a period of one week. The researcher then improved the questionnaire, after receiving responses, by editing the items found to be inconsistent. The 26 respondents who were involved in the test pilot did not participate in the actual study.

The study used the Cronbach's alpha internal consistency technique to test for reliability of the questionnaire. Internal consistency of data collected was determined by correlating the items in the questionnaire to obtain a coefficient of correlation, this time known as the Cronbach's alpha (α). The absolute value of α varies between 0 and 1. In the social sciences, if the value of Cronbach's alpha is less than 0.7, the tool is classified as having unsatisfactory internal consistency reliability or simply being inconsistent. However, a value of Cronbach alpha greater than or equal to 0.7 indicates higher consistency in which case it would be accepted otherwise it would be reviewed to retest for reliability.

This study collected data from 26 respondents which was used for testing the reliability of the questionnaire. The reliability test data collection took a period of two days, which gave the study a bearing on the average length of time the actual data collection would take. The results obtained from the reliability testing, indicated a reliability coefficient (Cronbach's Alpha) of 0.970, as captured in Table 1 below.

Table 1: Reliability Test Results for the study variables

Study Variables	Cronbach's Alpha
Accounting Information Systems	0.922
Human Resource Accounting	0.852
Accounting Outsourcing	0.882
Owner Accounting Orientation	0.864
Financial Performance of SMEs	0.944
Cronbach's Alpha = 0.970, N = 5	

Source: Research Data (2018)

The results showed that the Cronbach’s Alpha coefficient was 0.970, which was way above the threshold of 0.7 as recommended by Kothari (2012), indicating high consistency among the items of the tool. Each of the variables; accounting information systems (α =0.922), human resource accounting (α = 0.852), accounting outsourcing (α = 0.882), owner accounting orientation (α = 0.864) and financial performance of SMEs (α = 0.944) had internal consistency reliability $\alpha > 0.7$, indicating a very high consistency of the study variables. The study therefore considered the tool as having appropriate consistency which was acceptable for measuring all the study variables to yield consistent and credible results.

3.6.2 Validity Tests

Kothari (2012) asserts that validity indicates the degree to which an instrument measures what it is supposed to measure and can also be thought as utility. This is the extent to which the differences found within the measuring instrument reflect true differences among those being tested. It is an appropriateness and usefulness of the research instrument that is employed by the study. The validity tests were done to test the tool for accuracy and meaningfulness using content validity test. Content validity is the extent to which a measuring instrument provides adequate coverage of the topic under study.

The assessment of content validity was carried by two professional experts; financial management expert and the supervisor. The supervisor assessed the tools to establish what concept the instrument is trying to measure. The financial management expert determined whether the sets of items can accurately measure the factors affecting performance of SMEs. The experts then commented on the representativeness and suitability of questions and gave suggestions on the structure of the tools, which helped improve the content validity of the data that was collected.

By using a panel of persons, it judged how well the measuring instrument met the standards but there is no numerical way to express it. Content validity considers whether or not the items on a given test accurately reflect the theoretical domain of the latent construct it claims to measure. Items need effectively act as a representative sample of all the possible questions or hypotheses that could have been derived from the construct. Chou and Bender (2009) suggested employing the following four steps to effectively evaluate content validity as follows: identify and outline the domain of interest, gather resident domain experts, develop construct matching methodology and analyse the results from the matching task. The study was guided by these steps.

3.7 Data Collection Procedure

Gupta and Rangi (2014) indicate that systematic gathering of information relevant to the research sub-problems involves using methods such as interviews, participant observations, focus group discussions, narratives and case histories. Once all the documentation was available, the researcher then conducted a pilot testing on the research tool to test on reliability and validity. The respondents in pre-test did not participate in data collection. After the research instrument was successfully reviewed, the researcher entered into active data collection. Active data collection involved administration of the questionnaire where the researcher provided assistance as much as possible so that the respondents could answer the questions appropriately. On receiving the filled questionnaire, the researcher first confirmed the entries and as well clarified issues arising in questionnaire filling or unclear issues. Since the data was collected from an established formal organisation, the researcher first sought permission to collect data form the management of the SMEs after which the researcher and the respondents made arrangement on when and how the data was to be collected.

3.8 Data Processing and Analysis

The collected data was first checked for errors of omission and commission. Then it was classified and coded accordingly. The study analysed the data using quantitative analysis technique to produce descriptive statistics. Descriptive statistics were produced for each variable to describe that variable and how it relates to financial performance. Descriptive statistics especially, means, frequencies, and standard deviation was applied to help establish patterns, trends and relationships, and to make it easier for the researcher to understand and interpret implications of the study. The results were presented in form of tables and charts and interpreted in narratives.

Secondly, inferential statistics were then produced to establish the relationship between the Independent Variables and the Dependent Variable. Using inferential statistics, the study established a model to estimate dependent variable (response; financial performance of SMEs in Kasarani Sub County) in terms of the independent variable (accounting information systems, human resource accounting, accounting outsourcing, and owner accounting orientation) based on the model shown below;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \qquad \text{(i)}$$

Where:

Y = Financial performance of SMEs in Kasarani Sub County.

X_1 = Accounting information systems

X_2 = Human resource accounting

X_3 = Accounting outsourcing

X_4 = Owner accounting orientation

β_0 is a constant (which is the value of dependent variable when all the independent variables are 0).

$\beta_{1\text{-}4}$ is the regression coefficients or change induced by X_1, X_2, X_3 and X_4

e = error term

The study used mean of means to obtain each study variable, by first obtaining the mean of the indicators measuring a variable for each record. The mean obtained represented that variable for that record. The final value of the variable was obtained by calculating the mean of all the means obtained for that variable. The study then correlated each of the Independent Variable (IV); accounting information systems, human resource accounting, accounting outsourcing, and owner accounting orientation to the Dependent Variable; Financial Performance of SMEs in Kasarani Sub County, to establish whether there was any relationship. Thereafter, to successfully estimate the model, the study obtained a mean for each of the study variable; accounting information systems, human resource accounting, accounting outsourcing, and owner accounting orientation and financial performance of SMEs in Kasarani Sub County using weighted least square. The means obtained for all the independent variables; accounting information systems, human resource accounting,

accounting outsourcing, and owner accounting orientation were regressed against the mean obtained for dependent variable; financial performance of SMEs in Kasarani Sub County.

During estimation of the study model, the study used Analysis of Variance (ANOVA) to test the hypotheses, using Pearson's product method. The study used Pearson's product method at 0.05 level of significance **(**p-value <=.05). Various interpretations were also made based on regression results to establish the significance, at the 95% confidence level of the independent variables in determining the dependent variable. The Statistical Package for Social Sciences (SPSS) software version 22.0 was used to analyse the data.

3.9 Ethical Issues

The study ensured that the research is conducted ethically. First the researcher obtained a letter from KCA University as consent to conduct the study. The researcher also obtained a permit from National Council of Science and Technology (NACOSTI) to conduct the research. The data gathered from the respondents was maintained confidentially and securely. The respondents were allowed to fill the questionnaire anonymously to avoid exposing confidential information. A letter of request to participate in the study was also addressed to the respondents. This was necessary so as to ensure informed consent for participation in the study.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the analysis, presentation and discussions of the results obtained from the analysis of the study data. These results were presented pictorially, using tables and figures, which were interpreted in form of narrative and based on the study objectives. These results were from data analysed using quantitative analysis on quantitative data, contained in the questionnaire. Quantitative analysis was carried out first for each variable to describe how it relates to financial performance and thereby produced descriptive statistics. Descriptive statistics especially, means, frequencies, and standard deviation were applied to help establish patterns, trends and relationships, and to make it easier for the researcher to understand and interpret implications of the study findings. The data was analyzed using the Statistical Package for Social Science (SPSS) version 22.0. This section contains information on study response rate, respondents' demographics, and findings on study variables' properties inferential analysis.

4.2 Response Rate

A questionnaire used as tool for the data collection in the study was distributed to 254 respondents out of which 191, representing a 75.20% response rate, responded, as observed in table 2. The lowest participation was from Njiru ward, where 56.67% responded and the highest response rate was reported at Kasarani ward where the response rate was 83.67%. Kasarani ward was followed by Clay City Ward with a response rate of 80.30%, followed by

Mwiki Ward at 78.05% response rate and then Ruai Ward where 70.59% of the sample population responded. The results are contained in Table 2 below;

Table 2: Analysis by Response Rate

Administrative Unit	Sample Size	Reponses	Reponse rate
Clay City Ward	66	53	80.30%
Kasarani Ward	49	41	83.67%
Mwiki Ward	41	32	78.05%
Njiru Ward	30	17	56.67%
Ruai Ward	68	48	70.59%
Total	**254**	**191**	**75.20%**

Source: Research Data (2018)

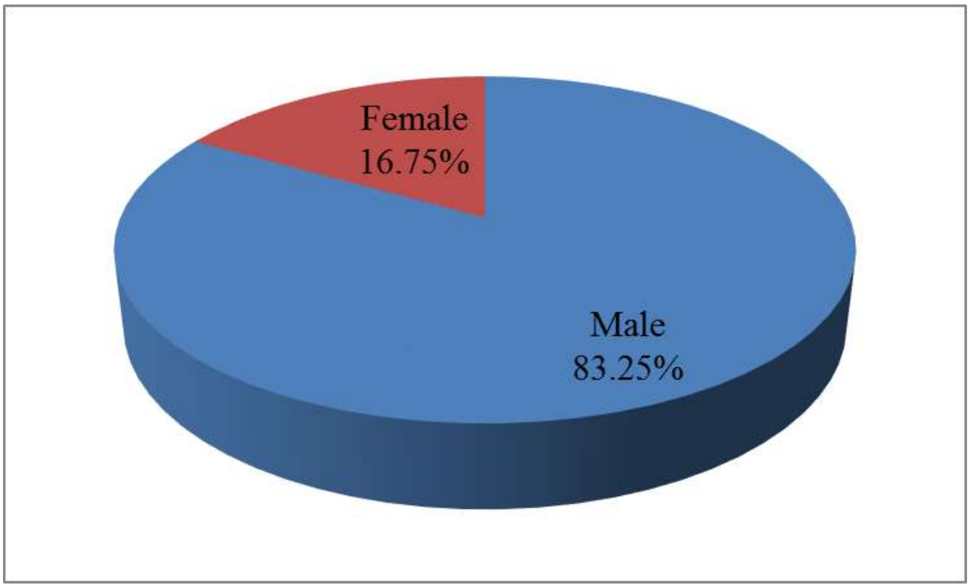
According to by Mugenda and Mugenda (2008) such response qualifies to be rated as very good and desirable for yielding accurate results. Mugenda and Mugenda (2003) states that a 50% response rate is adequate; response rate of 60% is good and above 69% is rated as very good. Based on this assertion the response rate of 75.2% for this study qualifies to be very good.

All those who responded to the study data collection, answered the entire questionnaire adequately and quite well, providing adequate information that was used in the data analysis.

4.3 Respondents' Demographics

The respondents were requested to provide their general information on their gender, and the results obtained were captured shown in figure 1 below.

Figure 1: Analysis by Respondents Gender

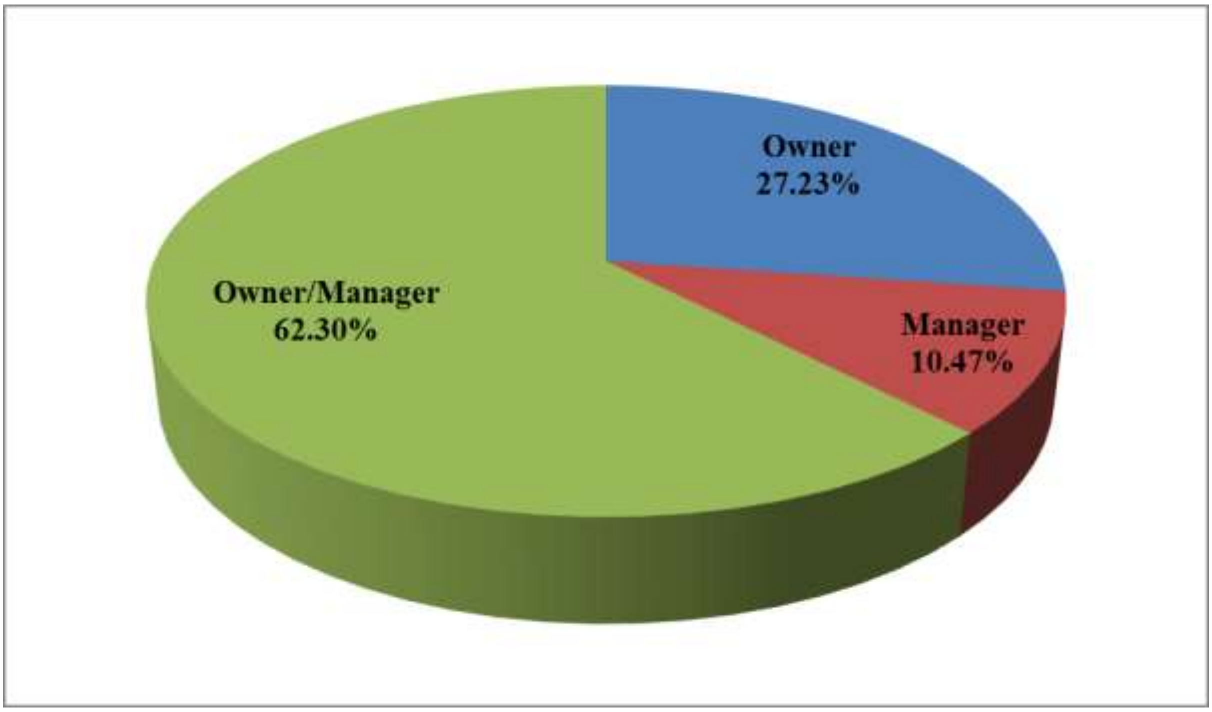


Source: Research Data (2018)

From the results in figure 1 above, it was shown that on average, the number of male respondents was 83.25% and the female formed 16.75% of the total response. This is to say that there was gender disparity in the SMEs in Kasarani Sub County. The male were more than $2/3^{rd}$ of the total population of the respondents and the female were less than $1/3^{rd}$, showing gender disparity. This is an indication that most of the SMEs were operated by male. Vossenberg (2013) asserts that women still own and manage fewer businesses than men, they earn less money with their businesses that grow slower, are more likely to fail and women tend to be more necessity entrepreneurs.

