

## CHAPTER ONE

### OVERVIEW OF THESIS

#### 1.1 INTRODUCTION

Small and Medium Sized Enterprises (SMEs) significantly contribute to employment and the countries' gross domestic product (GDP) in emerging countries<sup>1</sup> (Ale Ebrahim, Ahmed and Taha, 2010; Devi and Samujh 2010). Many claim that the growth of emerging economies significantly depends on SME performance (Ale Ebrahim et al., 2010; Zohari, 2008; Bayati and Taghavi, 2007). For example, in developing countries, "SMEs are the unsung heroes that bring stability to the national economy and help buffer the shocks that come with the boom and bust of economic cycles" (Ale Ebrahim et al., 2010, p.2249), particularly in the case of Iran<sup>2</sup>, because SMEs make up the most part of manufacturing enterprises (Zohari, 2008; Bayati and Taghavi, 2007). For example, Iranian SMEs employed more than 63 percent of total Iranian manpower in the industrial sector, in total, represents 99.9 percent of all firms in Iran (Zohari, 2008). Indeed, SMEs in emerging economies are a major part of the industrial economies and their survival and development (growth) is an important issue (Ale Ebrahim et al., 2010, 2010; Zohari, 2008).

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<sup>1</sup> "The World Bank classifies economies as low-income, middle-income, and high-income. Low-income and middle-income economies are referred to as developing countries or emerging economies" (<http://www.sustainability.com/developing-value/definition-emerging.asp>).

<sup>2</sup> Iran is part of the low income group and classified as a developing country (<http://www.csirwebistad.org/pdf/classi.pdf>).

It is evident that outsourcing can be an important activity that SMEs contemplate to enhance their competitiveness. In this context, this thesis examines the factors affecting accounting function outsourcing and the impact of such outsourcing on SME performance in the context of an emerging economy. This chapter provides an overview of the study. The discussion in this chapter is organised as follows: the next section provides the background of the study and identifies the research gaps in extant accounting outsourcing literature. Section 1.3 discusses the problem statement. Section 1.4 identifies research questions. Section 1.5 provides research objectives. Section 1.6 discusses theoretical perspectives. Contributions of the study will be discussed in Section 1.7. Section 1.8 presents the organisation of the study. The chapter concludes with Section 1.9.

## **1.2 BACKGROUND OF THE STUDY**

“The SME is not a scaled-down version of a large firm” (Ale Ebrahim et al., 2010, p. 2249). For example, SMEs have different characteristics that distinguish them from large enterprises and can change across different countries (Ale Ebrahim et al., 2010; Feizpour and Jamali, 2009). However, “SMEs in global value chains are even more vulnerable as they often bear the brunt of the difficulties of the large firms” (OECD, 2009, p. 6). The situation will be even more severe for SMEs due to internal resources gaps (i.e. human capital such as knowledge and competence) than large enterprises (Talebi, 2009). SMEs should enhance their products and processes by utilising their internal human resources or obtaining such resources from external sources in a dynamic system of knowledge-intensive relations in order to survive in the global economy (Feizpour and Jamali, 2009; Corso, Martini, Paolucci and Pellegrini, 2003). Therefore, if SMEs want to grow, they

should focus on core activities for efficiency matters and outsource to compensate for resource (competencies) gaps (Mahmoodzadeh, Jalalinia and Yazdi, 2009; Mirbargkar, 2009; Feizpour and Jamali, 2009).

The majority of Iranian SMEs tend to fail because lack of planning, knowledge, absence of overall managerial skills and competencies (Zohari, 2008). Hence, Iranian SMEs need suitable and advanced knowledge so as to compete in the global economy because they are likely to be more vulnerable to problems of high workforce turnover and knowledge retention (Talebi, 2009). For example, Resource-Based Theory (RBV) notes that SMEs are vulnerable in the sense of lacking the necessary routines and competencies for survival (Blackburn et al., 2010; Gooderham, Tobiassen, Doving and Nordhaug, 2004). In this respect, as competitive pressures increase, SMEs are forced to find ways of improving firm performance (McIvor, Humphreys, McKittrick and Wall, 2009). This is particularly the case in the accounting field, where SMEs face different problems in comparison to large firms (Jayabalan, Raman, Dorasamy and Ching, 2009; Døving and Gooderham, 2008). In this context, accounting function<sup>3</sup> outsourcing is an opportunity for smaller firms to sustain a competitive benefit in the competitive environment as outsourcing such functions might reduce the burden suffered by smaller firms (Jayabalan et al., 2009). It is observed that SMEs lack the sufficient resources and competence to carry out accounting functions internally, therefore, gaining access to the technical expertise and specialised knowledge of the professional accountant<sup>4</sup> clearly would be the main reason to outsource such functions (Jayabalan et al., 2009; Everaert, Sarens, and Rommel, 2007). Hence, professional

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<sup>3</sup> The term “accounting functions”, “accounting practices” and accounting activities have been utilised interchangeably all through this study

<sup>4</sup> The term “professional accountant”, “external accountant” and “small accounting firm” have been used interchangeably throughout this study

(external) accountants can support smaller firms operating in a competitive environment, to incorporate operational considerations within long-term strategic plans (Blackburn et al., 2010; Ismail and King, 2005; Gooderham et al. 2004; Mitchell and Smith, 2000). Accordingly, the RBV explains that SMEs should engage external accountants to provide accounting functions to achieve competitive advantage (Døving and Gooderham, 2008). Furthermore, the RBV has become a useful framework to use an external accountant when SMEs face with competitive pressure (Gooderham et al., 2004). Accordingly, the RBV identifies factors such as degree of competition and technical competence that affect a firm's decision to outsource accounting functions (Blackburn et al., 2010; Gooderham et al. 2004; Carey, Subramaniam and Ching, 2006).

Transaction cost economics (TCE) perspective has become a standard framework to describe why some firms perform their accounting functions within the firm, while other firms outsource such functions to professional accountants (Everaert et al., 2006, 2010). Most likely the outsourcing decision is made based on the transaction cost of certain accounting functions to the firms (McIvor, 2000, 2009). TCE is utilised as a theoretical framework for understanding how a professional accountant can assist SMEs to lessen transaction costs (Everaert et al., 2006, 2010; Carey et al., 2006). Consequently, TCE explains how firms consider the relative cost of transactions utilising their own staff on one hand and external (professional) accountants on the other hand (Hamzah, Aman, Maelah, Auzair and Amiruddin, 2010 ; McIvor, 2000, 2009; Marshall, McIvor and Lamming, 2007; Aubert, Rivard and Patry, 2004). Therefore, transaction costs associated with any function or task rely on key attributes (factors) of the function such as asset specificity (physical and human assets), the behavioural uncertainty, environmental uncertainty and frequency of the transactions (Williamson, 1979, 1985, 1996, 1999). Those factors predict

whether a function is most efficiently performed internally or outsourced (Aubert et al., 2004; Marshall et al., 2007; McIvor, 2000, 2009; Dibbern and Heinzl, 2009; Reeves, Caliskan and Ozcan, 2010; Rieple and Helm, 2008). In addition, TCE also extend trust as another important factor influence transaction costs and outsourcing decisions (Siakas and Siakas, 2008; Greenberg, Greenberg and Antonucci, 2008; Langfield-Smith and Smith, 2003).

