

**KAUNAS UNIVERSITY OF TECHNOLOGY**  
**SCHOOL OF ECONOMICS AND BUSINESS**

**OUTSOURCING OF FINANCIAL ACCOUNTING FUNCTION  
RESEARCH**

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**Accounting and Auditing (621N40002)**

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Accounting and Auditing 621N40002

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Outsourcing of Financial Accounting Function Research

**DECLARATION OF ACADEMIC INTEGRITY**

10 May 2017

Kaunas

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## SUMMARY

The thesis study is based on comparisons between in-house and outsourcing accounting, their advantages and disadvantages, and the major factors have effect on decision making regarding whether outsourcing accounting functions or having in-house accounting services. Evaluation of the factors and their effects over the issue, and providing a conclusion that which type of companies are more likely to outsource their accounting functions.

Six necessary factors – size of a company, cost saving, (reliability), industry, risk of outsourcing and qualified human resources in accounting, constitute basis for the study, those factors have been emphasized by most researchers as main elements which taken into accounts by companies while making decision. Studies and their results from four different countries – Malaysia, Iran, Cameroon and Finland, have been shown on the thesis study to provide clearer view of the subject.

As regards the data findings of the study are based on, it been collected with in-depth interview method. Five criteria have been determined to select interviewees, which provided security on findings of the thesis study, and I strongly believe those criteria can be used within future studies over the subject. If I summarize the criteria – interviewees needed to be experienced and authorized people in outsourcing companies and they need to have experience as in-house accountants, as well. Three respondents were attended to the study and each interviews took around 15-20 minutes, and all interviews were being implemented individually.

Regarding findings of the thesis study, it was revealed that small size of companies are main users of outsourcing accounting services, cost saving is the main factor on decision making process regarding outsourcing, and since small companies do not have heavy accounting workload they do not need and they

mostly are not able to afford to hire 40-hour per week in-house accountants. Moreover, study revealed that as different industries have various kind of accounting needs, all factors over the issue depend on the industries of the companies, and in all cases outsourcing companies need to be relied by their clients, without gratifying this factor it is almost meaningless to speak over other factors, since accounting data is highly confidential and can be easily abused. Furthermore, the shortage of qualified accounting clerks was determined as another main factor force some companies in particular industries to outsource their accounting services in order to be provided with professional accounting services.

Stronger communication tools of in-house accounting was showed as a major advantage of hiring internal accountants. Interviewees provide information that outsourcing accountants are communicating with clients via skype calls and emails. However, internal accountants are always able to be reached and providing face-to-face communication, which can be determined element on decision making regarding the studied issue.

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## INTRODUCTION

Outsourcing accounting function is my thesis topics. Although previous studies have underlined the necessity of accounting outsourcing (Wood *et al.*, 2001; Nicholson *et al.*, 2004; Nicholson and Aman, 2006), outsourcing refers to the process of moving outsourced activities to in-house role (Elliot, 1998). It is fact that outsourcing has grown in popularity during the past decade, as there is high risk, the failure rate of outsourcing relationship is high. (Das and Teng, 2001). There is lack of satisfaction among clients, according to plenty surveys of business managers in outsourcing relationships. 54 percent of a group of 228 global CFOs (two-thirds of who work for companies which annual revenue is more than USD1 billion) demonstrated that the media and outsourcing vendors does not provide the benefits promised.

Previously, outsourcing was being used by large organizations, but for the time being it is becoming a new favorite among small-and-medium sized companies (Kamuri, 2010). After the middle of the 20th century outsourcing labor started to be a popular concept among US firms looking for solutions to decrease manufacturing costs. As Asian labor costs were lower compared with the USA, setting up manufacturing facilities in Japan and other Asian countries became a solution of the issue (myaccountingcourse.com). Personally I would claim there is a solid connection between outsourcing and globalization, and outsourcing has arisen as an advanced form of globalization process, however this is another topic by itself.

Outsourcing has become much more popular method in the last decade, and there is a figure shows that more than two million people have been hired as an outsourced employee in 2013, and China and India are the most attractive destination (Selvaggio, 2014). Lisa Salvaggio provides statistical data that 43% of the IT sector, 26% of distribution (logistics), 12% of call center jobs and 38% of research and development (R&D) are taken care of by outsourced workers.