The study then requested for the respodents to provide information on their role in the business and the results obtained were captured in figure 2 shown below.

Figure 2: Analysis by Position held

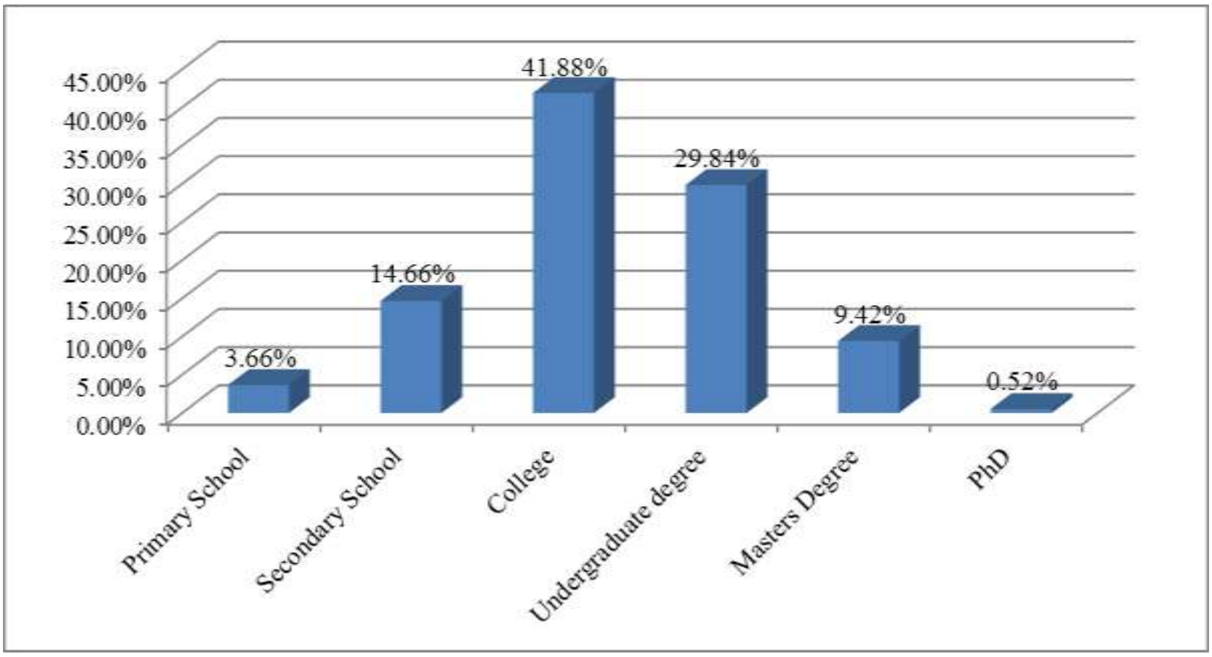


Source: Research Data (2018)

The results in figure 2 show that majority of the respondents were owner/manager forming 62.30% while 27.23% were owners and 10.47% were managers. From these results; it can be observed that most of the business owner coupled as the managers of the businesses, with 10.47% of the SME owners having employed other persons as managers.

The respondents were requested to provide details of the highest education level they had attained. The results were captured in figure 3 below

Figure 3: Analysis by Highest education level attained

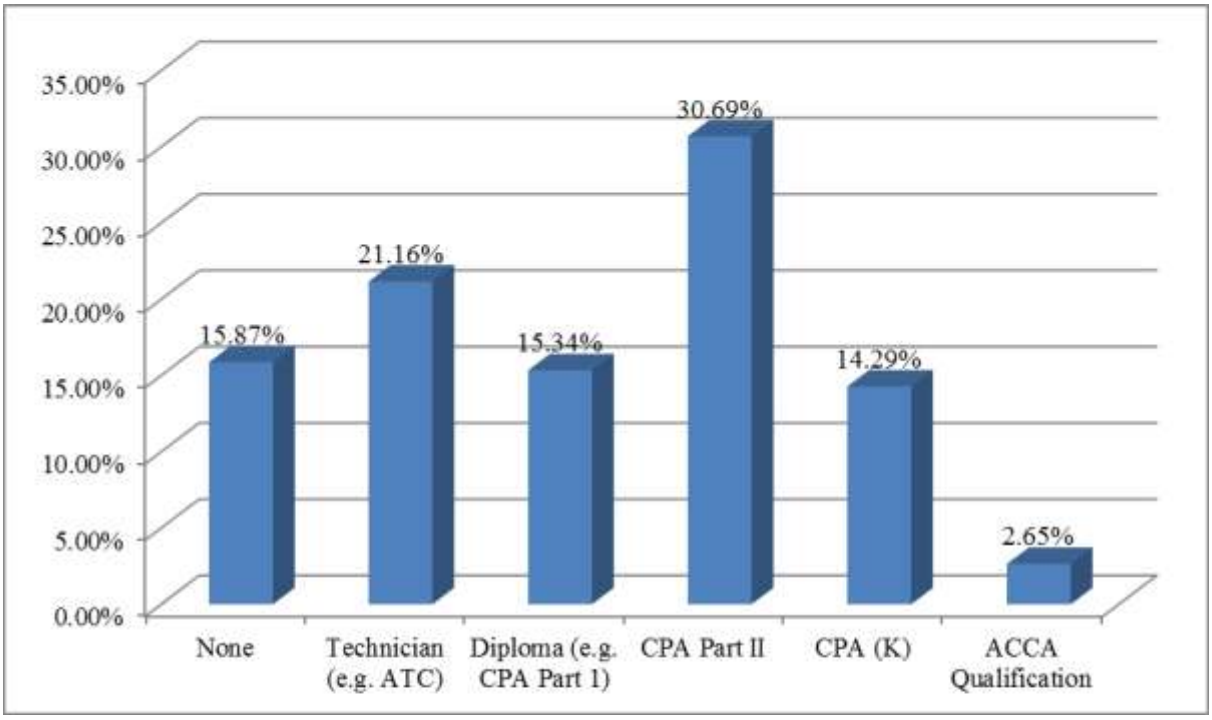


Source: Research Data (2018)

These results shows that most of the businesses (41.88%) were owned by college certificate holders, followed by those who indicated that they had undergraduate degrees (29.84%). Out of the total response, 14.66% had secondary school education, while 9.42% had attained master's degrees. Lastly, 3.66% indicated that they were primary school drop outs and 0.52% indicated that they had doctoral degrees.

The respondents further indicated their Professional accounting qualifications as shown in figure 4 below;

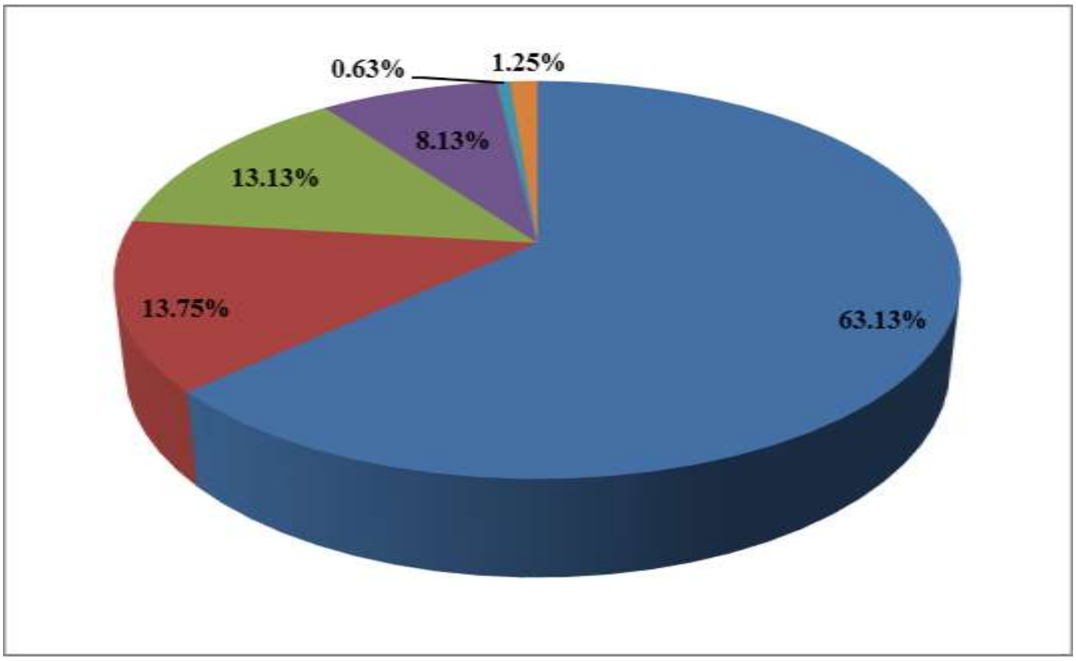
Figure 4: Professional accounting qualifications Attained



Source: Research Data (2018)

According to these results, most of the respondents constituting 30.69% had attained professional training qualification in accounting as per Kenya standard (CPA II) with 21.16% having technical training in accounting. Further, 15.87% showed that they had no qualifications in accounting, 15.34% had acquired part I professional training qualification in accounting (CPA I) while 14.29% had full professional training qualification in accounting, CPA(K). There were those who had acquired international professional training qualification in accounting (ACCA), forming 2.65% of the total respondents.

Figure 5: Analysis by short term target oriented financial training

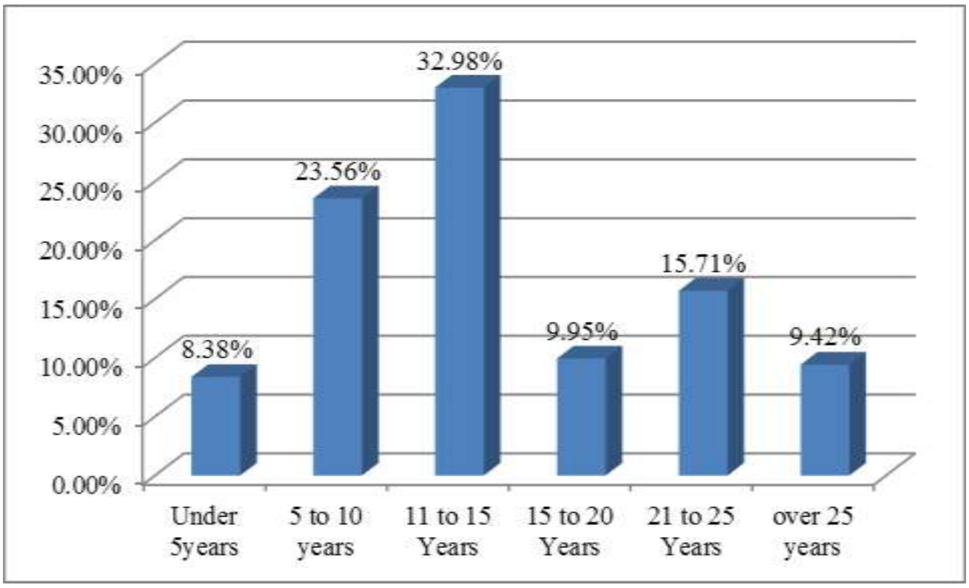


Source: Research Data (2018)

Most of the respondents (63.13%) showed that they never attended short term target oriented courses/seminars/workshops on financial practice and accounting as 13.75% indicated that they attended short term target oriented courses/seminars/workshops on financial practice and accounting for a period of one week in a year, 13.13% showed that they attended for a period of two weeks each year. As 8.13% showed that they attended short term target oriented courses/seminars/workshops on financial practice and accounting for a period of three weeks each year, 1.25% attended for a period of five weeks and 0.63% for four weeks each year.

The respondents provided information on the length of time the business was in operation as shown in figure 6 below.