Outsourcing is an important tool to increase performance (Gilley, Greer and Rasheed, 2004a; McIvor, 2009). For instance, the RBV can help to analyse firms' resources and capabilities, which will connect outsourcing to firm performance and the firms' competitive priorities (McIvor, 2009; Shang, Hung and Wan, 2008). Hence, outsourcing may result in a reduction in investments in certain facilities, equipment and manpower leading to a decline in production and overhead costs which in turn reduces firms' break-even points and these enhance the firm performance (Jayabalan et al., 2009; McIvor, 2009; Holcomb and Hitt, 2007; Jiang and Qureshi, 2006; Espino Rodríguez and Padrón-Robaina, 2004; Quélin and Duhamel, 2003; Bettis, Bradley and Hamel, 1992).

However, although there is significant evidence that TCE attributes (e.g., asset specificity, environmental uncertainty, behavioral uncertainty, frequency and trust in external accountant) are significant drivers in the outsourcing decisions (Everaert et al., 2010; Tiwana and Bush, 2007; Greenberg et al., 2008; Verwaal, Verdú and Recter, 2008; Hansen and Morrow, 2003; John and Weitz, 1988; Watjatrakul, 2005; Barthelemy and Geyer, 2005; Speklé et al., 2007; Widener and Selto, 1999), only a limited number of empirical studies examined the role of trust on outsourcing intensity based on TCE theoretical framework (Verwaal et al., 2008; Hansen and Morrow, 2003). Further, there is limited empirical research that investigates the association between the degree of competition,

technical competence, and outsourcing of other service functions (i.e., housekeeping, internal audit functions, etc) (Lamminmaki, 2007, 2008; Carey et al., 2006). Hence, research examining those factors that impact outsourcing of accounting practices is missing. Furthermore, despite considerable interest in accounting function outsourcing in the SME context (Jayabalan et al., 2009; Everaert et al., 2006, 2007, 2010; Hamzah et al., 2010), an empirical study to examine its effect on SME performance is notably absent. Additionally, the accounting literature has not devoted attention to investigating a combination of TCE and RBV perspectives. More importantly, those studies have been conducted in more developed countries and it is debatable whether evidence from developed economies is applicable to economies such as Iran (Mashayekhi and Mashayekh, 2008) and Malaysia (Devi and Samujh, 2010), due to differing institutional contexts and levels of state intervention in economic activities (Ismail and Zin, 2009; Ulubasoglu, Akdis and K k, 2010).

Given that the nature of accounting functions is people-intensive (Everaert et al., 2010), and SMEs are confronted with internal resource gaps (for example, knowledge and expertise) and competitive pressures (Blackburn and Jarvis, 2010; Gooderham et al., 2004), it is timely to examine the outsourcing effect on SME performance. Therefore, this study aims to examine the factors affecting accounting function outsourcing and the impact of such outsourcing on SME performance by applying a combination of RBV and TCE perspectives in the context of an emerging economy.

### 1.3 PROBLEM STATEMENT

Despite substantial evidence that asset specificity, environmental uncertainty, behavioral uncertainty, frequency and trust in external service provider are significant drivers in the outsourcing decisions (Everaert et al., 2010; Tiwana and Bush, 2007; Greenberg et al., 2008; Verwaal et al., 2008; Hansen and Morrow, 2003; John and Weitz, 1988; Watjatrakul, 2005; Barthelemy and Geyer, 2005; Speklé et al., 2007; Widener and Selto, 1999), empirical studies have scarcely examined the role of trust on outsourcing intensity (Verwaal et al., 2008; Hansen and Morrow, 2003). To ignore the role of trust in outsourcing signifies only a partial investigation of the TCE model, and indicates that the results are inconclusive and limiting (Verwaal et al., 2008). Additionally, as noted in the background of the study, only a few empirical studies examined the association between significant factors such as degree of competition, technical competence, and outsourcing (i.e., housekeeping, internal audit functions) (Lamminmaki, 2007, 2008; Carey et al., 2006), but an empirical research to examine those factors on accounting function outsourcing is absent.

In spite of considerable interest in accounting outsourcing practices, (Hamzah et al., 2010; Jayabalan et al., 2009; Everaert et al., 2006, 2007, 2010; Nicholson, Jones and Espenlaub, 2004, 2006; Doran, 2006; Carey et al., 2006), evidence of its impact on firm performance is missing. In other words, while there have been studies of outsourcing effects on firm performance in general (see, Gilley and Rasheed, 2000; Görzig and Stephan, 2002; Benson and Littler, 2002; Jiang et al. 2006; Kroes and Ghosh, 2010; Salimath et al., 2008; Gilley et al., 2004a; Espino Rodríguez and Padrón-Robaina, 2004), no empirical research has specifically addressed the effect of accounting function outsourcing on SME performance. More importantly, it is evident in the accounting literature that there is no research that

examines the mediating role of accounting function outsourcing empirically. Moreover, there is no study in extant accounting literature that investigates outsourcing based on a combination of RBV and TCE perspectives.

Whilst SMEs account for a significant portion of the economic activity in emerging economies, research on outsourcing of accounting practices within SME context is relatively scarce in emerging economies (Hamzah et al., 2010). Overall, there is no study to examine the impact of factors such as asset specificity, environmental uncertainty, behavioral uncertainty, frequency, trust, technical competence and degree of competition on accounting function outsourcing, and the related outsourcing effect on firm performance as a theoretical framework in emerging economies. Although such studies have been conducted in a limited way in the developed economies, the questions still remains as to how relevant such empirical evidence from the developed countries are to emerging economies such as Iran (Mashayekhi and Mashayekh, 2008). Generally, emerging economies such as Iran differ from developed countries particularly, in terms of the institutional setting and in the extent and type of government interventions on accounting issues (Ulubasoglu, Akdis and K k, 2010; Ismail and Zin, 2009; Ismail and King, 2006).

#### **1.4 RESEARCH QUESTIONS**

This study posits the following research questions:

1. What types of accounting functions do Iranian SMEs outsource to a professional (external) accountant?
2. To what extent are accounting functions outsourced by Iranian SMEs?



3. What are the factors that influence the Iranian SMEs' decision to outsource accounting functions (outsourcing intensity)?
4. Is there a link between outsourcing intensity of accounting functions and SME performance?
5. Does outsourcing intensity mediate the relationship between factors (i.e. TCE and RBV variables such as asset specificity, behavioral uncertainty, environmental uncertainty, frequency, trust, technical competence and degree of competition), and firm performance?