It clear that outsourcing accounting function is highly debatable issue, and in every year a lot of studies are written regarding this.

After reviewing the current researches on outsourcing it becomes clear that most studies are based on ideas mentioned by economists or interviews with managers of different industry members and their approaches to the outsourcing their accounting functions. I personally think those are not enough to reveal the main factors affect decision making regarding outsourcing. Advantages and drawbacks of having in-house or outsourced accountants need to be clarified. Some indirect factors, such as industry, accounting

labor supply and demand need to be analyzed, and their influences of the decision need to be taken into account by the studies.

The goals of my study are showing the advantages and drawbacks of in-house and outsourcing accounting functions, analyzing elements of in-house accounting, showing factors influence decision making process regarding the issue. It is clear that accounting data is highly confidential data, and includes many financial and managerial information. Hence arising risk due to using outsourcing accounting functions has been taken into consideration by the study, as well.

Qualitative research method is used in this study which involves individual in-depth interviews with authorized member of outsourcing accounting services companies. In-depth interview method is much more suitable to reveal elements precisely, since it is held by face-to-face individual interviews over the open-ended questions.

# **1. PROBLEM ANALYSIS OF OUTSOURCING OR IN-HOUSE ACCOUNTING ISSUE**

## **1.1. Advantages and drawbacks of outsourcing accounting**

For making right decision companies should have a look at positive and negative sides of outsourcing accounting services. It might be good idea to check website of a company offer accounting outsourcing function in order to obtain information regarding advantages of outsourcing. Avail Bookkeeping & Tax Services describes advantages of outsourcing as follow. The companies prefer to outsource their accounting function have different targets as saving time or money, getting high-quality bookkeeping services, reducing the risks typically involved with relying on in-house staff. Basically we can divide advantages into two groups, financial and non-financial. Financial aspect covers all results related money saving (<http://www.availyourbusiness.com>):

- Minimizing costs: Obviously the idea outsourcing some functions from outside originates from saving money to increase profit (Mueller, 2011). It is make you able to match the working hours or amounts of ongoing projects with your business needs, cut down other direct and indirect costs related employment such as insurance, payroll taxes, social security benefits, unemployment taxes, workspace, office furniture, computer hardware and software.

Beside of money saving outsourcing has some non-monetary advantages as well, and those factors affect decision making regarding outsourcing (<http://www.availyourbusiness.com>):

- Energy savings: Outsourcing accounting function is able managers to save time and concentrate on core activities, network-building activities which makes the company to achieve its goals. Beside of accounting function, service provider companies are dealing with recruiting, retaining, hiring and overseeing accounting staff in behalf of you, and it means you become much more able to focus on crucial resources.
- Expert services: Employees working at outsourcing service provider companies are much more likely to be an expert on their work, since they are dealing with not only accounting needs of one company, but a customer portfolio. Daily communication with customers, dealing with their accounting needs make them specialized in their work, thus they're experienced experts to get given projects with effective and efficient way. It makes them keeping their skills updated and it increases

the work quality day-by-day. This fact quite alluring for companies to rely on service provider companies that their work is being handled in true professional level.

- Contractual obligation: The liability is higher for service providers than in-house staff. And it means there is not big risk for your business—they're more likely to follow through on their duty because they are responsible for all of it. Moreover, it is much easier to deal with the contracts or agreements of outside providers than dealing with the employee management, hiring negotiations, and other human resources issues refer to employees (<http://b2binsights.com>, 2012).
- Industrial accounting needs: Some accounting needs might be unusual and specified for an industry. Hiring an internal accountant who has efficient knowledge and know-how to deal with those needs would be very expensive for SMEs ([www.odoo.com](http://www.odoo.com)).
- Hiring a true one: If managers do not have sufficient knowledge to recognize a suitable candidate to hire as an accountant, and control his work, outsourcing accounting ensures that you have an expert running your accounting functions.