Figure 6: Period firm has been in operation

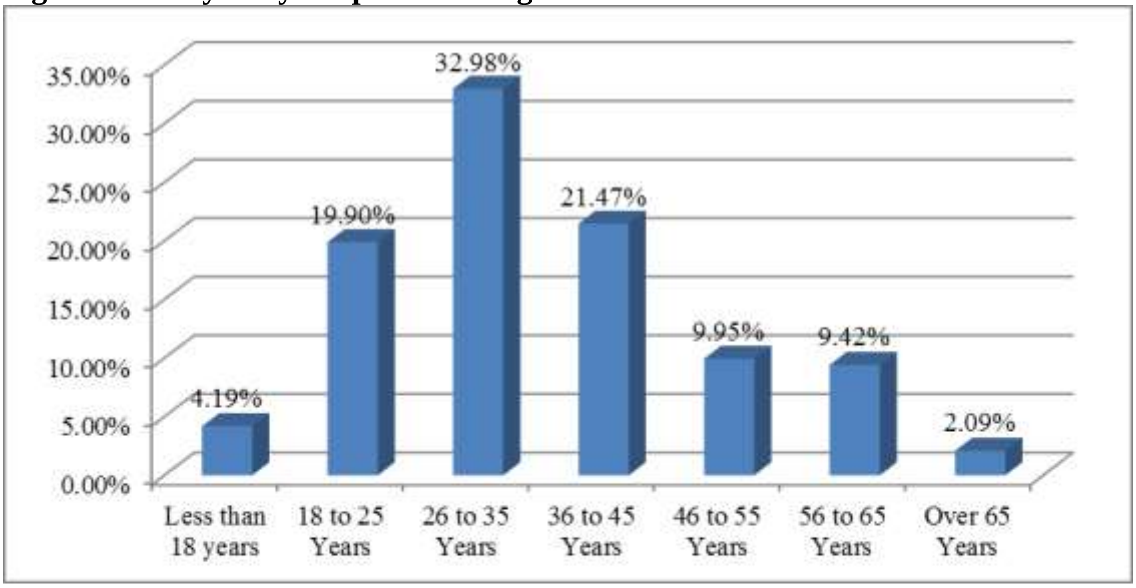


Source: Research Data (2018)

Most of the respondents (32.98%) showed that their business had been in operation for between 11 and 15 years while 23.56% showed that they had been in operation for between 5 and 10 years and 15.71% showed that they had been operating for between 21 and 25 years. Further, 9.95% showed that their businesses had been operating for between 15 and 20 years, and 9.42% showed that they had been in business for over 25 years and 8.38% showed that they had operated for less than 5 years.

The respondents were requested to provide their age brackets as captured in figure 7.

Figure 7 :Analysis by Respondents' Age

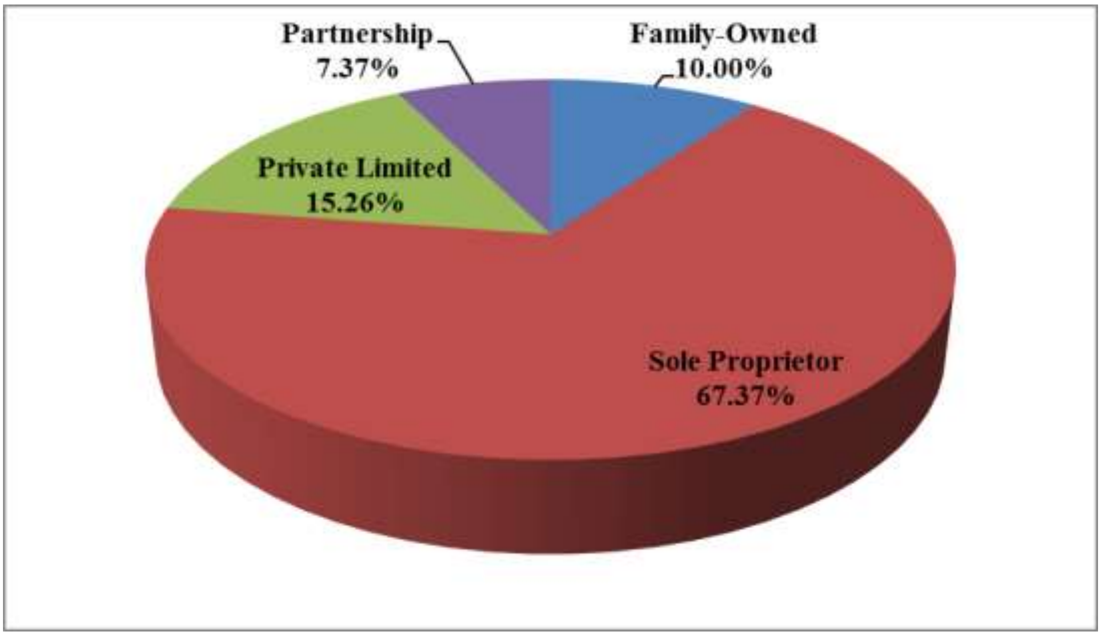


Source: Research Data (2018)

From the results obtained it was shown that most of the respodents forming 32.98% were of the ages between 26 and 35 years , followed by those who were between 36 and 45 years at 21.47% and then those who were beween 18 and 35 years forming 19.90% of the total respondents. Those who were beween 46 and 55 years formed 9.95% as 9.42% showed that they were beween 56 and 65 years, 4.19% showed that they were less than 18 years and 2.09% were over 65 years. From these results, most of the respodenst were in the labour productive age of between 18 and 65 years.

As regards business demographics, the respondents were requested to specify Legal status of the enterprise and the results were presented in figure 8.

Figure 8: Legal status of the enterprise

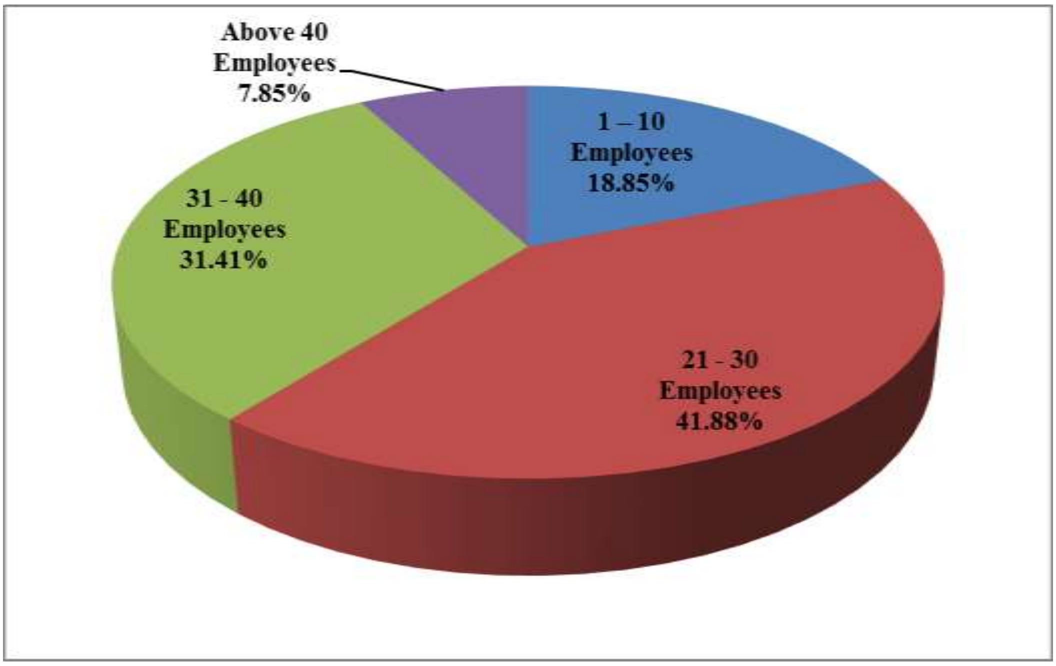


Source: Research data (2018).

The results in figure 8 show that majority of respondents forming 67.37% showed that their businesses were sole proprietorship as 15.26% indicated that they were running private limited liability companies. 10.00% conducted family owned businesses while 7.37% showed that they operated partnerships.

The study sought to obtain information on the number of employee by each SME and the results were recorded in figure 9 below

Figure 9: Number of Employees at the moment

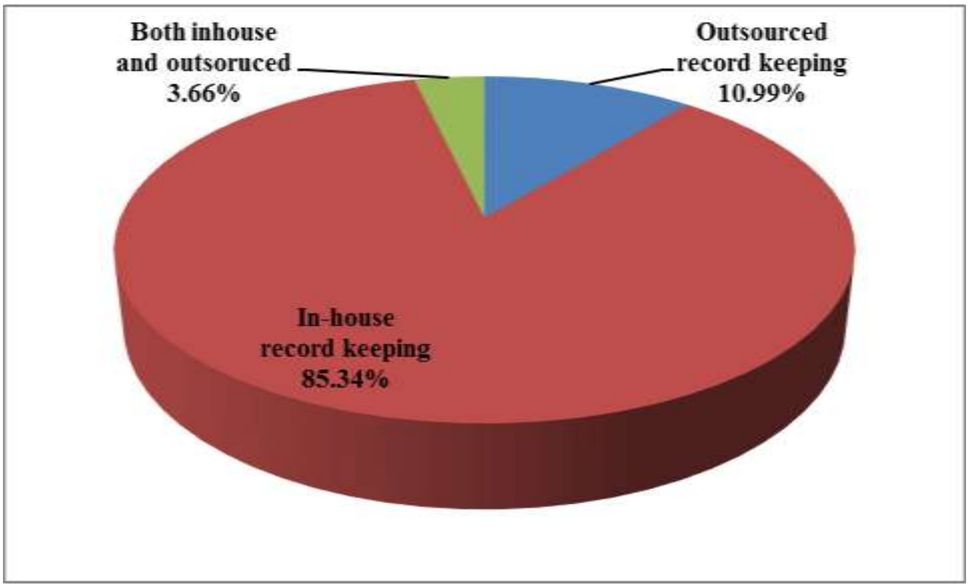


Source: Research data (2018)

The results in figure 9 shows that most of the respondents, who made up 41.88%, indicated that they had between 21 and 30 employees, followed by those who showed that they had between 31 and 40 employees at 31.41%. As 18.85% showed that they had up to 10 employees, 7.85% showed that they had over 40 employees.

Lastly, the respondents provided information on the means they used for keeping their firm accounting records and processes. The results were captured in figure 10 as shown below.

Figure 10: Firm's accounting record keeping method



Source: Research data (2018).

The results showed that majority of the SMEs (85.34%) kept their accounting records while 10.99% showed that they outsourced accounting services. However, 3.66% showed that they used both in-house and outsourced services.

4.3 Analysis of Study Variables

The study analyzed the data collected, based on the objectives, using descriptive design to describe the study variables, which helped to establish the effects and influence of the independent variables (IV) on the dependent variable (DV). The analysis was based on the results obtained from data collected using the questionnaire, where all the questions used in the questionnaire were addressing the objectives as well as the financial performance of SMEs as were measured on a 5 point Likert Scale (1-5). The study obtained the mean (M) and standard deviation (SD) for each indicator of the IV or the DV. Thereafter an overall M and SD for the DV and each IV was obtained using the mean and standard deviations of its indicators respectively. Since the M would have fraction, the study moderated the mean of the results to obtain the Statistics for the financial performance of SMEs, the DV as shown below;

- 1 - 1.8 implying "Strongly Disagree;
- Above 1.8 – 2.6 for "Disagree";
- Above 2.6 to 3.4 to imply "Neutral";
- Above 3.4 – 4.2 to imply "Agree" and
- Above 4.2 – 5.0 to imply "Strongly Agree"

And the statistics for the study variables; accounting information systems, human resource accounting, accounting outsourcing, and owner accounting orientation which were the IVs as shown below;

- 1 - 1.8 implying "Not at All';
- Above 1.8 – 2.6 for "Low";
- Above 2.6 to 3.4 to imply "Moderate";
- Above 3.4 – 4.2 to imply "High" and
- Above 4.2 – 5.0 to imply "Very High"

4.3.1 Effects of Accounting Information Systems on Financial Performance

The study assessed objective one; to establish the effects of accounting information systems on financial performance of small and medium enterprises in Kasarani Sub County, by analysing data collected using the 5-point Likert scale (1-5) representing (Not at All, Low, Moderate, High and very high). The study captured the results obtained on assessing the effect of accounting information systems on financial performance in table 3.

Table 3: Effect of accounting information systems on financial performance

Accounting Information Systems	M	SD
Quality of Information produced by the accounting information systems	2.88	1.25
Frequency of producing the information	3.35	1.11
Integration of accounting information systems	3.39	1.14
Accuracy of the accounting information systems	3.59	1.16
Accounting information systems flexibility	3.48	0.99
Computing competency of accounting personnel	3.34	1.16
Effects of Accounting Information Systems	**3.34**	**1.13**

Source: Research Data (2018)

According to the results on the effect of accounting information systems on financial performance, it was shown that the respondents indicated that in overall, accounting information systems has a moderate effect on the financial performance, of SMEs in Kasarani sub county (M = 3.34; SD = 1.13). Most of the indicators of accounting information systems were shown to have had moderate effect while the rest were shown to moderately affect financial performance of SMEs in Kasarani Sub County. Quality of Information produced by the accounting information systems was shown to have had moderate effect (M = 2.88; SD = 1.25), frequency of producing the information had moderate (M = 3.35; SD = 1.11) and integration of accounting information systems had moderate effect (M = 3.39; SD = 1.14) on financial performance of SMEs in Kasarani sub county. Meanwhile accuracy of the accounting information systems was shown to have high effect on financial performance of SMEs in Kasarani sub county (M = 3.59; SD = 1.16). While accounting information systems flexibility was shown to have had high effect on financial performance, of SMEs in Kasarani sub county (M = 3.48; SD = 0.99), computing competency of accounting personnel was shown to have had moderate effect (M = 3.34; SD = 1.16).