## **1.5 RESEARCH OBJECTIVES**

The main objective of this study is to examine the determinants of accounting function outsourcing and the impact of outsourcing on SME performance in term of Transaction Cost Economics (TCE) and Resource- Based (RBV) Views in the context of Iran. More specifically, this study aims:

1. To identify the types of accounting activities (functions) that SMEs outsource to an external accountant
2. To examine the extent to which Iranian SMEs outsource their accounting functions
3. To identify the factors influencing Iranian SMEs' decision to outsource accounting functions (outsourcing intensity)
4. To examine whether there is an association between outsourcing intensity and SME performance
5. To investigate the mediating role of outsourcing intensity on the relationship between important factors (e.g. TCE and RBV variables such as asset specificity,

behavioral uncertainty, environmental uncertainty, frequency, trust, technical competence and degree of competition), and firm performance

## **1.6 THEORETICAL PERSPECTIVES**

In the extant accounting literature, a theory based research on outsourcing is missing (Hamzah et al., 2010; Jayabalan et al., 2009; Doran, 2006; Carey et al., 2006). Therefore, this study draws upon a combination of Transaction Cost Economics and Resource-Based Theories, whilst a limited number of prior studies used these theories separately. Hence, transaction cost economics (hereinafter TCE) and resource-based (RBV) views are utilised to develop a comprehensive theoretical framework for this study. The decision to outsource a service function to external service provider or perform such function internally is addressed by TCE and RBV Perspectives (McIvor, 2009).

### **1.6.1 Transaction Cost Economics (TCE) perspective**

TCE predictions identify five critical transaction factors such as (1) asset specificity (e.g., transactions vary in the extent to which relationship-specific assets are concerned); (2) environmental uncertainty (i.e., the predictability and stability of the workload involved accounting practices due to the volatility of business activities); (3) behavioral uncertainty (e.g., the amount of uncertainty about service providers' actions); (4) frequency (periodicity of the accounting function and size of the activity) (Williamson, 1979, 1985, 1996, 1999), and (5) trust in accountant (an expectation that a professional accountant will not act in an opportunistic manner) (Greenberg et al., 2008; Verwaal et al., 2008; Langfield-Smith and Smith, 2003). Those factors indicate whether an accounting function

is most efficiently performed within the firm or outsourced to an external accountant (Everaert et al., 2010). In addition, TCE premises that outsourcing is attractive to managements of the firms; in particular SMEs because it improves some of the metrics utilised to improve firm performance (Lilly, Gray and Virick, 2005).

### **1.6.2 Resource-Based View (RBV)**

The other important factors associated with the outsourcing practices involve firm characteristics, such as competency management and access to technical competence from professional accountants (Carey et al., 2006). Indeed, the resource-based view (hereinafter RBV) identifies a number of dimensions that makes smaller firms more vulnerable than larger firms (Gooderham et al., 2004). Those dimensions are competitive pressures and insufficient competencies for survival (Blackburn et al., 2010; Gooderham et al., 2004). The RBV argues that outsourcing provides a SME gaining access to resources in the accounting firm as the professional accountants handle accounting functions for their clients (Everaert et al., 2006; Gottschalk and Solli-Sæther, 2006). Consequently, the RBV identifies factors such as degree of competition and technical competence as affecting a firm's decision to use external accountants' services (Blackburn et al., 2010; Gooderham et al. 2004; Carey et al., 2006).

Overall, the RBV is premised on resources to create the competitive advantage, and links outsourcing with firm performance (McIvor, 2009; Gottschalk and Solli-Sæther, 2005). The RBV of the firm provides a theoretical basis for the assessment of outsourcing that can potentially affect firm performance (Irwin, Hoffman and Lamont, 1998). Therefore, a main concern of the RBV is how a firm's resources and capabilities develop and affect its performance (Gainey and Klaas, 2003). For example, the RBV is significant to the study of

outsourcing practices, so that superior performance is achieved in organizational activities compared with competitors (McIvor, 2009).

### **1.6.3 Theoretical perspectives: A summary**

To date, TCE and RBV are discussed separately, but there is an extensive literature that indicates the need for both perspectives to understand outsourcing (McIvor 2009; Ellram, Tate and Billington, 2008; Holcomb and Hitt, 2007; Jacobides and Winter 2005; McNally and Griffin, 2004; Madhok, 2002; Poppo and Zenger, 1998). Undeniably, each theoretical perspective can be complementary, and each perspective alone cannot entirely describe outsourcing (McIvor, 2009; Marshall et al., 2007). For instance, the RBV focuses on resources and capabilities, which in turn has significant implications for which functions should be provided within the firm (insourced) and which functions should be carried out externally (outsourced), and further links such outsourcing of activities with enhancing performance (McIvor, 2009; Marshall et al., 2007). In addition, TCE perspective improves our perception of whether it is more suitable to provide a function internally or outsource such function to external service provider (Stratman, 2008).

## **1.7 CONTRIBUTIONS OF THE STUDY**

The contributions are discussed in terms of three perspectives: theoretical, practical and methodological.

### **1.7.1 Theoretical Contributions**

Research in SME context with respect to outsourcing of accounting functions is growing. However, these studies are undertaken in the more developed country context. Furthermore, theory based empirical evidence is lacking. Therefore, this study develops “premised on TCE and RBV” a comprehensive model linking all variables to arrive at a robust model to examine the effect of accounting function outsourcing on SME performance in the context of an emerging economy.

This study utilises a combination of the transaction cost economics (TCE) and resource-based theories to explain outsourcing of accounting functions, hence, providing some empirical evidence on the applicability of such theories in outsourcing of accounting function in an emerging economy context. In this regard, it has extended the accounting literature and reinforced their basic tenets.

Most of prior studies used transaction attributes such as asset specificity, environmental uncertainty, behavioral uncertainty and frequency in describing outsourcing rooted in TCE view (Everaert et al., 2010; Lamminmaki, 2007; Dibbern and Heinzl, 2009; Wang, 2002; Widener and Selto 1999), but this study extends trust in accountant as one of the critical factors affecting transaction costs and outsourcing in TCE model. Accordingly, the application of trust as an independent variable in the TCE model provides a significant contribution to the extant accounting outsourcing literature.

This study also adds to a relatively new body of accounting outsourcing literature that explores variables such as technical competence and degree of competition as important factors influencing outsourcing of accounting functions based on RBV framework. For

example, prior studies have examined such factors in outsourcing of other activities (i.e., internal audit, housekeeping, etc) (Carey et al., 2006; Lamminmaki, 2007).

This study analyses the effect of accounting outsourcing on SME performance based on a combination of two TCE and RBV theories that has not been examined in prior studies, thus, this makes a contribution to the extant accounting literature on emerging economies.

Furthermore, this study contributes to the accounting literature in evidencing the mediating role of accounting function outsourcing. By analysing accounting outsourcing as mediator, this study makes a significant contribution to accounting outsourcing literature since this aspect has not been examined in prior research.

Given the prominent role SMEs play in the Iranian economy with influence over the economic policymaking of the country (Feizpour and Jamali, 2009; Zohari, 2008), it is surprising that research on SMEs has not featured significantly in extant academic research. This may be due to the characteristics of SMEs and the difficulties in generalising the findings (Feizpour and Jamali, 2009; Zohari, 2008). Accordingly, there is a lack of empirical research on the relationship between accounting outsourcing and firm performance in Iranian SME environment and elsewhere, so this research aims to overcome and contribute to this field of study.

### **1.7.2 Practical Contributions**

This work is the first to examine the outsourcing of accounting practices and its impact on SME performance in the context of emerging economy (Iran) and it also explicitly demonstrates the services currently provided by accountants to SME sector. Hence, by identifying the broader range of services currently provided by professional accountants to

SMEs and the benefit attached to these services brings into focus the broader range of choices available to SME owner/managers.