As accounting data covers crucial financial and non-financial details of the companies, revealing this data to another firm may bring some disadvantages. Companies are advised to think twice before making decide over that issue. Proper research needs to be done so that being sure you are contracting with a rust-worthy accounting organization. Below mentioned elements are mentioned in articles in order to avoid any unexpected risks (<http://www.wahm.com>, 2015):

- Customer satisfaction record
- Reputation
- Experience
- Offered accounting services
- Hiring process of accounting firm

Market price of an offered services need to be investigated to avoid unnecessary expensive proposition, since outsourcing is supposed to decrease the operating costs, as it is mentioned within upsides (<http://www.wahm.com>, 2015).

Regarding disadvantages, if we have a look at the downsides of accounting outsourcing, they all are non-financial components (<http://b2binsights.com> 2012):

- **Communication:** This element can be defined by service time and distance. When a company have internal accounting function, managers and employees can be answered right after requesting an accounting service, while an outsourced accountant need to be reached by either emails or telephone (the internet) calls which are time consuming. Same reason is valid for distance issue, since face-to-face communication can hardly be replaced. Time difference due to different time zones of a served and accounting firm is another challenge. Thus some companies would think no cost saving can tolerate physically present of an accountant in their offices.
- **Language barriers:** As it is mentioned within communication factor, companies need to speak to their outsourced accountants via emails or calls, and in case of using accounting services in foreign country, the language barriers become a crucial factors. Employees and managers of the companies might be not able to describe the situation of their accounting needs properly in a foreign language. Moreover, outsourced accountants also may not have sufficient level foreign language skills to understand their customers. Furthermore, accent differences is another factor should be emphasized within this factor.
- **Less control:** Business owners or managers particularly lose their managing role over accounting functions. In some extent they are able to see only the results of accounting operations. They have almost no chance to control over on-going accounting transactions. While managers have full control on their internal accounting section from recruitment and training to day-to-day processes. Although an outsourcing company completely trains their accounting staff and provide more professional services, probability of losing something is higher and managers have almost nothing to do about it.
- **Security risks:** Accounting data is very crucial and expensive for all companies, since it covers all necessary internal, external, operational and etc. knowledge about a company. Relying on this data to a service provider may arise new risks, especially nature of the industry is fragile and data can be easily manipulated or stolen.
- **Offered services:** Generally outsourcing companies offer accounting services within a package, and those services might not answer specific needs of a company. This factor is especially valid for large companies in specific industries.
- **Human capital:** Competent internal accountant would bring a value to an organization with his/her specific approaches and intellectual agility.

- Loyalty: Loyal accountant who has been working in the company since very early stages, is aware about all accounting needs of his/her company, and can be a strong element of solid relationship with stakeholders – especially government authorities ([www.odoo.com](http://www.odoo.com)).

## **1.2. Advantages and drawbacks of in-house accounting**

Basically, all advantages of outsourcing accounting can be shown as shortcomings of in-house accounting, and disadvantages as upsides. I would like to sum up those factors, and divide them into two groups, financial and nonfinancial.

Regarding financial aspect advantages, there is no direct element would bring cost advantage to a company in in-house accounting ([www.forbes.com](http://www.forbes.com), 2013). It also means that all upsides of internal accounting have non-financial characteristics. Almost they all have been mentioned within disadvantages of outsourcing accounting, and from this point, it needs to be emphasized that all drawbacks of outsourcing are non-financial elements.

Below mentioned elements briefly summarize non-financial advantages of having internal accounting function ([www.accountingweb.com](http://www.accountingweb.com)):

- Managers and business owners are aware about their businesses, since they can be set up suitable tasks to the accountants, however mostly outsourcing companies offer accounting services within a service package.
- Internal accountants are always reachable, hence they provide stronger communication tolls to the shareholders (managers and other employees in a company) than outsourced accountants who cannot be contacted
- Having in house accountant would be an intellectual property of a company, who increases intellectual capital and intangible value of the company.

Beside of mentioned elements, multi-tasking is a must in SMEs, in such companies all employees can be attended to the all works ([www.odoo.com](http://www.odoo.com)).

Most disadvantages of in-house accounting are directly related to the cost element, it is clear that hiring an accountant is quite costly, and principally same services can be provided by outsourcing organizations with cheaper prices.

As regards nonfinancial sides of disadvantages in in-house accounting, those elements are linked to the accounting knowledge of managers. As managers are not aware of finance regulations, they are not able to hire needed accountants and to supervise the accountants in case of hiring recent graduated students (<http://www.wahm.com>, 2015).