The study by Amoako (2013) concluded that SMEs in Ghana inefficiently applied accounting information system to support assessment of financial performance. Meanwhile the findings in this study indicate that accounting information systems affected the financial performance of SMEs in Kasarani Sub county although moderately. There seems to be an agreement between the findings in the two studies, although they were conducted in different countries. Probably SMEs are accustomed to inefficiently apply accounting information system to support assessment of financial performance. This despite the study by Abdallah (2013) revealing that those accounting information systems have an impact on the quality of financial statements

Although the present study established a moderate effect of accounting information system on financial performance, the studies so far reviewed have not indicated the significant influence of AIS on financial performance among SMEs. Locally, a study by Nzomo (2013) revealed that there exists a relationship between AIS and organizational performance among Kenyan SMEs, where AIS are critical to the production of quality accounting information. This implies that employment of accounting information systems would affect the financial performance of SMEs. Simply saying, accounting information systems is one of the drivers of financial performance of SMEs, and plays a key role in its improvement. Thus, accounting information systems is essential for the improvement of financial performance of SMEs in Kenya. The argument was strengthened by Muhindo *et al.* (2014) who revealed a significant positive relationship between accounting information systems and financial performance of SMEs. Muhindo *et al.* (2014) further revealed that most small scale businesses do not apply accounting information systems which result into low profits. This might explain the moderate effect of accounting information systems on financial performance of SMEs in Kasarani. Thus, the moderate of applying accounting information systems leads to reduced financial performance SMEs in Kasarani Sub County.

Findings in this study show that the quality of information produced by the accounting information systems, frequency of producing the information, computing competency of accounting personnel, and integration of accounting information systems moderately affected the financial performance of SMEs in Kasarani Sub County while the accuracy of the accounting information systems and accounting information systems flexibility have high effect on financial performance of these SMEs. Further, the study by Nzomo (2013), clarifies that production of such information on timely basis and disseminating such information has a greater impact on the organizational effectiveness. Accordingly, the findings in the present study confirm the findings in the study by Nzomo (2013). This implies that for AIS to effectively enhance improvement of the financial performance of SMEs, the AIS should ensure; the information produced is of high quality, frequency of producing the information is enhanced, computing competency of accounting personnel is checked, and that there is integration of accounting information systems.

4.3.2 Effects of Human Resource Accounting on Financial Performance

The second objective was to establish the effects of human resource accounting on financial performance of small and medium enterprises in Kasarani Sub County, analysed using data collected on the 5-point Likert scale (1-5) for representing; Not at All, Low, Moderate, High and very high effect of human resource accounting on financial performance. The results obtained on assessing the effect of human resource accounting on financial performance were captured in table 4.

Table 4: effect of human resource accounting on financial performance

Human Resource Accounting	M	SD
Staff Training cost	2.52	1.17
Cost of staff development	3.65	1.20
Retention of employees	3.65	1.00
Cost of staff Welfare	3.71	1.19
Safety Cost	3.56	1.17
Effects of Human Resource Accounting	**3.42**	**1.15**

Source: Research Data (2018)

According to the results in table 5, the respondents indicated that Human Resource Accounting highly affected the financial performance of SMEs in Kasarani sub county (M = 3.42; SD = 1.15) as expressed by the indicators of the human resource accounting. Although the respondent showed that Staff Training cost moderately affected the financial performance of SMEs in Kasarani sub county (M = 2.52; SD = 1.17), the outcome showed that all other indicators of human resource accounting highly influenced the financial performance of these SMEs. The results showed that each of the indicators; cost of staff development (M = 3.65; SD = 1.20), retention of employees (M = 3.65; SD = 1.00), cost of staff Welfare (M = 3.71; SD = 1.19), and safety Cost (M = 3.56; SD = 1.17) highly affected the financial performance of SMEs in Kasarani sub county.

As the study by Waiganjo *et al* (2012) showed that HRA has direct and positive influence on firm financial performance, this study established that effective management of human resource accounting highly improve the financial performance of an enterprise. The same was echoed in the study by Saeed, et *al*. (2013) which established a significant positive relationship between HR and financial performance. Okpako, Atube and Olufawoye (2014) in their study established that HRA increases the enhanced profit and increased investment in organization because investors have the assurance of adequate use of their resources as a result of the value of human resource.

This implies that adoption of effective human resource accounting activity highly motivates the employees of the SMEs, resulting into high productivity and hence betters the financial performance of the SME. SMEs which employ productive human resource accounting gain significantly through improvement in their financial performance. This is because the human resource factor of the SME is a significant determinant of the firm performance and more specifically, the financial performance of profit making entity. This confirms the findings in the study by Izedonme *et al*. (2013), which revealed that human resource accounting has a positive and insignificant impact on organizational performance. Also the study by Rajashekharaiah (2014) recommended that firms should encourage employees' performance and firm performance through providing opportunity for the employees to utilize their full potential and thereby creating a high performance organization.

This study found that the key considered when designing, developing and implementing an effective human resource accounting include; cost of staff development, retention of employees, cost of staff welfare, and safety cost. These findings agrees to the emphasis of human capital theory (HCT) on the role played by the human resource by arguing that people add value which has its contribution to the performance of the firm (Becker, 2001). HCT considers the human resources as an asset which should be highly valued by investing in it for worthwhile returns and hence improve financial performance. The suggestion by the theory is that when a firm invests on the human resources, it would significantly gain economically (Sweetland, 1996). Thus, for SMEs to considerably achieve financial performance it should value its accounting staff by investing in them. The theory provides some guidelines on the main areas that the firm should actively consider when investing on the human resource for achieving its objective of improved financial performance (Sweetland, 1996). The theory suggests the firm should; assure good health, proper nutrition, high level education, growth and development of its employee. By so doing, it will significantly gain by having motivated workers, who would work effectively geared in increasing their productivity. Increased productivity has always been associated with improved financial performance.

Further, these findings agree to the findings in the study by Onyam *et al.* (2015) which established a significant relationship between HRA factors; training cost, development cost and the profit of the firm. Thus the organizational performance is dependent upon the performance of the individuals that make up the organization. The study by Onyam *et al.* (2015) therefore recommended for enhancement of the retention of employees and training of staff so as to avert wastage of knowledgeable investment. Noticeably, the SME in Kasarani Sub County were found to have highly considered the staff training cost, which was also emphasized in the study by Onyam *et al.* (2015). Rajashekharaiah's (2014) study postulates that training and development helps in providing the different skills required in maintaining and improving the firm performance. Moghaddam *et al.* (2014) study crowns these findings by spelling out that HRA affects employees' performance by enhancing their knowledge, skills, behaviours and commitment, and empowers them in making decisions while performing their tasks. HCT theory further suggests that for the firm to assess the contributions of the human capital to financial performance, education and practical experience play key roles in the productivity of the human capital (Lazear, 1998), which was found in this study.

According to HCT, training is important for guaranteeing the sustainability of human capital. Employees with vast knowledge and skills, acquired from training, are considered a valuable resource to the business for they are useful in utilising their firm-specific knowledge for the benefit of the company. Thus, training provides an opportunity for the employees to contribute to the firm's core competence and accordingly the firm is provided with competitive edge over its competitors thereby associating the theory with the firm's resource based view (Barney 1991). In addition, SMEs may further invest in developing its human resources as well as attracting and retaining competent human capital. By so doing, the firm will be exposed to achieving better financial performance that would lead to better returns from such investments (Spender, 1996). According to Schuller (2000), proficient skills, knowledge and human resource competences are vital for determining whether organizations and firms will achieve better financial performance or not.

4.3.3 Influence of accounting outsourcing on Financial Performance

The study assessed objective three which was to establish the influence of accounting outsourcing on financial performance of small and medium enterprises in Kasarani Sub County. The data was collected using the 5-point Likert scale (1-5) for representing Not at All, Low, Moderate, High and very high effect of accounting outsourcing on financial performance. The study captured the results obtained on assessing the influence of accounting information systems on financial performance in table 5 below.

Table 5: Effect of accounting outsourcing on financial performance

Accounting Outsourcing	M	SD
Entity's knowledge in accounting practices	1.74	0.93
Technical competence of the entity providing outsourced accounting practices services	1.80	1.07
Efficiency in the entity providing outsourced accounting practices services	1.74	1.04
Years in business of the entity providing accounting practices services	1.76	1.08
Professional training of the staff	3.48	1.27
Level of utilization of information technology	3.55	1.26
Reliability of the company	3.54	1.31
Reputation of the company	3.56	1.22

Experience in providing services	3.59	1.37
Influence of Accounting Outsourcing	**2.75**	**1.17**

Source: Research Data (2018)

The results in table 5 show the respondents indicated that accounting outsourcing has moderate influence on the financial performance of SMEs in Kasarani Sub County (M = 2.75; SD = 1.17). As some factors of accounting outsourcing were shown to have had no influence on financial performance of SMEs, others were shown to have had high influence on financial performance of SMEs. These results showed that; entity's knowledge in accounting practices (M = 1.74; SD = 0.93); technical competence of the entity providing outsourced accounting practices services (M = 1.80; SD = 1.07); efficiency in the entity providing outsourced accounting practices services (M = 1.74; SD = 1.04); and years in business of the entity providing outsourced accounting practices services (M = 1.76; SD = 1.08) moderately affected financial performance of SMEs in Kasarani Sub County. However, professional training of the staff (M = 3.48; SD = 1.27), level of utilisation of information technology (M = 3.55; SD = 1.26), Reliability of the company (M = 3.54; SD = 1.31), reputation of the company (M = 3.56; SD = 1.22), and experience in providing services (M = 3.59; SD = 1.37) were shown to have had high influence on financial performance of SMEs in Kasarani Sub County.

The study found accounting outsourcing moderately influences the financial performance of SMEs in Kasarani Sub County. However, the influence of the accounting outsourcing was found to have had a moderate effect on financial performance of the SMEs. The study by Jayabalan *et al.* (2009) concluded that outsourcing of accounting functions is an option for SMEs in order to maintain a competitive advantage in the business environment as outsourcing could lessen the burden borne by SMEs. So at times when the SMEs are not able to absorb their own accounting practices resources, they turn to outsourcing those practices to lessen their burden. This would be the likely cause of the accounting outsourcing not significantly influencing the financial performance of SMEs in Kasarani Sub County.

Further, the study by Desai (2007) revealed that the presence of accounting outsourcing would provide a firm with a competitive advantage. Thus, although the contribution of the outsourcing to the financial performance of SMEs might be insignificant, it is important for achieving a competitive advantage edge. These factors of accounting outsourcing were found to be; entity's knowledge in accounting practices, technical competence of the entity providing outsourced accounting practice services, efficiency in the entity providing outsourced accounting practices services, and years in business of the entity providing outsourced accounting practices services. Others include; professional training of the staff, level of utilisation of information technology, reliability of the company, reputation of the company, and experience in providing accounting services. However, professional training of the staff, level of utilisation of information technology, reliability of the company, reputation of the company, and experience in providing accounting services highly influence financial performance of SMEs in Kenya.

These findings are supported by the Resource-Based View Theory (RBV), which emphasises on creation of competitive advantage by enterprises and links outsourcing valuable resources with firm performance (McIvor, 2009; Gottschalk and Solli-Sæther, 2005). The outsourced services should be capable of adequately improving firm performance as much as they are rare and inimitable. The RBV advances that any firm seeking for outsourced resource should sufficiently assess the potentiality of outsourcing on improvement of its firm performance (Irwin, Hoffman and Lamont, 1998). RBV identifies the numerous specific dimensions that render SMEs more vulnerable than larger enterprises (Gooderham *et al*., 2004) as it argues out that smaller SMEs are vulnerable to competitive pressures as well as insufficiency in competencies, which highly threatens their survival (Blackburn *et al.,* 2010).

Accordingly, the theory advises on seeking for outsourcing various technical competences for militating against the vulnerability of these enterprises. In fact, the theory suggests that the SMEs should seek external accountants' services for ensuring their survival. As such they would preferably be seeking to outsource accounting services as an alternative to having their own accounting function for sustainable competitive benefit. This is on consideration that outsourcing the accounting functions might lead to significantly reducing the burden suffered by SMEs (Jayabalan *et al.,* 2009). Based on the RBV, outsourcing the accounting function would allow access to accounting practices at affordable rates (Everaert *et al.,* 2006), which is an important resource.

These factors of accounting outsourcing were found to be; entity's knowledge in accounting practices, technical competence of the entity providing outsourced accounting practice services, efficiency in the entity providing outsourced accounting practices services, and years in business of the entity providing outsourced accounting practices services. According to RBV, the resource under onsideration relates to the firm performance since the core concern of the RBV is the relationship between development of the resources and capabilities for competitive performance (Gainey and Klaas, 2003). Thus, based on RBV, accounting practices should provide for competitive performance through financial performance of the SMEs.

Others factors include; professional training of the staff, level of utilisation of information technology, reliability of the company, reputation of the company, and experience in providing accounting services. However, professional training of the staff, level of utilisation of information technology, reliability of the company, reputation of the company, and experience in providing accounting services highly influence financial performance of SMEs in Kenya. These findings are inclined to the Transaction Cost Economics (TCE) which argues out that transaction cost of a certain required accounting functions drives firms into opting for outsourced accounting service (McIvor, 2000, 2009). Thus, TCE provides the theoretical framework for understanding the cost effectiveness of outsourced accounting services by arguing that such an alternative importantly assist lessen SMEs' transaction costs (Everaert et al., 2006, 2010; Carey et al., 2006).