It is argued that TCE and RBV theories predict outsourcing. Combining these two theories (TCE and RBV), it seems that what would actually be useful from a managerial perspective is a theoretical model that helps SME owner-managers to determine what the optimal degree of outsourcing is for their firms. The development of this theoretical model also provides a motivating challenge for the scholars interested in SME research.

Majority of SMEs in emerging economies are faced with internal resource gaps; they generally refer to professional accountants to fill up these gaps. Clearly, accounting outsourcing is a potentially strong instrument for SMEs attempting to fulfill their internal resource gaps. Consequently, accounting function outsourcing allows SME managers to focus on strategic activities that add more value. Hence, it strengthens human resource's potential to make a practical contribution to business success.

This research is the first to investigate the accounting function outsourcing in Iran, an emerging economy, and enables SME owner-managers to determine the propensity for current accounting outsourcing to professional accountants. The results would support the development of market niches for some accounting activities since the study examines the SMEs' demand for outsourcing. This study produces knowledge and will help SME owner-managers in their sourcing (e.g., make or buy) decisions concerning the principal processes of the SME industry and specific assets.

Another practical contribution of this research related to the impact of accounting function outsourcing on SME performance. While accounting function outsourcing is broadly comprehended to be an attractive choice, its impact on SME performance and benefit from

outsourcing results have not yet been confirmed by previous studies. Thus, the findings from this study make a compelling argument to SME owner-managers that a higher degree of outsourcing of accounting practices is positively associated with enhancing SME performance.

This study also identifies advantages of accounting outsourcing. Therefore, SME owner-managers are made aware of the top four advantages when SMEs outsourced accounting functions, namely, to get access to experts, reduce costs, focus on core business to improve the quality in carrying out the accounting functions and to gain access to human capital for advancing operations to a higher level. Consequently, this information may provide encouragement for SME owner-managers in making decisions on outsourcing of the accounting functions.

Another practical contribution is that published studies in English in the Iranian context are limited. Hence, this research also explicitly discusses development and regulation of accounting profession in Iran, and it links services currently provided by accountants to SME sector and examines the role that accountants play in the Iranian context.

Finally, the proposed theoretical framework in this research provides Iranian SME owner-managers a useful view of how SMEs use accounting outsourcing to strengthen their internal human resources. These can help SME managements in making efficient decisions in their future choices of accounting outsourcing engagement.

### **1.7.3 Methodological Contributions**

The methodological contribution of this study is the development of a measurement scale for firm performance. A significant methodological contribution of this study involves the development of the SME performance as the outcome of accounting outsourcing. Previous



studies examined impact of outsourcing on several measures of financial (return on assets and return on sales) and non-financial (innovation performance stakeholder performance) performance (Gilley et al., 2004a; Gilley and Rasheed, 2000), but the evidence indicates the link between outsourcing and financial and non-financial performance is not clearly established (Görg and Hanley, 2004; Espino Rodríguez and Padrón-Robaina; 2004). In this regard, firm performance was measured by both financial (profitability, sales growth, return on assets, and cash flow) and non-financial (Lifestyle, independence, and job security) goals in this study. Hence, it departs from prior studies, which examined the effect of outsourcing practice on firm performance.

Another important methodological contribution of this study involves the development of the accounting function outsourcing. Accounting is an extensive concept including areas of financial accounting, management accounting and finance. This study examined some critical factors on outsourcing of nine types of accounting functions including areas of financial accounting, management accounting and finance whereas prior study only investigated four types of financial accounting activities (Everaert et al., 2006, 2007, 2010). In that respect, this research extends the methodology in accounting outsourcing research.

## **1.8 ORGANISATION OF THE STUDY**

This thesis is divided into eight chapters. Chapter 1 introduces the research topic, background of study, problem statement, research questions, research objectives, and the contributions of the study. Each of the subsequent chapters is organised as follows.

Chapter 2 provides an overview of Iran and its economy, Iranian SMEs and professional accountants.

Chapter 3 reviews the outsourcing literature, identifies the potential transaction costs economics and resource- based theories for accounting function outsourcing. It further discusses the theoretical and empirical studies in the area of outsourcing and SME performance and identifies the research gaps in this context. Further the research questions and objectives are stated.

In Chapter 4, the theoretical framework is derived premised on TCE & RBV and the related hypotheses are developed in the line with the stated research objectives.

Chapter 5 discusses about the research design, the variables measurement development, and the research approach and instrument. Then, the sampling design and data collection method will be presented. The method of analysis is discussed in this chapter.

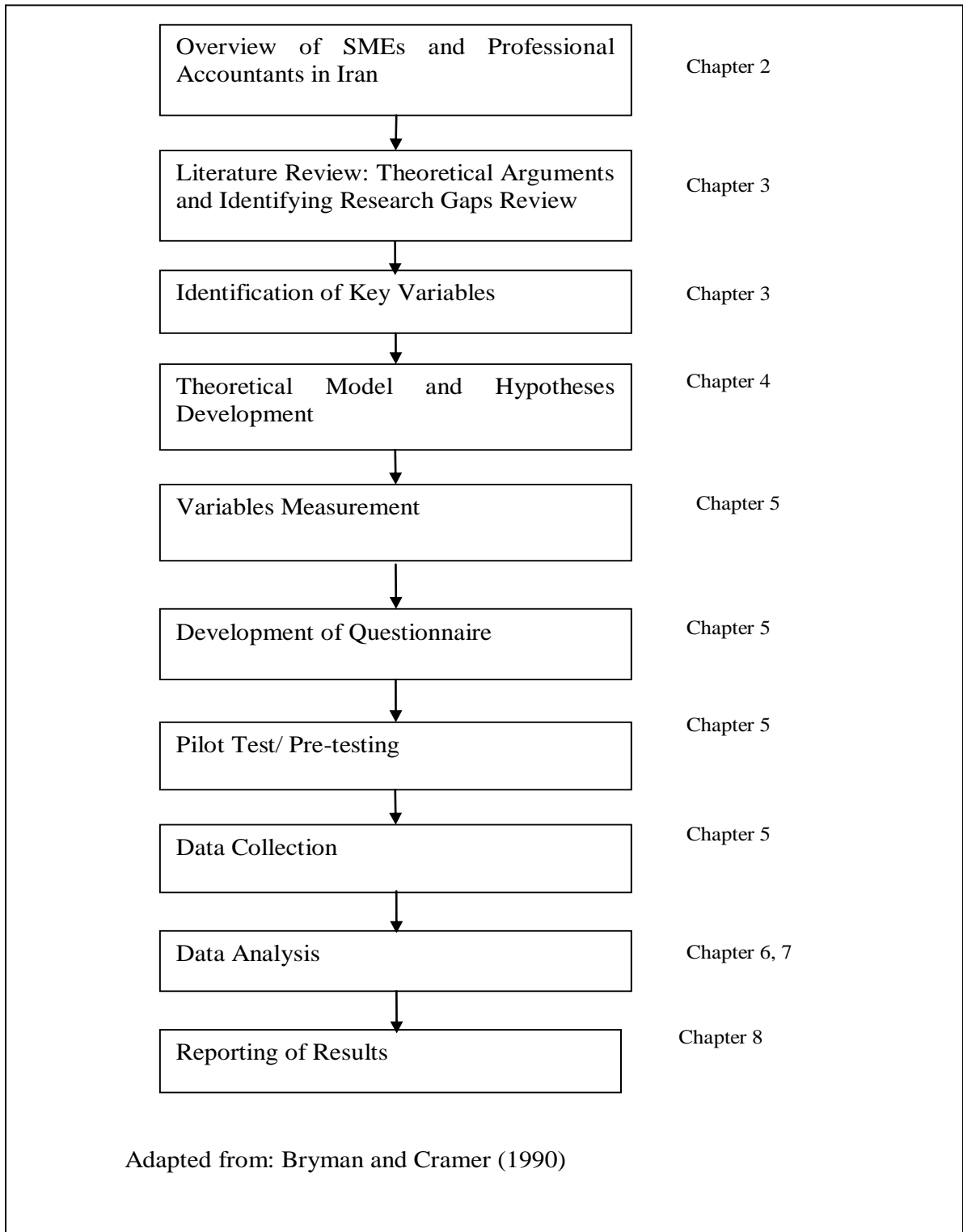
Chapter 6 and 7 discuss the data analysis and interpretation of data. The findings of the study are summarised and discussed. Further, based on the finding, the framework is modified.