## **2. THEORETICAL SOLUTIONS OF IN-HOUSE VS. OUTSOURCING IN ACCOUNTING**

Business entity can pass the responsibility of some operational process (products delivery, carriage, cleaning), essential functions like IT, financial-accounting, marketing, human resources, legal etc. (own departments) totally or in part, to some experts which provide quality services, more exactly outsourcing them. This last practice was started in USA mostly because of lack of staff but also the lower prices of different services offered by foreign experts in different areas, from Asia (India, China, Philippines etc.) and also from Central and East Europe (Hungary, Romania, Bulgaria, Slovakia, Czech etc.). This becomes quite profitable in the financial way (Ciuraru-Andrica Cristina, 2009).

Companies focus on core activities in competitive business environment, and generally outsource non-core functions to others (Kim and Won, 2007). Companies are adopting business process outsourcing (BPO) to an increasing extent that outsources non-core business processes as well as supporting information technology. Accounting is one of the BPO functions that are being outsourced. Accounting outsourcing includes variety of processes, like from transactional activities such as payroll, accounts payable, accounts receivable, to more complex activities such as tax strategy, treasury or financial planning and analysis (Krell, 2007).

Krell expresses that the finance and accounting outsourcing market has grown increasingly since 2000, and by more than 45 percent since 2005; A new management accounting guideline (MAG), entitled outsourcing the finance and accounting functions, was recently developed jointly by CMA Canada, the American Institute of Certified Public Accountants and the UK-based Chartered Institute of Management Accountants. The MAG supply guidance on managing finance and accounting outsourcing challenges, risks and opportunities. This guidance, which targets finance and accounting managers, chief finance officers, and others responsible for selecting, implementing, and managing finance and accounting outsourcing relationships, concentrates on what might be done to create and manage a successful finance and accounting outsourcing venture.

The key factor of success shifted from “mass” to “high quality”, and pattern of “bigger is better” changed to “lean and mean”, companies are detecting their core values and directing their organizational structures to increase their competitive advantage in the market. Outsourcing became a tool for organizations to focus on core activities to increase their flexibility and maximize value. This process



demands a careful assessment of strengths and weaknesses to decide on importance of the cycles within organization and afterwards a decision need to be made over whether the organization need to carry out these non-core activities or outsourcing is better option (Koszewska, 2004).

A study by Association of Certified Fraud Examiner (in 2012) shows that companies with less than 100 employees are most likely to be a victim of fraud with a shocking median amount of \$147,000 fraud. The reason behind this fact is smaller firms don't have access to competent CFO who is able to take care of KPI's and detect abnormal activities. By outsourcing accounting function smaller companies become much more able to afford a skilled controller who is member of professional accounting service firm. In fact on this case you're hiring experienced team, not only a chartered accountant with paying part-time hiring fee of a full-time accountant (Sultan, 2013).

Sometimes companies are using outsourcing services of the service providers in outside of original country. For example Commerzbank of Germany is outsourcing their processing services, Siemens their accounting and RD services in Prague, and Philips is using outsourcing services in Warsaw (Ciuraru-Andrica Cristina, 2009).

## **2.1. Factors affect making decision on outsourcing**

Although we do not have a general accepted principles of outsourcing, authors agree about one particular matter that there is a quest for efficiency, and outsourcing is a tool of this search (Gandja et al, 2013). Efficiency is a level of performance that identifies a process that utilizes the lowest amount of inputs to make the greatest amount of outputs. It decreases the waste of resources such as manpower, physical materials, money and time to minimum level, while achieving the aimed outputs successfully. We can name this process cost reduction. However, cost reduction is not the only influence of the outsourcing decisions, there are other factors, such as focus on core competency, strategic requirement (Xu, 2009), human resources, risk of outsourcing, firm size, industry type (Dorasamy et al, 2010), country, asset specify, trust and competition (Kamyabi et al, 2011). Outsourcing is being used as a shortcut to be more competitive (Xu, 2009).

Resource-based view (RBV) claims that SMEs are more vulnerable than larger organizations since they lack some necessary resources and have less capability to survive and grow (Gooderham et al, 2004).