TCE argues out that the firm outsourcing services, for example should weigh out the relative cost of transactions having own accounting staff and that of outsourced accounting services (Hamzah *et al.*, 2010; McIvor, 2000, 2009; Marshall *et al.* 2007). Although the outsourced accounting service and having own accounting staff (internally performed accounting) are the key consideration in the TCE considers these attributes as predictors of whether a function in accounting is most efficiently performed having own accounting staff (internally) or outsourced accounting services is better.

4.3.4 Effects of owner accounting orientation on Financial Performance

Objective four of the study was to find out the effects of owner accounting orientation on financial performance of small and medium enterprises in Kasarani Sub County, analysed using data collected on a 5-point Likert scale (1-5) tool for representing Not at All, Low, Moderate, High and very high effect of owner accounting orientation on financial performance. The study captured the results obtained on assessing the effect of owner accounting orientation on financial performance in table 6 below.

Table 6: Effect of owner accounting orientation on financial performance

Owner Accounting Orientation	M	SD
Knowledge in basic accounting procedures.	3.57	1.19
Highest academic education qualifications	3.14	1.25
Professional Accounting skills to manage business activities	3.42	1.12
knowledge and skills in business	3.50	1.09
Attendance to target oriented accounting and business training	3.82	1.27
Influence of Owner Accounting Orientation	**3.49**	**1.18**

Source: Research Data (2018)

From the results in table 6, the respondents indicated that owner accounting orientation highly affected the financial performance of small and medium enterprises in Kasarani Sub County (M = 3.49; SD = 1.18) as depicted by the factors of owner accounting orientation. In fact, according to these results, majority of the factors of owner accounting orientation were shown to highly affect the financial performance of these SMEs. More precisely, each of; knowledge in basic accounting procedures (M = 3.57; SD = 1.19); professional accounting skills to manage business activities (M = 3.42; SD = 1.12); knowledge and skills in business (M = 3.50; SD = 1.09), and attendance to target oriented accounting and business training (M = 3.82; SD = 1.27) was shown to highly affect the financial performance of SMEs in Kasarani Sub County. However, the highest academic education qualifications was shown to moderately affect the financial performance of SMEs in Kasarani Sub County (M = 3.14; SD = 1.25).

A local study by Mulyungi *et al.* (2015) found that entrepreneurial competencies are vital for addressing the performance of SMEs. Meanwhile this study findings show that owner accounting orientation highly affect the financial performance of small and medium enterprises in Kenya. The findings appear to confirm the study by Amoako (2013) which revealed that application of accounting information support assessment of financial performance of SMEs that is the level of owner accounting orientation significantly determines the level of financial performance of that SME. This is to say that when the owner has high orientation in accounting, the SME is most likely to significantly improve its financial performance.

However, the study by Mulyungi *et al. (*2015) established SMEs in Kenya are faced by lack of appropriate knowledge and skills. This implies that where the owner has poor or no knowledge in accounting, the financial performance of that SME is most likely to be affected negatively. The same was mentioned in the study by Amoako (2013) which revealed that SMEs in Ghana do not maintain proper books of accounts because owners do not appreciate the need to keep accounting records. According to the study lack of the necessary accounting knowledge leads to reduced financial performance. Therefore, owners and managers need to understand the importance of such information in the form of clear financial statements in ensuring proper justification for business transactions and state of affairs.

The main factors of owner accounting orientation that played a significant role in affecting financial performance of the SMEs include; knowledge in basic accounting procedures; professional accounting skills to manage business activities; knowledge and skills in business; and attendance to target oriented accounting and business training. The strength of the findings in the present study is built on the study of Ahmad & Zabri (2015) which revealed that the use of management accounting practices by owners in Malaysian SMEs reduced the likelihood of business failure (Oseh, 2013; Hashim, 2012). The study by Hashim (2012) showed that managers/owners professional experience and skills are critical for business ventures. Further, the highest academic education qualification is important since it moderately affects the financial performance of SMEs in Kasarani Sub County which agrees to the study by Hashim (2012). The study by Oseh (2013) established that owner education and business ventures characteristics are useful in firm management.

4.3.5 Financial Performance of SMEs in Kasarani Sub County

The study assessed financial performance of small and medium enterprises in Kasarani Sub County, by analysing data collected using the 5-point Likert scale (1-5). The study captured the results obtained on financial performance in table 7.

Table 7: Effect of accounting information systems on financial performance

Financial Performance of SMEs	M	SD
Business profits have been increasing over the last five years	2.69	1.15
Business turnover has been increasing significantly over the last five years	2.89	1.20
The business has been ploughing back retained earnings every year	3.07	1.19
The business has been experiencing growing sales volume	2.57	1.13
Sales margins have been increasing year on year	3.29	1.22
Average Financial Performance of SMEs	**2.90**	**1.18**

Source: Research Data (2018)

The results in table 7 show the respondents indicating that on average, the financial performance of SMEs in Kasarani Sub County was moderate (M = 2.90; SD = 1.18), neither high nor low. The results show that all the factors of financial performance were indicated as having had been moderate. According to the results, the respondents were neutral on the assertion that the business had been generating profits in an increasing rate over the previous five years (M = 2.69; SD = 1.15). They were also neutral on the assertion that the business turnover had been increasing significantly over the previous five years (M = 2.89; SD = 1.20). The results further show that the respondents were neutral on the statement that "The business has been ploughing back retained earnings every year" (M = 3.07; SD = 1.19). As they showed that they were neutral on the assertion that the business had been experiencing growing sales volume (M = 2.57; SD = 1.13), they also showed that they were neutral on the assertion that sales margins had been increasing year on year (M = 3.29; SD = 1.22).

According to this study the financial performance of SMEs in Kasarani Sub County was moderate, which might have confirmed the high rate of collapse rate SMEs in Kenya. According to Dyer and Whetten (2006) the financial performance of Kenyan SMES is still dismal resulting into their high collapse rate, with over 60% of SMEs closing down within their first year of operation, 40% in less than 2 years and 66% in less than 6 years. Gichuki *et al.* (2014) further explain that challenges facing SMEs is lack of proper accounting records to the extent that owners are not able to determine the performance of their entities on a timely basis hence weakening controls and proper planning. The empirical studies by Dyer and Whetten (2006) and Gichuki *et al.* (2014) suggest that the financial performance is highly threatened by poor accounting processes, which might explain the moderate performance of these SMEs.

According to the study by Ahmad and Zabri (2015) performance measures include among others; market share, sales growth rate, operating profit, cash flow from operation, return on investment. Ahmad and Zabri (2015) further explain that accounting practices competences is important for improving performance and reduces the likelihood of business failure. Meanwhile this study found that although the SME business had been generating profits, increase in these profits was insignificant (moderate). Further according to the results obtained, business turnover had been increasing at a slow pace while sometimes the SMEs ploughed back retained earnings and other times they did not. Also, the SME business had been experiencing moderate growth in its sales volume and as such sales margins have been increasing moderately. Based on the findings by Ahmad and Zabri (2015) the financial performance of the SMEs measured in terms of; sales growth rate, profitability, turn over, and return on investment were reduced by lack of sufficient accounting practices competences.

These measures of financial performance were also captured in the study by Waiganjo *et al*.(2012) and that by Muchandingona and Kalema (2012), where Waiganjo *et al*.(2012) argue out that financial performance has been traditionally conceptualized in terms of Return on Total Asset (ROTA) Return On Equity (ROE). Muchandingona and Kalema (2012) revealed that financial performance value creation strategies are paramount in improving organization's financial perspective. According to the present study, the value creation measures are; profitability, sales volumes, sales margin, and sales turnover which are well captured in the studies by Waiganjo *et al*.(2012) and Muchandingona and Kalema (2012). However, according to findings in studies by Ahmad and Zabri (2015) and Gichuki *et al.* (2014), the improvement in these value creation procedures is determined by the accounting practices competences employed.

4.4 Diagnostics testing

The study first tested the existence or absence of some errors and inconsistencies. This was done so that the study would carry out a model estimate based on accurate data. Diagnostic tests carried out tested for normality, heteroscedasticity, multicollinearity and autocorrelation.

4.4.1 Normality Tests

The normality tests are supplementary to the graphical assessment of normality that will compare the scores in the sample to a normally distributed set of scores with the same mean and standard deviation. If the test is significant, the distribution is non-normal that is, with zero mean and constant variance of 1, (Gezu, 2014). In this study normality test statistics used Kolmogorov-Smirnov test since the sample elements were more than 50. If the P-Value is > 0.05 then this implies that residual are asymptotically normal or the opposite is true. The results were captured in Table 8.

Table 8: Tests for Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Financial performance of SME	0.050	191	.200*	0.988	191	0.116
Accounting information systems	0.059	191	0.099	0.986	191	0.052
Human resource accounting	0.056	191	.200*	0.976	191	0.002
Accounting outsourcing	0.064	191	0.057	0.987	191	0.078
Owner accounting orientation	0.061	191	0.081	0.978	191	0.004

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

The results in Table 8 shows the data was normally distributed since p-value of each of the study variables is greater than 0.05. The p-value for; financial performance of SMEs was 0.200; accounting information systems was 0.099, human resource accounting was 0.200, accounting outsourcing was 0.057 and owner accounting orientation was 0.081. Thus observed data distribution fits the normal distribution.

4.4.2 Multicollinearity Tests

The study tested existence of multicollinearity among the independent variables to ensure that no variable in the model was measuring the same relationship as was measured by another variable or group of variables. Multicollinearity exist when Variance Inflation Factor (VIF) is greater than 10 and Tolerance is less than 0.1. The results obtained were captured in Table 9 below.

Table 9: Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
Financial performance of SME	0.874	1.144
Accounting information systems	0.987	1.014
Human resource accounting	0.887	1.128
Accounting outsourcing	0.958	1.044
Owner accounting orientation		

According to the results in Table 9, it shows that the VIF for all the IV individually are below 5; accounting information systems was 1.144; human resource accounting was 1.014; accounting outsourcing was 1.128; and owner accounting orientation was 1.044; on the other hand, the tolerance for; accounting information systems was 0.874; human resource accounting was 0.987; accounting outsourcing was 0.887; and owner accounting orientation was 0.958. The tolerance for all predictor variables; accounting information systems, human resource accounting, accounting outsourcing, and owner accounting orientation, were greater than 0.1 or 10%. Therefore, the study concluded that there were no multi-collinearity among the variables; accounting information systems, human resource accounting, accounting outsourcing, and owner accounting orientation. This was an indication that the estimators; accounting information systems, human resource accounting, accounting outsourcing, and owner accounting orientation were reliable to estimate the model.

4.4.3 Heteroscedasticity Problem Tests

One of the basic assumptions in linear regression model is Homoscedasticity. This assumption states that the probability distribution of the disturbance term remains the same for all observations. That is, the variance of each error term is the same for all values of the explanatory variable. However, if the disturbance terms do not have the same variance, this condition of non-constant variance or non-homogeneity of variance is known as heteroscedasticity (Babulo & Hassen, 2005). In order to detect the heteroscedasticity problems, the study used Cook-Weisberg test. This test states that if the P-value is significant at 95% confidence interval, the data has heteroscedasticity problem, whereas if the p-value is insignificant (greater than 0.05), the data has no heteroscedasticity problem.

Table 10: Heteroscedasticity Problem Tests

Coefficients[a]

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.650	.208		3.124	.002
Accounting information systems	-.018	.039	-.035	-.4590	.647
Human resource accounting	-.068	.030	-.165	-2.284	.23
Accounting outsourcing	-.012	.046	-.019	-.2540	.799
Owner accounting orientation	.054	.032	.124	1.692	.092

a. Dependent Variable: Unstandardized

The results in table 10 show that the p-value for each IV was greater than 0.05; accounting information systems (p-value = 0.647), human resource accounting (p-value = 0.23), internal checks (p-value = 0.799), and owner accounting orientation (p-value = 0.092). This implies that there was no presence of heteroscedasticity problems in the study data.

4.4.4 Autocorrelation Assumptions Tests

Furthermore, the study tested for the autocorrelation assumptions that imply zero covariance of error terms over time. That means errors associated with one observation are uncorrelated with the errors of any other observation (Gezu, 2014). The study used the best renowned test for detecting serial correlation, Durbin Watson test. Absence of autocorrelation problem implies that error terms are not correlated with one another for different observation in this study.

Table 111: Autocorrelation Assumptions Tests

Durbin-Watson
1.888

a. Predictors: (Constant), Owner accounting orientation, Human resource accounting, Accounting outsourcing, Accounting information systems
b. Dependent Variable: Financial performance of SME

The results show that the Durbin-Watson was 1.888 which was between the 1.5 and 2.5, indicating that there were no autocorrelation problems between the data items

4.5 Model Fitting

The study sought to establish whether the independent variables (IVs); accounting information systems, human resource accounting, accounting outsourcing, and owner accounting orientation were estimators of dependent variable (DV), financial performance of SMEs in Kasarani Sub County. The study first tested for existence of significant relationship between the IVs and the DV using correlation and thereafter carried out multiple regressions for estimating the model that would explain the financial performance of SMEs in Kasarani Sub County, in terms of; accounting information systems, human resource accounting, accounting outsourcing, and owner accounting orientation.