Chapter 8 articulates the implications of the findings and addresses the significance, contributions to theory, practice and methodology. This is followed by the discussion of research limitations and suggestions for future study.

It is noted that this research adopts a view of the world that relates most closely to a positivist perspective. Therefore, the research method utilised in this study is quantitative (questionnaire survey) and the philosophical position is predominantly positivist. Bryman and Cramer (1990) provided a practical model of the quantitative research process. Hence,

an overview of the thesis' structure based on Bryman and Cramer' (1990) research process is shown in Figure 1.1.

**Figure 1.1: Thesis Overview**



## **1.9 CHAPTER SUMMARY**

This chapter has introduced the thesis by outlining the topic of this research, introduction, background of study, the research questions and objectives, theoretical perspectives, contributions of the study pursued, and the thesis structure. The next chapter provides an overview of Iran and its economy, Iranian SMEs and professional accountants.

## CHAPTER 2

### OVERVIEW OF SMES AND PROFESSIONAL ACCOUNTANTS IN IRAN

#### 2.1 INTRODUCTION

This chapter provides an overview of Iran, professional accountants and SMEs. Geographically, Iran's surface area is 1,648,195 km., is the largest country in the Middle East<sup>5</sup> (Mashayekhi and Mashayekh, 2008). It is shown in Figure 2.1.

**Figure 2.1: Iran**



<sup>5</sup> “The country is bordered on the north by Armenia, Azerbaijan, the Caspian Sea, and Turkmenistan; on the east by Afghanistan and Pakistan; on the south by the Gulf of Oman, the Strait of Hormuz, and the Persian Gulf; and on the west by Iraq and Turkey. Iran’s capital and largest city is Tehran, located in the northern part of the country” ([http://www.countriesquest.com/middle\\_east/iran.htm](http://www.countriesquest.com/middle_east/iran.htm)).

The rest of discussions is organised as follows. Section 2.2 describes situating Iran in the context of global economy- the case of an emerging economy. Section 2.3 reviews small and medium enterprises (SMEs). The professional accountants in Iran are discussed in Section 2.4. Section 2.5 ends with conclusion.

## **2.2 POSITIONING IRAN IN THE GLOBAL ECONOMY- THE CASE OF AN EMERGING ECONOMY**

Iran has a population of over 74 million (Nejad, 2010). Most of Iran's population lives in the urban areas, and is dependent on an oil-based economy (Mashayekh and Mashayekh, 2008). Iran is the second largest oil producer of OPEC (Oil Producer Exporter Countries) after Saudi Arabia (Ghanatabadi, 2005; UNIDO, 1999). Iranian economy is mainly reliant on its oil revenue, which accounts for almost 80 percent of country's exports (Zohari, 2008; Mashayekhi and Mashayekh, 2008). For example, 96.4 percent of all Iranian enterprises are private, while only 3.6 percent belong to public sector (Zohari, 2008). Therefore, the dependence on oil revenue placed the Iran's economy in a weak position (ILO, 2003; Ghanatabadi, 2005; UNIDO, 2003). Consequently, financial markets in Iran are not uniform and organized (Nejad, 2010). For instance, "with about 19 percent of the population living below the poverty line, GDP of \$599.2 billion, the real growth rate of 4.3 percent, an unemployment rate of about 22 percent and inflation rate above 18.5 percent, the country faces a very challenging and unstable economical situation" (Zohari, 2008, p.18). Therefore, Iran is suffering from high inflation and exchange rate fluctuation, trading in its local currency is almost impracticable (Zohari, 2008). Further, Iran is facing high commercial risk due to economic instability and inadequate financial management skills (Zohari, 2008).

The most challenging problem in the Iranian economy currently is to create new jobs for those who are ready to enter the labor market as unemployment in Iran is escalating (Nejad, 2010). Job creation is a tremendously important issue in Iran (Mirbargkar, 2009). For instance, each year some 800,000 job seekers enter the labour market, whilst the Iranian government offers only about 500,000 jobs (Mirbargkar, 2009). Consequently, unemployment is increasing each year by about 300,000 people (Mirbargkar, 2009). It is assessed that unemployment will keep on growing because of high rate of population growth and fundamental changes in the labour market (Feizpour and Jamali, 2009). This fact has become rather a challenge for Iran's government as the country suffers from high unemployment (Zohari, 2008).

Clearly, the Iranian government sees the diversification and increase of non-oil exports as a major policy stance in reinforcing the Iranian economy (Mirbargkar, 2009). For example, with the high rate of unemployment in Iran, it is the SME sector that needs to expand and grow to create sufficient jobs to absorb the new entrants to the labour market (Feizpour and Jamali, 2009; Zohari, 2008). Hence, as it has been proven in many other emerging economies, the SME sector in Iran can be instrumental in employment generation, and can help to absorb not only the natural growth of the labour force but also manpower released from the state owned enterprises as a result of their privatisation initiatives (Mirbargkar, 2009). Therefore, the Iranian government has recognised the importance of SMEs which has the potential of generating one million jobs yearly (Feizpour and Jamali, 2009; Zohari, 2008). Accordingly, recognising the importance of SMEs in generating employment, Iran's national development plans "Third Five-Year Plan (Economic Development Plan) (1999-2004) and Fourth Five-Year Plan (2005-2009)" continue to place a great deal of importance on their growth (Feizpour and Jamali, 2009; Ghanatabadi, 2005; ILO, 2003).