While the RBV indicates that firms can outsource the functions which are not core competences, Transaction Cost Economics (TCE) claims that outsourcing is should be used for not firm-specific functions (Gilley et al., 2004). Role of outsourcing within efficient governance is the main focus of TCE but the RBV concentrates on competitive advantages (McIvor, 2009). Practically, decision regarding outsourcing is being affected by both RBV and TCE (McNally and Griffin, 2004).

First we need to decide, how to distinguish core activities of the companies from not core activities. We need to take into account that market environment is dynamic and it is changing. It means non-core side of an organization can change its status or vice-verse. What if the functions we decide to outsource will increase its significance, and this factor will become main part of the governance after a long period? Hence, it is not such a simple decision to decide regarding outsourcing (Xu, 2009). It is hard to state whether or not to outsource accounting function since it has different necessity for different companies.

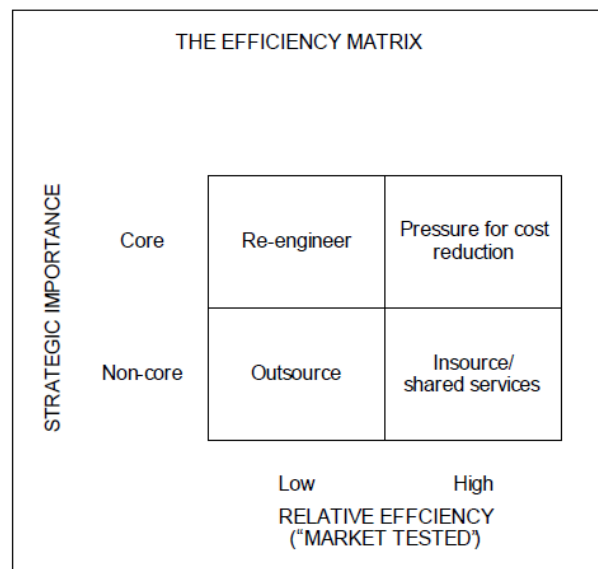
### **2.1.1. Size factor**

Generally, large companies have highly structured accounting departments with higher budgets, and more Certified Public Accountants, small firms are often run by informal management structures and fewer (mostly one) accounting professionals (Matlay, 1999). Small and medium sized companies are more likely to outsource accounting function since they have less sophisticated accounting departments and often lack the financial expertise and know-how compared large firms (Cervantes, 2009).

Barrar and Wood (2002) analyze firms' decisions regarding outsourcing of accounting over looking at efficiency and structure of organizations, and considering strategic importance by deciding whether or not accounting function is non-core or core part for the analyzed company. Figure 1 sums up the overall idea about evaluating decision regarding accounting outsourcing (Barrar and Wood, 2002).

1. Low Efficiency and Non-Core: In that case, accounting function is run with low efficiency by owners within business processes, it either originates from lack of technical knowledge, or size factor compared rival firms, and accounting is not core competence of the considered organizations. It is much more suitable for those firms to outsource their accounting functions. As an alternative idea, they can sign a contract with consulting companies in order to improve efficiency.

2. Low Efficiency and Core: Organizations which have low efficiency, while accounting function is core to their business ought to re-engineer their functions. It is clear that a company with this scenario will not survive very long, thus they need to solve their problem by developing new software, changing their accounting functions since accounting has core strategic importance for them.
3. High Efficiency and Non-Core: Companies could consider in-house accounting, which operate their accounting functions with high efficiency, while accounting is non-core area within strategy implementation. Formation of the organizations named Tasco can be considered as a good example for this scenario. It is a collaborative venture by Shell and Ernst & Young to keep efficiency of accounting up within their operation, which accounting is not core for their businesses, and Tasco has partnership with some major accounting companies to attract additional work. Moreover, accounting services are provided to some international companies by Tasco.
4. High Efficiency and Core: Companies with such case should keep their accounting in-house, since accounting functions are operated with high efficiency by them and it is core side of their business.



**Figure 1. Four scenarios regarding making decision on outsourcing of accounting, (Barrar and Wood, 2002)**

Barrar and Wood mentioned that for the majority of SMEs have the first scenario (low efficiency and non-core), and it is probably the most realistic approach to outsource their accounting functions.