4.5.1 Correlation Analysis

The study first carried out a correlation analysis on the study variables to establish whether there existed any significant relationship between the financial performance of SMEs in Kasarani Sub County and the; accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation. The financial performance of

SMEs in Kasarani Sub County was the DV while; accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation were the IVs. This is where the study sought to establish whether there was a statistically significant relationship between the study DV and each of the IVs, using the Pearson's product moment correlation. The results obtained were presented in Table 12.

Table 12: Correlation Analysis

Correlations

		Financial Performance of SME	Accounting information systems	Human resource accounting	Accounting outsourcing	Owner accounting orientation
Financial performance of SME	Pearson Correlation	1	.249**	.205**	.209**	.438**
	Sig. (2-tailed)		.001	.004	.004	.000
	N	191	191	191	191	191
Accounting information systems	Pearson Correlation	.249**	1	-.030	.322**	.182*
	Sig. (2-tailed)	.001		.684	.000	.012
	N	191	191	191	191	191
Human resource accounting	Pearson Correlation	.205**	-.030	1	-.085	.067
	Sig. (2-tailed)	.004	.684		.241	.361
	N	191	191	191	191	191
Accounting outsourcing	Pearson Correlation	.209**	.322**	-.085	1	.112
	Sig. (2-tailed)	.004	.000	.241		.124
	N	191	191	191	191	191
Owner accounting orientation	Pearson Correlation	.438**	.182*	.067	.112	1
	Sig. (2-tailed)	.000	.012	.361	.124	
	N	191	191	191	191	191

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

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

Source: Research Data (2018)

The results obtain on correlation analysis using, Pearson's product moment correlation, are shown in table 11. These results show that the relationship between each IV and DV, at 0.05 level of significance exists as indicated by the correlation coefficient (r), and based on the probability value (p-value). According to the results, the relationship was high since the IV; accounting information systems (r =; 0.249; p-value = 0.001); human resource accounting (r = 0.205; p-value = 0.004); accounting outsourcing (r = 0.209; p-value = 0.004), and owner accounting orientation (r = 0.438; p-value = 0.000) was significantly related to the DV; financial performance of SMEs in Kasarani Sub County. This was because the p-value for each IV was less than 0.05. The result show that owner accounting orientation (r = 0.438) had the highest relationship, followed by accounting information systems (r =; 0.249), accounting outsourcing (r = 0.209), and human resource accounting (r = 0.205). Owner accounting orientation (r = 0.614) had a moderate significant relationship with financial performance of SMEs in Kasarani Sub County since the coefficient of correlation (r = 0.438) was greater than 0.3 and less than 0.6 Meanwhile each of; accounting information systems (r =; 0.249), accounting outsourcing (r = 0.209), and human resource accounting (r = 0.205) had a low significant relationship with financial performance of SMEs in Kasarani Sub County since the correlation coefficient was less than 0.3.

4.5.2 Regression Analysis

The study established that all the IVs; accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation had significant relationship with the DV, it then sought to establish whether the IVs; would actually estimate the DV (Financial performance of SMEs in Kenya). The study therefore carried out multiple regressions to estimate the model;

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$……………………………………………….(i)

Where:

Y = Financial performance of SMEs in Kenya.

X_1 = Accounting information systems

X_2 = Human resource accounting

X_3 = Accounting outsourcing

X_4 = Owner accounting orientation

β_0 is a constant (which is the value of dependent variable when all the independent variables are 0).

$\beta_{1\text{-}4}$ is the regression coefficients or change induced by X_1, X_2, X_3 and X_4

e = error term

The study first regressed all the IVs against the DV to estimate the study model, obtaining the results shown in Table 13.

Table 13: Regression Results of Financial performance

Coefficients[a]

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.635	0.336		1.889	0.060
Accounting information systems	0.131	0.062	0.140	2.093	0.038
Human resource accounting	0.150	0.048	0.195	3.101	0.002
Accounting outsourcing	0.154	0.074	0.138	2.075	0.039

Owner accounting orientation	0.310	0.052	0.384	6.007	0.000

a. Dependent Variable: Financial performance of SME

Source: Research Data (2018)

Using the study results in table 12, to test the study hypothesis, the study made interpretations seeking to establish the nature of significance of the independent variables in determining the dependent variable. The study tested the hypotheses as show below;

As concerns Hypothesis 1;

> *H_o: Accounting information system does not significantly influence financial performance of small and medium enterprises in Kenya.*
>
> *H_α: Accounting information system significantly influences financial performance of small and medium enterprises in Kenya.*

The results in table 12 (T= 2.093; p-value= 0 .038) show that the p=value (;p-value= 0 .038) is less than 0.05 indicating that at α = 0.05 level of significance, there exists enough evidence to conclude that the accounting information system is not zero. Therefore, H_o is rejected and Hα accepted. This implies that accounting information system is useful as a predictor of financial performance of small and medium enterprises in Kenya.

The study tested Hypothesis 2;

> *H_o: Human resource accounting does not significantly influence financial performance of small and medium enterprises in Kasarani Sub County.*
>
> *H_α: Human resource accounting significantly influences financial performance of small and medium enterprises in Kasarani Sub County*

Where the results (T= 3.101; p-value= 0 .002) show that the p=value (;p-value= 0 .002) did not exceed 0.05 and so at the α = 0.05 level of significance, there exists enough evidence to conclude that the human resource accounting is not zero. Therefore H_o is rejected and Hα accepted. This implies that human resource accounting is useful as a predictor of financial performance of small and medium enterprises in Kenya.

On testing Hypothesis 3;

> *H_o: Accounting outsourcing does not significantly influence financial performance of small and medium enterprises in Kasarani Sub County.*
>
> *H_α: Accounting outsourcing significantly influences financial performance of small and medium enterprises in Kasarani Sub County*

The results obtained (T= 2.075; p-value= 0 .039) show that the p=value (;p-value= 0 .039) which does not exceed 0.05, implying that at the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that the accounting outsourcing is not zero. Hence H_o is rejected and H_α accepted. This is an indication that accounting outsourcing is useful as a predictor of financial performance of small and medium enterprises in Kenya.

Lastly, Hypothesis 4;

> *H_o: Owner accounting orientation does not significantly influence financial performance of small and medium enterprises in Kasarani Sub County.*
>
> *H_α: Owner accounting orientation significantly influences financial performance of small and medium enterprises in Kasarani Sub County*

Where the results were (T= 6.007; p-value= 0 .000) indicate that the p=value (;p-value= 0 .000) was less than 0.05 and therefore the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that the owner accounting orientation is not zero. Therefore H_o is rejected and $H\alpha$ accepted, indicating that owner accounting orientation is useful as a predictor of financial performance of small and medium enterprises in Kenya.

After establishing that the variables; accounting information systems, human resource accounting, accounting outsourcing are predictors of financial performance of SMEs in Kenya the study derived the model from results in table 13 as

$$\hat{y} = \frac{0.635}{(0.336)} + \frac{0.131X_1}{(0.062)} + \frac{0.150X_2}{(0.048)} + \frac{0.154X_3}{(0.074)} + \frac{0.310X_4}{(0.052)}$$

$$Financial\,\widehat{performance} = \frac{0.635}{(0.336)} + \frac{0.131AIS}{(0.062)} + \frac{0.150HRA}{(0.048)} + \frac{0.154AO}{(0.074)} + \frac{0.310OAO}{(0.052)}$$

According to this model, the fitted value of financial performance on average was 0.635 with a standard error of 0.336 when all the independent variables are zero.

A unit increase in Accounting Information Systems value would lead to an increase in financial performance by 0.131, with a standard error of 0.062

A unit increase in Human Resource Accounting value would lead to an increase in financial performance by 0.150, with a standard error of 0.048

A unit increase in Accounting Outsourcing value would lead to an increase in financial performance by 0.154, with a standard error of 0.074

A unit increase in Owner Accounting Orientation value would lead to an increase in financial performance by 0.310, with a standard error of 0.052

According to the table results in table 13, accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation have positive coefficients, implying that they were directly proportional to financial performance of SMEs in Kasarani Sub County. This means that an increase in any of; accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation, would lead to improvement of financial performance of SMEs in Kasarani Sub County and vice versa. Thus, accounting information systems, human resource accounting,

accounting outsourcing and owner accounting orientation are significantly and positively related to the financial performance of SMEs in Kasarani Sub County.

The study obtained a summary of the model using the results in table 13 above.

Table 14: Model Summary for firm performance

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.521[a]	0.2719	0.2563	0.6626	1.888

a. Predictors: (Constant), Moderated Owner Accounting Orientation, Moderated Human Resource Accounting, Moderated Accounting Outsourcing, Moderated Accounting Information Systems
b. Dependent Variable: Modeated Financial Performance of SME

Source: Research Data (2018)

According to these results, the coefficient of determination was .2719, which indicates that 27.19% of change in variation in financial performance of SMEs in Kasarani Sub County is explained by; accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation. Accordingly, all the variable; accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation are strong determinants of financial performance of SMEs in Kasarani Sub County**.**

The study sought to test the goodness of fits of the model (whether the model is fit), using ANOVA, producing the results in table 15.

Table 15: ANOVA for firm performance

ANOVA[a]

	Sum of Squares	df	Mean Square	F	Sig.
Regression	30.503	4	7.626	17.369	.000[b]
Residual	81.662	186	.439		
Total	112.165	190			

a. Dependent Variable: Moderated Financial Performance of SME

Source: Research Data (2018)

The study tested the model's goodness of fit based on the study model Beta coefficients; $\beta_1 - \beta_4$ by checking whether the coefficients of; accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation are all zero (that is $\beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$) or not, at 5% level of significance. If all the coefficients are zero (p-value > 0.05), then the model is not fit for use since it lacks goodness of fit. However, when the p-value < = 0.05 then model is considered as being fit for use since it has goodness of fit.

According to the results obtained in Table 11, Since p-value < 0.05 ($F(4, 190) = 17.369$; p-value=.000), the p-value(0.000) is less than 0.05, which implies that $\alpha = 0.05$ level of significance, the model had goodness of fit and therefore the model can be used to predict the financial performance of SMEs in Kenya. Thus, there is enough evidence to conclude that at least one of the predictors; accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation are useful in predicting the financial performance of SMEs in Kenya (response). Therefore, the model is useful in explaining financial performance of SMEs in Kenya.

4.6 Summary of the Study Research and Discussions

This chapter has presented and attempted to prove the four hypotheses covered in the study. Each variable had a number of sub variables which were assessed individually and later combined into composite indexes. Pearson's correlations were used to explore the relationship between the study variables. The variables were then regressed using simple and multiple methods applicable. Based on the finding, the study concluded that

i. *Accounting information system positively and significantly influences financial performance of small and medium enterprises in Kenya.*

ii. *Human resource accounting positively and significantly influences financial performance of small and medium enterprises in Kenya*

iii. *Accounting outsourcing positively and significantly influences financial performance of small and medium enterprises in Kenya*

iv. *Owner accounting orientation has a high positive and significant influence financial performance of small and medium enterprises in Kenya*

The entire hypotheses were confirmed. The next chapter presents the conclusions and recommendations.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the conclusions from the study findings as well as the recommendations for future study based on the findings. It further highlights the research gaps the researcher felt should be filled by further research as well the limitations of the study.

5.2 Summary of Study Findings

The study findings were summarized based on the research objectives, which were to; establish the effects of accounting information systems on financial performance of small and medium enterprises in Kasarani Sub County, establish the effects of human resource accounting on financial performance of small and medium enterprises in Kasarani Sub County, establish the influence of accounting outsourcing on financial performance of small and medium enterprises in Kasarani Sub County, and to find out the effects of owner accounting orientation on financial performance of small and medium enterprises in Kasarani Sub County

The study response rate was high and adequate at (75.20%). The ratio of male to female was that the male were more than $2/3^{rd}$ of the the total population and the female were less than $1/3^{rd}$ of the total number of employees. Most of the employees were youth within the ages 18 to 29 years. From these results, it was observed that there was diversity in accomodating all cadres of employees.

5.2.1 Findings on Effect of Accounting Information Systems on Financial Performance

The study found that accounting information systems moderately affect the financial performance of SMEs in Kasarani Sub County. Thus by application of accounting information systems, the financial performance of SMEs would improve moderately. This would mean that the accounting information systems is not the core driver of financial performance of SMEs but plays a key role for its improvement. Thus, accounting information systems is among the most essential factors for the improvement of financial performance of SMEs in Kasarani Sub County.

According to a local study by Nzomo (2013), it was concluded that there exist a connection between Accounting Information System and the performance of SMEs in Kenya, due to the critical role played by AIS in production of quality accounting information. It therefore implies that investment in AIS would affect financial performance of SMEs positively. Muhindo *et al.* (2014) carried out a study on Impact of Accounting Information Systems on profitability of SMEs, which revealed a significant positive relationship between accounting information systems and financial performance of SMEs. The study by Muhindo *et al.* (2014) further revealed that most small scale businesses do not apply accounting information systems which result into low profits.

Some indicators of accounting information systems moderately affect while others highly affect financial performance of SMEs in Kasarani Sub County depending on the role played by such a factor. Specifically, the quality of Information produced by the accounting information systems, frequency of producing the information, computing competency of accounting personnel, and integration of accounting information systems moderately affect the financial performance of SMEs in Kasarani Sub County while the accuracy of the accounting information systems and accounting information systems flexibility has high effect on financial performance these SMEs. The study concluded that Accounting Information System had a statistically significant influence on Financial Performance. Hypotheses 1 was therefore accepted.