However, the main objective of Iran's Five Year Development Plan (2005-2009) has been to achieve fast, sustainable growth relying on the transition to a market economy, trade liberalisation and privatisation (Zohari, 2008). Moreover, Iran's five- years economic plans have emphasised a gradual shift towards a market-oriented economy and the development of the SME sector (Zohari, 2008). Hence, the Iranian government compensated the SMEs in the manufacturing sector with cheap loans, cheap foreign exchange and protected them with import restrictions (Zohari, 2008). Furthermore, Iran needs to increase its non-oil exports to become an active partner in the World Trade Organization (WTO) (Mirbargkar, 2009). For instance, as a part of the Iranian economic structure adjustment programme, the Iranian government has used globalisation policies to maximise the benefits to industry and minimise the barriers to SME development during the process of global integration and the membership of the WTO (Zohari, 2008).The next section discusses SMEs in Iran.

## **2.3 SMALL AND MEDIUM ENTERPRISES (SMES)**

In this section the definition of SMEs in selected countries, the importance of SMEs in Iran and a review of prior studies on the SMEs in Iran and other developing countries is provided. Further this section makes a case for institutional support to SMEs in Iran.

### **2.3.1 Definition of SMEs in Selected Countries**

The classifications and definitions of SMEs vary from industry to industry and from country to country (Feizpour and Jamali, 2009; O'Regan and Ghobadian, 2004). For defining SMEs, different criteria such as employment, sales and asset is utilised by



different countries (Feizpour and Jamali, 2009). At the present time, there is no agreement on the definition of SMEs (Ale Ebrahim, Ahmed and Taha, 2009). In the absence of a comprehensive classification and definition, in this study, the European Commission (EC) criteria for SME classification and definition is adopted (Feizpour and Jamali, 2009; O'Regan and Ghobadian, 2004). This definition utilises a quantitative method emphasising tangible criteria, employee numbers, turnover and balance sheet statistics (Ale Ebrahim et al., 2009). The main consideration in fact appears to be based on numbers of employees while turnover and balance sheet statistics are part of the criteria (Ale Ebrahim et al., 2010). Even though all three criteria were given equal consideration, it might be discussed that the SME definition fails to be concerned about the attributes of a modern small enterprise than a medium enterprise (Ale Ebrahim et al., 2010). Nevertheless, the definition of SMEs varies depending on nation and region (Mirbargkar, 2009). For example, US classifies SMEs as those firms with less than 500 employees while some countries set limits for 250 employees, and the rest have not any apparent definition for number of employees in their SMEs (Zohari, 2008). However, Iran defines SMEs based on quantitative criterion using number of employees less than 250 employees (Ale Ebrahim et al., 2010; ISIPO, 2010). Therefore, Table 2.1 summaries the SME definition used in selected countries.

**Table 2.1: Definition of SMEs in Selected Countries**

Country	Category of Enterprise	Number of Employee	Turnover	Other measure
European Commission (EC) criteria	Small	10-50	Less than € 10 (13.5 USD) million turnover	Balance sheet total: Less than € 10 (13.5 USD) million balance sheet total
	Medium	Fewer than 250	Less than € 50 (67.6 USD) million turnover	Balance sheet total: Less than € 43 (58.2 USD) million balance sheet total
Indonesia	Small	5 – 19	-	Annual value of sales of a maximum of IDR1 billion (110,000 USD)
	Medium	20-199	-	Annual value of sales of more than IDR1 billion, but less than IDR50 billion (5.5 million USD)
Iran	Small	Less than 50	-	-
	Medium	50 – 250	-	-
Japan	Small & medium	Less than 300	-	¥100 (1.1 USD) million assets
Malaysia	Small	5 – 50	Between RM 250,000 (75,000 USD) and less than RM 10 (3 USD) million	-
	Medium	50-150	Between RM 10 (3 USD) million and RM 25 (7.5 USD) million	-

Source: Ale Ebrahim et al. (2010, p. 2250)

### **2.3.2 Importance of SMEs in Iran**

The Iranian economy is to a huge extent determined by large public enterprises, controlling equal to around 80 percent of the economy (Mirbargkar, 2009; ILO, 2003; UNIDO, 2003). This is particularly for firms engaged in oil, petroleum products and natural gas, which produce over 80 percent of Iran's export earnings while the majority of firms in Iran are SMEs (UNIDO, 2003; Zohari, 2008). Nevertheless, the share of industrial SME sector in Iran's non-oil exports is five percent of Iran's total non-oil exports, but this share for industrial large enterprises (LEs) is over ninety percent (Mirbargkar, 2009). This low share and the small total amount of exports reflect a huge number of internal and external problems (i.e., resource constraints) surrounding Iranian SMEs (Zohari, 2008). In fact, Iranian government and economic planners traditionally considered the SME sector as unimportant whose economic contributions are limited to produce low- tech jobs (UNIDO, 2003). For instance, the policy of Iranian government toward SME sector until very recently was marked by a lack of understanding of their potential contribution for national economic development (ILO, 2003). They wrongly perceived that the SME sector is simply a smaller version of the LEs and have not considered their unique characteristics and vulnerabilities while framing the policy (ILO, 2003; Zohari, 2008). None of the planning documents in the past twenty years give suitable weight to the Iranian SME sector and entrepreneurship development (UNIDO, 2003). The Table 2.2 shows an overview of enterprises in Iran. Although Iranian LEs are very small in number as seen in Table 2.2, they have a comparatively high productivity because their high internal resources permit them to benefit from economies of scale (Zohari, 2008; ILO, 2003).

**Table 2.2: Number of Enterprises by Size Category**

Business Sector	1-5 Employees	6-9 Employees	10-49 Employees	50-99 Employees	>100 Employees
Services	878,774	5,631	3,478	231	150
Manufacturing	334,630	17,125	13,236	1,055	1207
Mining	454	355	413	NA	NA
Totals	1,213,858	23,111	17,127	1,286	1,357
Percent of total	96.6%	1.8%	1.4%	1%	1%

Source: UNIDO (2003, p.48)

The Ministry of Industries indicates that Iran's total exports of goods and services could exceed US \$108 billion by the year 2020/21, and the proportion of the industrial SME sector in these exports of goods and services should be amounting to more than \$56 billion (Mirbargkar, 2009). To achieve this, the Iranian government needs to improve conditions to support SMEs, which are a prerequisite for job creation (Ghanatabadi, 2005; Feizpour and Jamali, 2009). However, although trading and service SMEs are important for the successful functioning of the economy in Iran, the Iranian manufacturing sector SMEs is highly important in light of generating both manufacturing value added and export (UNIDO, 2003; ILO, 2003).

### **2.3.3 SMEs in Iran and Other Developing Countries: A Comparison**

The growth of unemployment (joblessness) in many developing countries in the last two decades have kept it in the front line of academic attention (Feizpour and Jamali, 2009; Mirbargkar, 2009). For example, it is assessed that more than 300 million people are

unemployed in the developing countries, and unemployment has become one of the biggest problems faced by most emerging economies (Feizpour and Jamali, 2009). The SME sector can certainly make a significant contribution to economic development extensively as it is regarded as the driving force behind job creation in emerging economies (Feizpour and Jamali, 2009). SMEs constitute over 90 percent of enterprises in the world, and provide 50 to 60 percent of employment in developed countries (Mirbargkar, 2009). Their proportions are even higher in developing economies, where such firms typically account for 90-95 percent or more, 70-75 percent of industrial employment, and 50-60 percent of industrial output (Mirbargkar, 2009). In fact, SMEs grow faster than LEs and have important implications for job creation and employment strategy in developing countries (Feizpour and Jamali, 2009).