Furthermore, we should consider that human capital is a crucial part of intellectual capital, and intellectual capital has a significant value as a part of firm value (Phillips, 2015). Intellectual Capital has become one of the crucial economic asset (Garcia, 2013) Intellectual capital has become main tool for the companies to gain competitive advantage (Petty and Guthrie 2000), it is estimated that 50-90% of the value of an organization originated from the successfully managing intellectual capital, not from physical assets (Hope 1998). Since Intellectual Capital is made up by three elements named – human, relationship and organizational capital (Wexler, 2002), we should consider necessity of intellectual capital in the company while deciding using outsourcing function for accounting. Accounting data covers some crucial information about relationships (customers, vendors and etc.) of a company, and this information can be decisive within structural (organizational) structure. Moreover, well-educated and trained accounting department (includes financial and managerial accounting) of a company can be an important part of human capital of the company. Previously I mentioned that SMEs lack some necessary resources compared large companies, intellectual capital is a part of such resources, since we should consider size of an organization while making decision regarding outsourcing accounting function.

Above mentioned facts are able us to propose Hypothesis No1 – outsourcing accounting functions is much more appropriate for small and medium size companies, since they lack tangible and intangible resources required to function it and generally it has not got core strategic significance, thus outsourcing their accounting would be a shortcut to bring them competitive advantage.

### **2.1.2. Cost factor**

Cost factor is one of the most extensively researched factors within outsourcing studies. Lacity and Hirschheim (1993) claims that cost reduction is the most necessary motivation to outsource some functions of companies. Cost reduction covers diminishing the cost needed to have relevant office equipment and their technical updates. I have already mentioned this elements within the size factors that using external accountants' services provide economic benefit for small and medium companies (Everaert et al, 2006). In that case SMEs turn some part of their fixed costs to variable costs via paying just for the actual work done outsourced accountants and it brings them much more flexibility.

Outsourcing accounting function is able SMEs to increase efficiency of their core competences and brings competitive advantage over allocating their resources to main activities within the value chain (Shank & Govindajaran, 1992). Management plays an important role to make a decision regarding to make or to buy a required function since it needs to be analyzed accurately whether or not the costs related with both options reduce cost and brings advantage to the company.

Hypothesis No2 – Reducing cost is another main factor affects decision regarding outsourcing.

### **2.1.3. Trust factor**

We can define trust issue on service providing as one part believes to the second part that indicated function need to be implemented by the second will be carried out with true commitment and be acted in a predetermined way (Lee et al., 2008). Zaheer and Venkatraman (1995) considered trust as a sociological factor and mentioned that it is a complementary for economic factors of companies in the management of exchange relationships. Kim et al. (2007) described that trust is one of the key driver influences outsourcing decision.

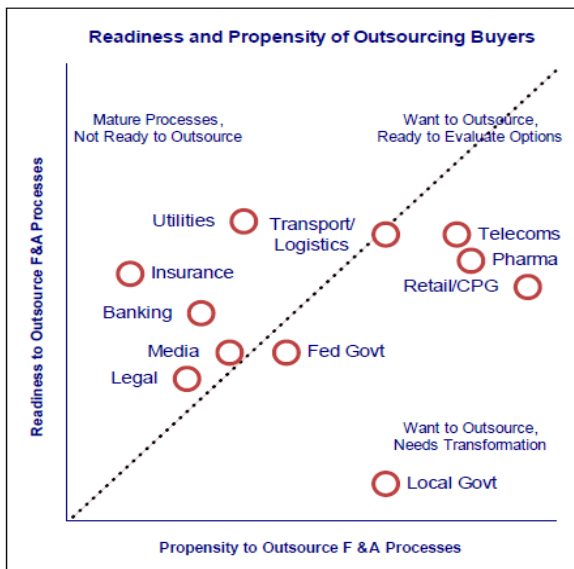
Some authors claim that the relationship between trust issue and outsourcing external service providing should be considered within TCE (Brouthers and Brouthers, 2003; Greenberg et al., 2008; Everaert et al., 2010). Main focus of TCE is efficient governance to decide insourcing or outsourcing. TCE identifies that asset specificity, includes knowledge, language and skills, and trust in professional accountant are the main factors affect outsourcing decision (Everaert et al., 2010). Everaert et al. (2010) suggests that SMEs make their decision regarding outsourcing accounting services according to the elements of the transaction and the interpersonal trust between management of SMEs and manager of the external accountant organization. They found out that since trust issue has a significant effect on decision of SMEs, trust to external service provider is positively related with outsourcing decision of accounting services.