5.2.2 Findings on Human Resource Accounting on Financial Performance

The study established that effective management of human resource accounting highly improve the financial performance of SMEs in Kasarani Sub County. This implies that adoption of effective human resource accounting activity highly motivates the employees of the SMEs, resulting into high productivity and hence betters the financial performance of the SMEs. Those SMEs which employ productive human resource accounting gain significantly through improvement in their financial performance. This is because the human resource factor of the SME is a significant determinant of the firm performance and more specifically, the financial performance of profit making entity. The main factors to be considered in development of an effective human resource accounting include; cost of staff development, retention of employees, cost of staff Welfare, and safety Cost. All these factors highly affect the financial performance of SMEs in Kenya. Noticeably, the SME should as well highly consider the staff training cost, which moderately affects the financial performance of SMEs in Kasarani Sub County.

A study by Onyam *et al.* (2015) on “The impact of human resource accounting on the profitability of a firm” established a significant relationship between HRA factors; training cost, development cost and the profit of the firm. The study therefore recommended for enhancement of the retention of employees and training of staff so as to avert wastage of knowledgeable investment. The same was echoed in the study by Saeed, et *al*. (2013) which established a significant positive relationship between HR and financial performance.

Importantly, the SMEs are required to have the capacity to develop a human resource accounting which embarks on providing; sufficient fund to cater for cost of staff development, develop strategy for ensuring employee retention, manage the cost of staff welfare, and develop a kitty for safety cost for optimisation of their financial performance increment. The SME should as well engage staff training and encourage the employee to acquire other training for proficiency and competence at work through the provision of financial support. This Study concluded that Human Resource Accounting had a statistically significant effect on financial performance. Hypothesis 2 was therefore accepted.

5.2.3 Findings of Accounting Outsourcing on Financial Performance

The study found that accounting outsourcing moderately influences the financial performance of SMEs in Kenya. In cases where the SMEs are not able to absorb their own management accounting practices resources, they turn to outsourcing those services. However, the influence of the accounting outsourcing was found to have had a moderate effect on financial performance of the SMEs. Thus, the contribution of the outsourcing did not significantly influence the financial performance of SMEs. A study by Jayabalan *et al.* (2009) on "Outsourcing of accounting functions amongst SMEs in Malaysia" concluded that outsourcing of accounting functions is an option for SMEs in order to maintain a competitive advantage in the business environment as it could lessen the burden borne by SMEs. Further, a study by Desai (2007) echoed these findings, which concluded that the presence of accounting outsourcing provided a firm with a competitive advantage.

Some of the factors of accounting outsourcing including; entity's knowledge in accounting practices, technical competence of the entity providing outsourced accounting services, efficiency in the entity providing outsourced accounting services, and years in business of the entity providing accounting services do not affect the financial performance of SMEs in

Kasarani Sub County in any way. However, professional training of the staff, level of utilisation of information technology, reliability of the company, reputation of the company, and experience in providing accounting services have high influence on financial performance of SMEs in Kasarani Sub County. This Study established that Accounting Outsourcing had a statistically significant effect on financial performance. Hypothesis 3 was therefore accepted.

5.2.4 Findings on Owner Accounting Orientation and Financial Performance

The study findings show that owner accounting orientation highly affects the financial performance of small and medium enterprises in Kasarani Sub County. When the owner has high orientation in accounting, the SME is most likely to significantly improve its financial performance. However, where the owner accounting orientation is poor or absent, the financial performance of that SME is most likely to be affected negatively. The main factors of owner accounting orientation which play a significant role in highly affecting the financial performance of the SMEs include; knowledge in basic accounting procedures; professional accounting skills to manage business activities; knowledge and skills in business; attendance to target oriented accounting and business training and a high level of education is important since it moderately affects the financial performance of SMEs in Kasarani Sub County. This Study determined that Owner Accounting Orientation had a statistically significant effect on financial performance. Hypothesis 4 was therefore accepted.

5.2.5 Findings on Financial Performance

The study found that on overall the financial performance of SMEs in Kasarani Sub County was moderate, neither high nor low. The study established that all the factors of financial performance were moderate and although the SMEs business had been generating profits, the increase in profits over the previous five years was moderate. Also, business turnover had been increasing moderately over the previous five years. The study established that SMEs sometimes would plough back retained earnings in some years and in other years they do not plough back the retained earnings.

5.2.6 Findings on Inferential Statistics

The study found that at 0.05 level of significance, accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation are positively significant to financial performance of SMEs in Kasarani Sub County where owner accounting orientation has high relationship and the rest have moderate relationship. Accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation are strong determinants of financial performance of SMEs in Kasarani Sub County. The study found that 27.19% of change in financial performance of SMEs in Kasarani Sub County is explained by accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation.

5.3 Conclusions

Based on the study findings, financial performance of SMEs in Kasarani Sub County is moderate (which was neither high nor low). Although these SMEs are generating profits, the increase in profitability is not large enough to support their sustainability over a long period since the business turnover increases moderately and the businesses do not always plough back retained earnings. As such, the profits are not sufficient for ploughing back retained earnings into the business. The SMEs business in Kasarani Sub County is not experiencing significant growth of its sales volume and sales margins.

The study concludes that accounting information systems moderately affects the financial performance of SMEs in Kasarani Sub County. Utilisation of accounting information systems has moderate effect as regards to improvement of the financial performance of SMEs in Kasarani Sub County. However, it is among the key factors contributing to the growth in financial performance of SMEs. Thus, accounting information systems is among the most essential factors required for the improvement of financial performance of SMEs in Kasarani Sub County. Thus, the improvement of financial performance of SMEs in Kasarani Sub County requires appropriate and an effective accounting information systems. Such a systems should be capable of producing quality of Information, produce the desired information on demand and should always be up to date, be managed by competent accounting personnel possessing adequate knowledge in Information Communication Technology (ICT), be an integration systems and always produce accurate results. SMEs should have the capacity to develop a human resource accounting which embarks on providing; staff training, sufficing cost of staff development, strategy for ensuring employee retention, financing of cost of staff welfare, funds for safety cost for optimisation of their financial performance increment.

The study also concludes that effective management of human resource accounting highly improve the financial performance of SMEs in Kasarani Sub County since adoption of such a function highly motivates its employees, leading to increase in productivity and hence increase in financial performance. Therefore, employment of productive human resource accounting significantly improves the financial performance and it is essential for the improvement of financial performance of SMEs in Kasarani Sub County. The human resource accounting is important for attracting, hiring and employment of competent staff leading to increased financial performance of SMEs. In which case, motivating the human resource factor of the SME is a significant determinant of the firm performance and more specifically, the financial performance of profit making entity. The factors of human resource accounting necessary for driving the financial performance of SMEs include; cost of staff development, retention of employees, cost of staff Welfare, staff training cost, and safety Cost.

The study further concludes that utilisation of accounting outsourcing moderately influences the financial performance of SMEs in Kasarani Sub County. That is, outsourcing accounting services would moderately influence the financial performance of SMEs since the SMEs turn to outsourcing when they lack their own inhouse accounting practices resources but for improvement of business. Therefore, the contribution of the outsourcing does influence the financial performance of SMEs. Some of the accounting outsourcing factors playing a key role in improving the financial performance of SMEs include; professional training of the staff, level of utilisation of information technology, reliability of the company, reputation of the company, and experience in providing accounting services.

In addition, the study concluded that owner accounting orientation highly affects the financial performance of small and medium enterprises in Kasarani Sub County. In fact, the level of owner accounting orientation importantly determines the level of financial performance of the SME. SME owners possessing high accounting orientation are most likely to significantly improve the financial performance of their business significantly, and on the contrary, poor or absence of owner accounting orientation would most likely impact on the financial performance negatively due to high level of misinformation and overreliance on third party. Where the owner has insignificant accounting orientation, such an investor relies on the professional employees who may mislead or easily use funds fraudulently without the knowledge of the business owner. Such an occurrence is disastrous to the business. However, an informed owner would question transactions and even business performance from an informed position. Owner accounting orientation required for significantly improving the financial performance of the SMEs include; sufficient knowledge in basic accounting procedures; adequate professional accounting skills to manage business activities; knowledge and skills in business; and regular attendance to target oriented accounting and business training. Further high levels of academic education qualifications are important in improving financial performance of SMEs in Kasarani Sub County.

Lastly, the study revealed that, at 0.05 level of significance, there exists positive significant relationship between accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation and financial performance of SMEs in Kasarani Sub County. Accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation are strong predictors of financial performance of SMEs in Kasarani Sub County and that 27.19% variation in financial performance of SMEs in Kasarani Sub County is explained by accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation. The study reveals that at 5% significance level, owner accounting orientation has high significant influence on financial performance of SMEs in Kenya while each of accounting information systems, human resource accounting, and accounting outsourcing has moderate significant effect on financial performance of SMEs in Kasarani Sub County.

5.4 Recommendations

5.4.1 Policy and practical implications

The study revealed the financial performance of most SMEs in Kasarani Sub County was neither high nor low, confirming the high rate of collapse rate SMEs business in Kenya. There is therefore the need to reverse the trends to make the financial performance of this sector vibrant since it has a significant contribution towards economic and social development in the country. Accordingly, this study has made policy recommendation based on the findings and study objectives for purpose of improving SMEs financial performance.

First, the study recommends that the SMEs in Kasarani Sub County should aggressively adopt accounting information systems in their day to day operations to support their accounting function. They should be a match to the rest of the world by ensuring that their information; processing, storage, distribution, and dissemination are largely handled with support of ICT systems. These SMEs should as much as possible utilise ICT in their accounting processes, which would drive their financial performance. The adoption of accounting information systems is essential for increasing the; accuracy, reliability effectiveness, simplicity, efficiency, correctness, and speed of the accounting function in the SME and hence improve financial performance. Thus the accounting information systems in place should be capable of, producing quality information, producing information frequently, ensuring that information is always up to date, transmitting information immediately to the requesting destination, being handled by proficient employees as well as other staff. The SMEs should as well ensure competency of accounting personnel in the use of the accounting information systems through training. It is essential to acquire an integrated accounting information system. Importantly the SMEs in Kasarani Sub County require an accounting information systems that; ensures high degree of accuracy and which is highly flexible.

Secondly, the study recommends that the SMEs in Kasarani Sub County develop and implement effective human resource accounting system which should comprehensively address the issues of its human function demands. There is therefore the need for the SMEs to adopt human resource accounting activity in their strategic plans for purposes of taking care of the staff needs as well as motivating the employees. The goal of the human resource accounting should be driving the productivity and hence better the financial performance of the SMEs. These SMEs should set aside budget allocation for enriching the human resource accounting function of their business. Such a budget allocation should take into account the; staff training cost, cost of staff development, retention of employees, cost of staff welfare, and safety Cost. There should be equity of the allocation of the balance to various human resource accounting expenditure vote heads, such that funds allocated should; sufficiently finance the cost of staff development, support the cost of staff welfare, suffice the safety cost, and enhance staff training. The SMEs should as well develop strategy for ensuring employee retention.

Thirdly, the study recommends that as a way of cost saving and for efficiency in their operations, the SMEs should outsource their accounting functions after doing a cost benefit analysis. In cases where the SMEs are not able to absorb their own inhouse accounting practices resources, they should turn to outsourcing the accounting services. When such a decision is made to outsource the accounting functions, the SMEs should be focused on the credibility of the provider of such services. The main consideration to be made should include, professional training of the entity's staff, level of utilisation of information technology by the entity providing service, reliability of the company/individual, reputation of the company/individual, and experience in providing accounting services.

Lastly, the study recommends that the owners of the SMEs should importantly possess adequate accounting orientation and if possible high accounting qualifications. The SME owner/managers are required to possess; adequate knowledge in basic accounting procedures; professional accounting skills to effectively manage business activities; and adequate knowledge and skills in business. The SME owners/managers are encouraged to regularly attend target oriented accounting course/seminars as well as business training.

5.4.2 Recommendations for future Research/Limitation of the Study

The study focused on SMEs based in Kasarani Sub County, which limited the scope of the study findings to the Sub County. Notably, Kasarani Sub County is one out of the 45 sub counties of Nairobi and limiting the applicability of the study. This being a case study, it did not cover other counties in Kenya facing different challenges. In view of this, other studies should be conducted to assess the influence of; accounting information systems, human resource accounting, accounting outsourcing and owner accounting orientation on financial performance of SMEs in other counties in order to be able to generalise the findings.

The study found that 27.19% % variation in financial performance of SMEs in Kasarani Sub County is explained by accounting information systems, human resource accounting, accounting outsourcing, and owner accounting orientation. This means that there are other factors that account for the remaining 72.81%. The study therefore recommends that other studies should be conducted to establish what influences the 72.81% change of financial performance of SMEs.

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APPENDICES

APPENDIX I: WORK PLAN

The project will be undertaken between May 2018 and October 2018. The entire schedule for the project will be as follows: -

ACTIVITY	May 2018	June 2018	July 2018	August 2018	September 2018	October 2018
Produce Proposal						
Submission of Proposal Defense						
Tools development and Data Collection						
Data processing and analysis						
Report Writing						
Final Defence						
Correction and Final Submission						

Source (Researcher, 2018)

APPENDIX II: LETTER TO RESPONDENTS

Wanjiru Minjo

KCA University

Town Campus,

NAIROBI.