However, most people involved in the SMEs have generalised knowledge and many of them do not have business and technical expertise in most developing countries (Zohari, 2008). Similarly, most Iranian SMEs are still traditional and their practice is still backward (Fathian, Akhavan and Hoorali, 2008; Fathian and Amiri, 2006). For instance, Iranian SMEs do not possess the technological, sufficient managerial competences and financial strength to compete globally in a successful manner (Zanjani, Mehrasa, and Modiri, 2008; UNIDO, 2003). Consequently, it is clear that they incur substantial financial losses or are satisfied with a small profit margin because of internal resource constraints (UNIDO, 2003; ILO, 2003; Feizpour and Jamali, 2009; Zanjani et al., 2008). Furthermore, other problem of Iranian SMEs is the lack of interest of Iranian universities and scholars in issues related to SMEs (Feizpour and Jamali, 2009). As a result, many claim that Iranian SMEs are not able to play a significant role in world trade and their production barely satisfies domestic demand due to insufficient management expertise (Zohari, 2008; Zanjani

et al., 2008). For example, productivity of Iranian SMEs is very low compared to other developing countries (Zohari, 2008). Table 2.3 shows the Labour Productivity in selected developing countries.

**Table 2.3: Labour Productivity Index (LPI) in Selected Developing Countries**

Country	Iran	India	Malaysia	Pakistan
Ratio	106.49	144.59	142	177.84

Source: adapted from Zohari (2008)

As shown in Table 2.3, Iranian SMEs have a much lower level of labour productivity compared to the other developing countries (Zohari, 2008). Therefore, it needs intensive support from the Iranian government to increase labour productivity and maintain the country's competitive advantage (ILO, 2003; Zohari, 2008). It is not possible to attract investments without government providing the necessary support to SMEs (Zohari, 2008; Feizpour and Jamali, 2009). Indeed, the international market access for Iranian SMEs is commercially meaningless unless Iran strengthens the SMEs' capacity to benefit from international trade by improving their competitiveness through investment in of human resource development, enhancement of technological capability and capacity of SMEs (Zohari, 2008; ILO, 2003; UNIDO, 2003).

#### **2.3.4 Institutional Support to SMEs in Iran**

There are a number of organisations in Iran, which support Iranian SMEs (ILO, 2003). For example, the Small Industry Organisation (SIO) is the only official organisation to produce suitable strategies and programmes to promote the development of SMEs (UNIDO, 2003). The Iranian SIO is largely responsible for formulating measures to support SMEs and to offer proposals to alter and review financial, trade, training and other laws that impose on

the SME sector (UNIDO, 2003). Another organisation is the Bank of Industry and Mines, which is the main financial agency for Iranian SMEs, which provides the only reliable information concerning the financial position of such firms.

### **2.3.5 Small and Medium Enterprises in Iran: A Summary**

In this section, a body of research relating to SMEs is reviewed. Evidence from prior research suggests that the majority of Iranian SMEs experience a lack of efficient production facilities, weak management expertise or competences, low labour productivity and low level of technology. It is clear that Iranian SMEs are not able to compete effectively due to internal resource constraints. Furthermore, policy makers and legislators in Iran are not familiar with the dynamics of SMEs. The next section discusses professional accountants in Iran.

## **2.4 PROFESSIONAL ACCOUNTANTS IN IRAN**

The objective of this section is to discuss the professional accountants in Iran. The rest of this section is organised as follows. Section 2.4.1 reviews history of accounting in Iran. Section 2.4.2 discusses the use of the Professional Accountants and financial reporting in Iran. Section 2.4.3 concludes a summary of professional accountants in Iran.

### **2.4.1 History of Accounting in Iran**

Historically, accounting dates for back on 6000 years and the first accounting documents were discovered 3600 BC (Mansouri, Pirayesh and Salehi, 2009). Documents of ancient Iran demonstrate that in 500 B.C. all public revenues and costs were kept in detail (Salehi and Rostami, 2010; Mashayekhi and Mashayekh, 2008). However, evidence of modern

accounting in Iran dates to the early 20th century and shows the influences of western financial reporting systems (Salehi and Rostami, 2010; Nasrabadi, 2006). The need for accounting and audit services in Iran resulted in some government organisations sending a few Iranian students to the UK Universities to gain accounting qualifications (Nasrabadi, 2006). This is resulted in a modern style of accounting in Iran (Mashayekhi and Mashayekh, 2008). For instance, Bank Melli Iran (the Iranian National Bank) sent twelve students to the UK for higher education in accounting in 1932 (Mirshekary and Saudagaran, 2005; Nasrabadi, 2006). Generally, the history of accounting and professional accountants in Iran can be discussed in two periods namely, before 1979 and after 1979.

#### ***2.4.1.1 History of Professional Accountants in Iran before 1979***

Prior to 1979, financial reporting in Iran was influenced heavily by Anglo-American practices (Mirshekary and Saudagaran, 2005; Mashayekhi and Mashayekh, 2008). There were not any disclosure requirements and national accounting standards during this period (Mansouri et al., 2009). In fact, the accounting profession in Iran was dominated by the Big Eight before 1979 (Mirshekary and Saudagaran, 2005). Hence, during this period, accounting and auditing in Iran was influenced by foreign practices (Mansouri et al., 2009; Mashayekhi and Mashayekh, 2008; Saudagaran, 2004).

#### ***2.4.1.2 History of Professional Accountants in Iran after 1979***

Subsequent to revolution of Iran in 1979, a bill ratified by the Revolutionary Council, compelled many enterprises to come under the direct supervision of Government (Salehi and Azary 2008; Mashayekhi and Mashayekh, 2008). To audit these enterprises, three audit firms (e.g., Nationalised Industries and Plan Organisation Audit Firm, Mostazafan Foundation Audit Firm and Shahed Audit Firm) were established (Nasrabadi, 2006; Salehi



and Azary 2008). In 1983, an act was ratified by the Parliament (Islamic Consultative Assembly), to merge and embody these three audit firms together become the Audit Organisation (Salehi and Azary 2008). In 1987, the Audit Organization was established, and this organisation is affiliated to the Ministry of Economic Affairs and Finance (Mashayekhi and Mashayekh, 2008). According to the Iranian legislation, the main objective of the Audit Organisation is to audit state owned and government supervised entities (Mashayekhi and Mashayekh, 2008; Mansouri et al., 2009; Salehi and Azary 2008).