Hypothesis No3 – Reliability of a service provider company, being trusted by potential customers is a determinant issue on decision making process regarding outsourcing.

#### 2.1.4. Industry factor

It is claimed that certain industries are more likely to use outsourcing services on their finance related functions. A survey implemented by Nelson Hall (it is analyzer firm focuses on BPO – Business Process Outsourcing investigation) which sampling 520 organizations, in the fields like pharmaceutical, insurance, legal, retail, transport, consumer-packaged goods, telecommunications and etc. found out that some industries are outsourcing accounting functions than others. Figure 2 illustrates the result of the survey. According to the result of the survey, desire and readiness of the transport/logistics and telecommunications industries to use outsourcing services on accounting related functions are significantly higher than other industries.

This difference is stemmed from focuses of industries on cost savings, different regulation on different fields, and previous experience with BPO. Outsourcing of accounting could be seen as one of the last function within companies to outsource, however industries have previous successful experience outsourcing of business processes have been using accounting outsourcing, it is especially widespread in the telecommunications industry, outsourcing is mature and common notion in this industry (Cervantes, 2009).



**Figure 2. Readiness and desire of different industries to outsource Finance & Accounting Processes (Cervantes, 2009)**

There is an interesting tendency on outsourcing accounting, when rival companies start to use accounting outsourcing services, somewhat it makes them to focus on core competences much more than competitors and it brings them competitive advantage, after that firms not using accounting outsourcing become to seem much more alluring to cope with new disadvantage. Thus, we can say that there is a ripple effect regarding outsourcing within the entire industries (Cervantes, 2009).

Hypothesis No4 – Some industries are more likely to use outsourcing accounting services than others.

### **2.1.5. Risk of outsourcing**

Outsourcing of accounting functions involves risks which can cause the public disclosures of different types of confidential accounting information. Managers should take into consideration related risks regarding decision to hand over accounting function to outsourced supplier.

Bragg defined those risk factors as follows:

1. Changes related circumstances of service providers – financial difficulties of supplier may cause inappropriate handling of shown services. SMEs can minimize this risk by using services of service providers.
2. Failure of service providers – any material failure on accounting information could affect the whole company, and if the service provider did not manager to prepare required reports on time, this delay would affect managerial applications and plans.
3. Loss of sensitive information – it should be considered specially that employees at service providers will have access to confidential information related organization and they can either use this information for personal purposes or spread it out to rival companies.

A survey conducted by the KPMG among Asia-Pacific companies shows that the biggest risks related with outsourcing are the loss of accounting specialization related businesses process and exposure of private information Zarrella and Huckhai (2004).

I think we need to consider Intellectual Capital within risk factor of outsourcing accounting. Accounting data of and organization can be considered as an organizational capital of the company. I think necessity of accounting data is much more important for large companies since it includes much more confidential information compared SMEs. Generally, power of SMEs originated from competences of individuals such as hand skills. Exposure, failure or loss of accounting data would not affect their workflow significantly compared large companies. Since, importance and risk factors of that data are different from company to company, and there is relationship between size and risk perception of the companies regarding making decision outsourcing accounting functions.

Hypothesis No5 – Risk arising from outsourcing accounting function is a crucial factor influences decision of outsourcing accounting functions.

### 2.1.6. Human resource factor

There is a study shows that some governments are using outsourcing to implement some e-services (Ya Ni and Bretschneider, 2007) (Table 1). Main reason was lack of expertized human resources. Since some service providers have high experience and better infrastructure in service fields than public institutions, governments prefer to use outsourcing.