Dear Respondent,

RE: ACCEPTANCE LETTER

I am a student at KCA University undertaking a Masters Degree in Finance and Accounting. I have chosen your firm to participate in this research on assessing relationship between owner accounting practice competencies and financial performance of Small and Medium Enterprises (SMEs) in Kenya. Your responses will be used for the research purpose only and your identity treated with a lot of confidentiality.

Kindly respond sincerely to the issues in the attached questionnaire. Please read and answer the questions by ticking the appropriate answer (choice) to the questions given.

Thanking you in advance for your response.

Yours faithfully,

Wanjiru Minjo

Reg no: 17/00413

KCA University

APPENDIX III: QUESTIONNAIRE

EFFECTS OF OWNER ACCOUNTING PRACTICE COMPETENCIES ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA. A CASE OF KASARANI SUB COUNTY

This Questionnaire is meant to collect data among the small and medium enterprises in Kasarani Sub County. Any information provided in this Questionnaire will be used for purposes of research only and will not be divulged or availed to unauthorized persons.

Please take a few minutes to complete this questionnaire.

Please tick the appropriate answer in the boxes provided against the questions.

SECTION A: BACKGROUND INFORMATION

1. What is your Sex? Please tick (√) as appropriate

   Male ( )   Female ( )

2. Position held in the SME? Please tick (√) as appropriate

   Owner ( )

   Manager ( )

   Owner/Manager ( )

3. Highest education level attained. Please indicate your highest academic qualifications

Primary School	( )	Secondary School	( )
College	( )	Undergraduate degree	( )
Masters Degree	( )	PhD	( )
Other	( )	specify …………………………………..	

4. Professional accounting qualifications. Please indicate your highest professional qualifications.

None..( )

Technician (e.g. ATC) ....( )

Diploma (e.g. CPA Part 1)...( )

CPA Part 11 ....( )

CPA part 111...( )

ACCA Qualification ....( )

5. What is the average period you have attended short term courses/seminars/workshops on financial practice and accounting each year? _____weeks

6. How many years has your firm been in operation?

Under 5years ( ) 5 to 10 years ( ) 11 to 15 Years ( )

15 to 20 Years ( ) 21 to 25 Years ( ) over 25 years ( )

7. Age of Owner/Manager. Please tick (√) the box corresponding to the right answer

Less than 18 years ( ) 18 to 25 Years ( ) 26 to 35 Years ( )

36 to 45 Years ( ) 46 to 55 Years ( ) 56 to 65 Years (

Over 65 Years ( )

8. Legal status of the enterprise: Kindly tick (√) the correct answer only

Family-Owned ( ) Sole Proprietor ( )

Private Limited ( ) Partnership ( )

Others: Explain __________________

9. Number of Employees at the moment: Kindly tick (√) the correct answer only

1 – 10 ( ) 11 – 20 ( )

21 – 30 ( ) 31-40 ( ) 40 and above ( )

10. How do you keep firm accounting records?Kindly tick (√) the correct answer only

Outsourced record keeping ( ) In-house record keeping ( )

Section B: Effects of Accounting Information Systems

11. Please indicate in your opinion on the level of influence of each of the following accounting information systems variables on the financial performance of your business. Please tick (√) on the space corresponding to the correct answer in each indicator.

Scale: Not at All = 1; Low = 2; Moderate = 3; High = 4; Very High = 5

	Accounting Information Systems Indicator	1	2	3	4	5
(a)	Quality of Information produced by the accounting information systems					
(b).	Frequency of producing the information					
(c)	Integration of accounting information systems					
(d)	Accuracy of the accounting information systems					
(e)	Accounting information systems flexibility					
(f)	Computing competency of accounting personnel					

Section C: Effects of Human Resource Accounting

12. Please indicate in your own opinion on the level of influence of each of the following indicators of human resource accounting on financial performance of your business, by ticking (√) on the space corresponding to the correct answer in each question below.

Scale: Not at All = 1; Low = 2; Moderate = 3; High = 4; Very High = 5

	Human Resource Accounting Indicator	**1**	**2**	**3**	**4**	**5**
(a)	Staff Training cost					
(b).	Cost of staff development					
(c)	retention of employees					
(d).	Cost of staff Welfare					
(e)	Safety Cost					

Section D: Influence of Accounting Outsourcing

13. Please indicate in your own opinion on the level of influence of each the following indicators of accounting outsourcing on financial performance of your business by ticking (√) on the space corresponding to the correct answer in each question below.

Scale: Not at All = 1; Low = 2; Moderate = 3; High = 4; Very High = 5

	Accounting Outsourcing Indicator	5	4	3	2	1
(a)	Entity's knowledge in accounting practices					
(b).	Technical competence of the entity providing outsourced accounting practices services					
(c)	Efficiency in the entity providing services					
(d).	Years in business of the entity providing outsourced accounting practices services					
(e)	Professional training of the staff					
(f)	Level of utilisation of information technology					
(g)	Reliability of the company					
(h)	Reputation of the company					
(i)	Experience in providing services					

Section E: Influence of Owner Accounting Orientation

14. In your own opinion, please indicate the level of influence of each of the following indicators of influence of owner accounting orientation on financial performance of your business. Please tick (√) on the space corresponding to the appropriate answer for each.

Scale: Not at All = 1; Low = 2; Moderate = 3; High = 4; Very High = 5

	Owner Accounting Orientation Indicator	5	4	3	2	1
(a)	Knowledge in basic accounting procedures.					
(b)	Highest academic education qualifications					
(c)	Professional Accounting skills to manage business activities					
(e)	knowledge and skills in business					
(e)	Attendance to target oriented accounting training					

Section F: Financial Performance of SMEs

15. In your own opinion, indicate the level of agreement or disagreement with each of the following statements on financial performance of your business. Please tick **(√)** the appropriate box for each statement below to indicate:

Scale: Strongly Disagree = 1: Disagree= 2: Neutral = 3: Agree = 4: Strongly Agree = 5

	Statement	**1**	**2**	**3**	**4**	**5**
(a)	Business has been generating profits in an increasing rate over the last five years					
(b)	Business turnover has been increasing significantly over the last five years					
(c)	The business has been ploughing back retained earnings every year					
(d)	The business has been experiencing growing sales volume					
(e)	Sales margins have been increasing year on year					

Thank you for your cooperation.

APPENDIX IV: SUMMARY OF PREVIOUS EMPIRICAL STUDIES AND KNOWLEDGE GAPS

Author and Year	Title	Variable	Findings	Research Gaps
Waiganjo, Mukulu and Kahiri (2012)	Relationship between strategic human resource management and firm performance of Kenya's Corporate Organizations	Financial performance	Performance has been traditionally conceptualized in terms of financial measures, such as Return on Total Asset (ROTA) Return On Equity (ROE).	The factors effecting financial performance of SMEs were not explained
Muchandingona & Kalema (2012)	Leveraging on a balanced scorecard to enhance financial perspective of an organization	Financial performance	value creation strategies are paramount in improving organization's financial perspective	Theses value creation strategies were not explained in the study
Muhindo, Mzuza, & Zhou 2014).	Impact of accounting information systems on profitability of small scale businesses: A Case of Kampala City in Uganda.	Accounting information systems	Revealed a significant positive relationship between accounting information systems and profitability of SMEs in Kampala City of Uganda. However, most small scale businesses do not apply accounting information systems which result into low profits	It did not comprehensively address the entire scope of financial performance but only considered profitability.
Abdallah (2013)	The impact of using accounting information systems on the quality of financial statements submitted to the income and sales tax department in Jordan.	Accounting information systems	Found that accounting information systems have an impact on the quality of financial statements submitted to the Income Tax and sales Department in Jordan	The study embarked on taxation of financial statements. It is not clear whether AIS has significant influence of the financial performance among SMEs
Amoako (2013)	Accounting practices of SMEs: A case study of Kumasi Metropolis in Ghana	Accounting information systems	The application of accounting information to support assessment of financial performance by SMEs in Ghana is inefficient.	Only showed that AIS is useful for assessing SMEs' financial performance but did not show the relationship between AIS and financial performance
Daoud & Triki (2013)	Accounting information systems in an ERP environment and	Accounting information	Top management involvement and external expertise have an impact on the AIS and AIS	Firm performance is wide. The study failed to

	Tunisian firm performance	systems	influences firm performance	specifically show the relationship between AIS and financial performance, which is a form of firm performance.
Nzomo (2013)	Impact of accounting information system on organizational effectiveness of automobile companies in Kenya	Accounting information systems	The study concluded that AIS are critical to the production of quality accounting information on a timely basis and the communication of that information to the decision makers and that AISs have a greater impact on the organizational effectiveness	The most evident effect of AIS is on organizational effectiveness. But the study does not explain any effects of AIS on financial performance
Izedonme, Odeyile & Kuegbe (2013)	Human resource accounting and its impact on organisational performance	Human resource accounting	Revealed that human resource accounting has a positive and insignificant impact on organizational performance	Although HRA positively affects the organizational performance, the effects of HRA on financial performance was not covered.
Saeed, Shekoofeh, & Mahnaz, (2013)	Impact of intellectual capital on financial performance	Human resource accounting	Significant positive relationship between HR and value added efficiency of human capital with ROE	Failed to fully explain the effects of HRA on other factors of financial performance
Onyam, Usang and Eyisi (2015)	The impact of human resource accounting on the profitability of a firm: empirical evidence from access Bank Of Nigeria Plc	Human resource accounting	Established a significant relationship between HRA factors; training cost, development cost and the profit of the bank and organizational performance.	It is far from explaining effect of HRA on financial performance of SMEs.
Rajashekharaiah (2014)	Emphasis on human resource management in Quality Improvement	Human resource accounting	Training and development, attracting, developing, and retaining a diverse workforce helps in providing the different skills required maintaining and improving the firm performance	It emphasises more HR on reward system to improve quality, but does not discuss more about how it improves financial performance.

Moghaddam, Kakhaki and Pakdelan (2014)	Investigating the impact of firm leverage and unemployment rates on human capital costs in the companies listed in Tehran Stock Exchange.	Human resource accounting	HRA affects employees' performance by enhancing their knowledge, skills, behaviours and commitment, and empowering them to make a decision while performing their tasks	Although the study shows that HRA affect employee performance, it is not clear how the HRA would eventually affect the financial performance of SMEs.
Jayabalan, Raman, Dorasamy, & Ching (2009)	Outsourcing of accounting functions amongst SME companies in Malaysia: An exploratory study	Outsourcing of accounting functions	Conclude that outsourcing of accounting functions in an SMEs enhances maintaining a competitive advantage in the business and outsourcing could lessen the burden borne by SMEs	The study did not explain whether maintaining a competitive advantage by SMEs leads to improved financial performance
Desai (2007)	Finance And Accounting Outsourcing: Three Studies Related To The Ethical And Economic Dimensions Of Accounting Outsourcing	Outsourcing of accounting functions	Predicted that presence of accounting outsourcing factors would provide a firm with a competitive advantage. Finance and accounting outsourcing may strongly influence the choice of future organizational form and structure thus making it important to develop an early understanding of this industry	Although the study addressed issues in accounting literature to advance an understanding of a fast-growing phenomenon, the outsourcing of accounting services, it fell short of clearly explain how accounting outsourcing influenced the financial performance of SMEs.
Mulyungi, Mukulu and Waititu (2015)	Influence of Skill Based Management Characteristics on the Export Performance of Agri-Based Export Oriented Small and Medium Enterprises In Kenya	Owner accounting orientation	Skill based management characteristics are predictors for the export performance of agri-based export oriented SMEs. The focus on entrepreneurial competencies offers a practical means of addressing the performance of SME	According to the study, Owner Accounting Orientation is necessary for addressing the performance but there might not be an effect on the same on the financial performance of SMEs.

Oseh (2013)	Factors associated with internationalization of small and Medium enterprises in Thika town, Kenya	Owner accounting orientation	The presence of a manager with high proficiency in international skills and experience, understanding of export, strategic orientation, and financial management skills as well as networking are essential in an SMES	Owner accounting orientation was not related to financial performance of SMEs but rather the study provided blanket conclusions
Hashim (2012)	Challenges for the Internationalization of SMEs and the role of Government: The case of Malaysia	Owner accounting orientation	Managers/owners possessing professional experience and skills are critical for business ventures.	There is no clear highlights on the effect of owner education and business ventures characteristics on financial performance of SMEs
Amoako (2013)	Accounting practices of SMEs: A case study of Kumasi Metropolis in Ghana	Owner Accounting Orientation	Reveal that SMEs in Ghana do not maintain proper books of accounts because owners lack the necessary accounting knowledge. Consequently, the application of accounting information to support assessment of financial performance by SMEs in Ghana is inefficient. so owners and managers need to understand the role of such information in the form of clear financial statements in ensuring proper justification for business transactions and state of affairs.	The relationship between Owner Accounting Orientation and financial performance was not established in the study
Ahmad & Zabri, 2015).	The Use of Management Accounting Practices in Malaysian SMEs	Owner Accounting Orientation	MAP competences also permit firms to compete in the market place and reduce the likelihood of business failure	There was not traces of effects of Owner Accounting Orientation on financial performance

Source: Developed from the reviewed Literature by the Researcher (2018)