#### ***2.4.1.3 Iranian Association of Certified Public Accountants (IACPA)***

Iran faced two special processes of structural change—revolution in the 1979s and privatisation later in the 1980s (Salehi and Rostami, 2010; Mirshekary and Saudagaran, 2005). Financial reporting gained importance in the Iranian private sector as a consequence of privatisation prompted by international pressures from the World Bank and the International Monetary Fund (IMF) (Mirshekary and Saudagaran, 2005; Mashayekhi and Mashayekh, 2008). After privatisation, the case of auditing the accounts of firms and financial institutions received much attention. It appeared that the role of accounting practitioners or professional accountants in transparency of financial reporting for the period of privatisation in Iran could not be ignored (Salehi and Azary, 2008). To address the concern, the Act of using the specialised services of Certified Accountants was passed through the Islamic Consultative Assembly in 1993 (Salehi and Rostami, 2010; Salehi and Azary, 2008). However, the Iranian Association of Certified Public Accountants (IACPA) was only established as an independent professional body in 2001 (Salehi and Rostami, 2010; Mirshekary and Saudagaran, 2005). Therefore, the Iranian Association of Certified Public Accountants (IACPA) is a "non-governmental organization" (NGO) overseeing

auditing and accounting activities in Iran (Salehi and Rostami, 2010). Thus, the Iranian Association of Certified Public Accountants (IACPA) accepts members from professional accountants and auditors. Members are allowed to establish private accounting firms to serve as firm auditors (Mirshekary and Saudagaran, 2005; Nasrabadi, 2006).

#### **2.4.2 The Use of the Professional Accountants in Iran**

In Iran, the term “professional accountant” refers to members of IACPA and the partners of accounting firms with valid practising certificates who can hold themselves out as CPAs, and set up firms providing accounting, audit, tax and other services (Naderian, 2010; Ahmadi, 2010; Amani and Davani, 2010). The law mandates the use of a member of the Iranian Association of Certified Public Accountants (IACPA), to audit all listed public firms, public joint stock firms, all natural persons and legal entities whose turn-over exceeds eight billion Rials (800000USD) annually or whose total assets exceed sixteen billion Rials (ArabSalehi and Velashani, 2009; Naderian, 2010; Amani and Davani, 2010; IACPA, 2003). In Iran, the largest accounting firms have less than 200 employees, so there is a big gap between these firms and the international accounting firms in terms of size (Naderian, 2010). However, there is no Big 4 accounting firms operating in Iran, and all Iranian accounting firms are small (Naderian, 2010).

In the SME context, there is no governmental restriction on the joint provision of compliance and non-compliance services in SME environment (Naderian, 2010; Ahmadi, 2010). This is because in the Iranian SME environment, SMEs experience greater alignment between owners and managers and therefore, less agency conflict than in larger entities (Naderian, 2010; Blackburn et al., 2010). However, in SME environment, the current demand for the audit services is driven by regulatory requirements, therefore,

there is little ‘added-value’ to SMEs from the production of statutory accounts (Marriott and Marriott, 2000). Whereas, accounting information is a value added process that “focuses on information processing, planning and coordination activities in order to provide a rational basis for business decisions” (Brandau and Hoffjan, 2010, p.76). Therefore, provision of accounting information such as financial management and strategic planning, financial and management accounting is seen as an important tool for SMEs’ survival (Hasle, Bager and Granerud, 2010; Perren and Grant, 2000). In the present knowledge economy, accounting information is critical in managing SMEs, moving from a passive role (for decision making) to taking a more proactive role in strategic and resource management decisions (Brandau and Hoffjan, 2010; Nandan, 2010). As many SMEs fail because they do not have reliable internal information to make managerial decisions (Perren and Grant, 2000), SMEs need to obtain accurate and reliable accounting information from the in-house accountant. Given the importance of SMEs within any economy, it is believed that SMEs’ need for accurate, timely, and reliable accounting information cannot be neglected (Nandan, 2010; Mitchell and Reid, 2000). However, most SMEs lack in-house accountants to provide such information (Jayabalan et al., 2009; Hasle et al., 2010). Therefore, they resort to external professional accountant to better manage their resources (Nandan, 2010; Ciccotosto, Nandan and Smorfitt, 2008; Mitchell and Reid, 2000; Maelah, Aman, Hamzah, Amiruddin and Auzair, 2010). This is more important for Iran and emerging economies because they have limited number of accountants to work in-house (Naderian, 2010; Ahmadi, 2010). In fact, professional accountants play a vital role in Iranian SME environment which encompass over ninety percent of enterprises of Iran (Amani and Davani, 2010; Naderian, 2010; Ilkhan, 2010; IACPA, 2003).

IACPA is an Iranian accountancy body with 1684 members, which offers the Certified Public Accountant (CPA) qualification (Amani and Davani, 2010). Hence, the number of professional accountants holding CPA certificates in Iran is very small in contrast to developed and other developing countries as can be seen from Table 2.4.

**Table 2.4: Number of Professional Accountants as at 27 June 2010**

Country	Iran	Uzbekistan	Malaysia	UK	US	Canada
Population	74,196,000	27,488,000	27,468,000	61,565,000	314,659,000	33,573,000
Professional Accountant	1684	4000	26261	140,000	360000	75,000
Ratio	1:44,060	1:6,872	1:1,046	1:440	1:874	1:448

Source: <http://www.un.org/en/databases/> and <http://web.ifac.org/about/member-bodies>

It is noted that compared to more developed countries, there is scarcity of accountants in the emerging economies. Hence, SMEs are unable to employ in-house qualified accountants (Devi and Samujh 2010). There is greater need to engage services of professional (external) accountants. Therefore, it is expected that the professional accountant would play a key role in assisting SME owner/managers to manage their firms effectively (Mole 2002) and such need is more apparent in emerging economies (Samujh and Devi 2008). Professional accountants are perceived to be of significant support to the SME owners/managers in managing the firms (Gooderham et al. 2004). The role of the professional accountant is primarily perceived by SME owner/managers as helping them beyond compliance services (Marriott and Marriott 2000). Indeed, professional accountants possess a broad base of technical competence and expertise, enabling them to

contribute to the success of SMEs (Blackburn and Jarvis, 2010; Blackburn et al., 2010; Greenwood, Suddaby and Hinings, 2002). This trend is also observed in emerging economies as noted by Devi and Samujh (2010) in the context of Malaysia.

#### **2.4.3 Professional Accountant in Iran: A Summary**

In the face of greater complexities and given SMEs tendency to fail, timely and accurate accounting information is particularly important to Iranian SMEs for allocation decisions and better resource management. In the Iranian context, auditing is required for large size firms, however there is need for accounting services, however I do not find any published work explicitly showing what services accountants currently provide and so there is a gap. Despite accounting's importance for the SME sector, accounting outsourcing research still remains a neglected and considered an unfashionable area.

### **2.5 CONCLUSION**

This entire chapter demonstrates that the Iranian SMEs need professional accountants to enhance the firm performance. For instance, most Iranian SMEs tend to fail because they lack knowledge and managerial skills and expertise. Furthermore, in this globalised era, as competitive pressures intensify, Iranian SMEs are forced to reduce their costs and seize new opportunities through optimized utilisation of external resources. Therefore, there is a need to scrutinise ways of empowering SMEs (Samujh and Devi, 2008). Hence, Iranian SMEs need professional accountants as a means of meeting their resource gaps to enhance their competitive advantage. In fact, a transformation in professional accountants' services to their small business clients is critical (Blackburn and Jarvis, 2010). For instance, professional accountants can help SMEs operating in a competitive environment to

enhance their sustainability (Devi and Samujh, 2010). The next chapter discusses accounting function outsourcing, including specific reviews in transaction cost economics and resource based theories, as well as a comprehensive review of extant outsourcing literature on the association between factors influencing accounting outsourcing and its impact on firm performance.