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Outsourcing Accounting function: A global Strategy for Competitive Advantage

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Abstract

Quality and timely completion of work is the hall mark of our services .Ongoing pressures to optimize business performance have prompted many finance executives to look for new approaches, including outsourcing of the finance & accounting organization. . Firms and Small Businesses are discovering that outsourcing bookkeeping and accounting saves payroll, overhead cost and it's a giant step in freeing up valuable time. As a business owner your time is best spent doing what you do well - working with customers. Time spent on bookkeeping problems add little or no value to your customer relationship. Accounting functions play an important role in businesses to maintain competitive advantages. However, many companies are facing the problem in handling their accounting functions. This is due to the lack of expertise as accounting functions do not only require knowledge of generally-accepted accounting rules or the tax regulation, but also require that one knows how to apply the rules in a given business environment (Everaert et al., 2006). It's a win–win situation for your business as well as the company we are outsourcing to. Thispaper is related with accounting outsource and its related aspects .

Keywords: Accounting Function Outsourcing; Subcontracting; Management accounting outsourcing,

Introduction

Process time for introducing services and products has shortened with the increasing competitive nature of global businesses. Organizations in the developing economies are coming to the conclusion that if they can't be a world-class provider of a service, then the best option is to partner with someone who can provide that level of service. In this scenario global organizations are forced to adopt systems and business models that provide operational efficiency and add strategic value totheir products and services.

Developed economies are facing huge shortage of highly trained and specialized professionals in various knowledge-intensive sectors. In the new knowledge economy, India with its hoard of chartered accountants, doctors, engineers, lawyers and research analysts is the most preferred destination for outsourcing. India is a talent-rich country

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that exports software to more than 95 countries around the world. India has a mature outsourcing industry with world-class systems and quality. Not only does India offer technological edge, flexibility, time-to-market and a competitive advantage, it also offers world-class infrastructure.

Besides the huge talent pool, other advantages of outsourcing to India are the favorable government regulations, considerable savings in expenditure and strong research infrastructure. India is fast becoming a major outsourcing center of the world. With the rapid growth of the industry there has been a distinct increase in the opportunities in outsourcing jobs in India. According to McKinsey, India has the potential to process 30% of US transactions by 2010. Currently Indian BPOs are handling 8% of all US transactions. With growth rates of 30 to 35%. Outsourcing your financial and banking needs to India is a great option since most companies do not have the resources to perform these activities in-house. Indian service providers provide cost effective quality solutions.

Accounting Functions

Generally, accounting functions are the fundamental source of accounting information. Accounting functions such as general ledger, account receivable, account payable and payroll are essential in business. These functions can be easily handled by purchasing accounting software which is user friendly and available in market such as User Business System (UBS) and Mind Your Own Business (MYOB). The outsourcing of accounting and finance functions will become prevalent and continue to grow (Shailendra, 2004). The global market for outsourcing finance and accounting functions is expected to grow at a 9.6% compounded annual growth rate (CAGR), and top \$47.6 billion in 2008, according to a new report from IDC (Casale, 2004). Longenecker et al. (2003, p. 408 & 349) defines outsourcing as buying products or services from outside business firms and usually the outsourcing is making for those non-core activities of the firm. Krell (2006) stated that outsourcing refers to the transfer of responsibility, indicating that a process of function is performed by a third party. In addition, Brown and Wilson (2005, p. 20) states that outsourcing take steps of getting services from external source.

Business Process Outsourcing

KPO is an evolution of BPO or Business Process Outsourcing. The basic idea for outsourcing was **first developed by Ross Perot**, who was the founder of Electronic Data Systems. The basic goal of EDS was to help companies manage their IT departments. EDS would sell the information that was related to information technology, and their clients would pay them on a monthly basis. There are certain skills required for accounting outsourcing

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1. Accounting procedures followed by companies in USA, UK or other countries.
2. Knowledge of accounting related software like, Quick Books, MYOB, SAGE and other accounting solutions. These are some software used as per international standards.
3. Skills in using tax return software i.e. Ultra Tax or Irish. These are few of the software which are used in preparing Tax Returns and annual accounts for individuals, corporations or private organizations.

Below are brief on what are the services which can be outsourced:

1. Business accounting
2. Maintenance of books and records
3. Asset accounting management
4. Financial analysis
5. Bank reconciliations
6. Payroll management
7. Different types of reports on daily basis.
8. Financial research and investigations.

Krell (2006) has mentioned that some components of accounting functions are suitable to be outsourced such as general ledger, financial reporting and internal services. The abstraction of elements of business outsourcing for operations finance and accounting services are as follows:

- General accounting
- Audit
- Accounts payable
- Banking
- Financial services solutions
- Credit services
- Insurance processing
- Tax Services
- Billing systems
- Accounts receivable
- Collections and credit
- Compliance
- Management Reporting

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Technical Methodology of Outsourcing of Bookkeeping

There are several options available to you in the way we work with you for providing outsourced bookkeeping services. You could choose the one that suits you the best. We can briefly classify these Options of Methodologies into three major types.

1. Server based

You (The Client in US) Send Us (Indian Bookkeeper) the source Documents	We (Indian Bookkeeper) Process Source Documents	We (Indian Bookkeeper) give you Updated Books
The Source Documents or Raw Data such as Bank Statements, Expenses , Check Stubs etc will be scanned by you & upload to our secure ftp server	We, at our end, will process source documents and update your books same night. We ask you to provide us copy of your books (backup file of your software). We shall work on the software specified by you such as QuickBooks, Peachtree or EasyAcct etc	We put the updated books on our secure ftp server. You come to office the next morning and download the updated books from our server to your computer!

2. Remote desktop access based

You (In US) Send Us (Indian Bookkeeper) the source Documents	We (Indian Bookkeeper) Connect to Your Computer (In US) via internet securely	We (Indian Bookkeeper) Update the Books and logout
The Source Documents or Raw Data such as Bank Statements, Expenses , Check Stubs etc will be scanned by you & upload to our secure ftp server	We (Indian Bookkeeper), at our end, connect to your computer using a remote desktop access service provided by you or like service such as GoToMyPC.com or Secure VPN from India	You come to office the next morning and find the books updated on your computer!

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3.On line software based

You(In US) Send Us (Indian Bookkeeper) the source Documents	We (Indian Bookkeeper) Use the Online Accounting Software	We (Indian Bookkeeper) Update the Books and logout
The Source Documents or Raw Data such as Bank Statements, Expenses , Check Stubs etc will be scanned by you & upload to our secure ftp server	We (Indian Bookkeeper), login to Online Accounting Software (eg quickbooksonline.com) and update the books	You login to the online accounting software via internet whenever you need - 24x7 - and see the updated books

Advantages of accounting outsourcing

1. **Control Capital Cost:** Cost-cutting is the major factor to outsource. Outsourcing converts fixed costs into variable costs, releases capital for investment elsewhere in your business, and allows you to avoid large expenditures in the early stages of business. Outsourcing can also make your firm more attractive to investors, since you`re able to pump more capital directly into revenue- producing activities.
2. **Increase Efficiency :** Companies that do everything themselves have much higher research, development, marketing and distribution expenses, all of which must be passed on to customers. An outside provider`s cost structure and economy of scale can give your firm an important competitive advantage.
3. **Reduce labour Cost:** Hiring and training staff for short-term or peripheral projects can be very expensive, and temporary employees don`t always live up to your expectations. Outsourcing lets you focus your human resources where you need them most.
4. **Start new projects easily :** A good outsourcing firm has the resources to start a project right away. Handling the same project in house might involve taking weeks or months to hire the right people, train them and provide the support they need. And if a project requires major capital investments, the startup process can be even more difficult.
5. **Focus on your core business:** Every business has limited resources, and every manager has limited time and attention. Outsourcing can help your business to shift its focus from peripheral activities toward work that serves the customer, and it can help managers set their priorities more clearly.

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6. Level the playing field : Most small firms simply can't afford to match the in-house support services that larger companies maintain. Outsourcing can help small firms act "big" by giving them access to the same economies of scale, efficiency and expertise that large companies enjoy.
7. **Reduce Risk:** Every business investment carries a certain amount of risk. Markets, competition, government regulations, financial conditions and technologies all change very quickly. Outsourcing providers assume and manage this risk for you, and they generally are much better at deciding how to avoid risk in their areas of expertise.
8. **Proper bookkeeping:** Bookkeeping is extremely important. Neglecting your bookkeeping could cost you a lot of money in the long term as it would take your accountant twice as long to draw up your accounts at your year-end. Life is hectic enough when you first set out in business, but you should always make time for bookkeeping. If you can afford it, get someone in to help keep your books in order.

Limitation of Accounting Outsourcing

Even with all the benefits of outsourcing, some companies still prefer to keep things in-house, and they'd say with good reasons. Here are some of the reasons why B2B brands opt out of outsourcing, keeping their entire financial records close. Take a look at the drawbacks of outsourcing:

1. **Distance and Time:** No matter how good a service provider is, there's no substitute for being physically present in your office. You will need to communicate your needs and challenges across distance, maybe even across time zones. There may be times when your questions don't get answered right away because of the lags involved.
2. **Language Barriers:** Everyone's aware of the language barriers associated with call centers, where you call a customer service line and talk to someone across the globe. But language barriers don't end there—even when you work with an accounting firm, different languages can make it hard to explain your company processes or structure.
3. **Less Control:** When you manage employees in-house, you have more control over how things are run, from training to day-to-day processes. While ideally a service provider would train its staff thoroughly and according to your preferences, there's always the possibility that something gets lost. For some companies, feeling at the mercy of a service provider is not an enticing substitute for managing its own staff.
4. **Security Risks:** Your business accounting is, by nature, a more sensitive subject. When you send all your financial information and records to an outside provider, you let loose insider knowledge on one of the most valuable parts of your company.

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Conclusion

Developed economies are facing huge shortage of highly trained and specialized professionals in various knowledge-intensive sectors. In the new knowledge economy, India with its hoard of chartered accountants, doctors, engineers, lawyers and research analysts is the most preferred destination for outsourcing. The accounting function is among most commonly outsourced, though this is usually limited to only a few of tasks within the function, however, there are opportunities to outsource a wide array of services in this area if a company is willing to work with multiple suppliers to achieve this goal (Bragg, S.M. , 2006, p 129). However, outsourcing should be undertaken with caution as there will be loss of direct control over quality and leads to additional coordination expense and delays where prompt management and business decision will be affected; besides, it will also jeopardizes employee loyalty because of the job-loss fear (Brown & Wilson (2005),

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