Table 1. Outsourced services at CDB (Xu, 2009)

| Outsourcer             | Supplier                 | Function  |
|------------------------|--------------------------|---|
| China Development Bank | China Telecom            | The maintenance management of communication network infrastructures   |
|                        | Hewlett Packard (China)  | Computer services, antivirus service, server service, 7*24 hours engine room watching service, data monitor platform service for key system, software management of desktop and the construction of anti-junk email system. |
|                        | Digital China            | The development and maintenance of the major operation system   |
|                        | Global Data Solution Ltd | The construction and maintenance of disaster preparedness center (includes inter-city and intra-city)   |



This tendency is the same for private companies, as I mentioned before during definition of previous factors, one reason makes outsourcing better option is companies can utilize their accounting function over contracts with service providers rather than making large investment to attract required tangible and human resources. In addition, the investment is needed to attain human resources might be redirected to improve competence of other human resources, who constitute core competence of the company (McIvor, 2009).

Hypothesis No6 – Lack of experienced human resources on accounting forces companies to outsource their accounting function.

If we line up the offered six hypotheses, we will have the below mentioned list:

Hypothesis No1 – Outsourcing accounting functions is much more appropriate for small and medium size companies.

Hypothesis No2 – Reducing cost is another main factor affects decision regarding outsourcing.

Hypothesis No3 – Reliability of a service provider company, being trusted by potential customers is a determinant issue on decision making process regarding outsourcing.

Hypothesis No4 – Some industries are more likely to use outsourcing accounting services than others.

Hypothesis No5 – Risk arising from outsourcing accounting function is a crucial factor influences decision of outsourcing accounting functions.

Hypothesis No6 – Lack of experienced human resources on accounting forces companies to outsource their accounting function.

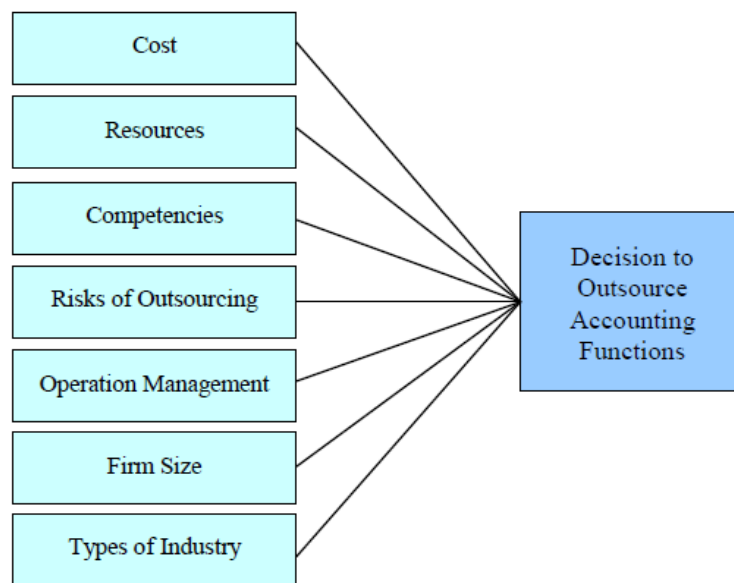
After this point, the investigations in different countries over the studied topic have been analyzed in order to provide better view of the offered hypotheses and role of the above mentioned factors.

## 2.2. Investigation on factors have influence outsourcing decision

### 2.2.1. Study in Malaysia

Figure 3 provides information regarding theoretical framework of the study regarding factors affect decision on accounting outsourcing (Dorasamy et al., 2010).

Malaysian SMEs have been used as a population of the research. 1500 companies have been attended to the study, and systematic sampling method has been used to select the SMEs. Survey was conducted over an online questionnaire. 164 SMEs responded the survey. The factors were measured by a five-point scale with answers from "strongly disagree" to "strongly agree". Descriptive statistics, reliability tests, correlations, and regressions have been included to the analysis process.



**Figure 3. Factors affect decision of accounting outsourcing in Malaysia (Dorasamy et al., 2010)**

The results of the research shows that risk and operations management are accepted as dominant factors compared others in Malaysia regarding to decide outsourcing accounting functions. Authors mentioned that since risk factors were highly considered by respondents the result was different than existing studies on outsourcing.

Authors also mentioned according their study that while company size, costs, competencies, resources and type of industry were significant factors of deciding outsourcing in accounting, they were not found out as effective factors of the accounting outsourcing in Malaysia.

### **2.2.2. Study in Iran**

The study done by Kamyabi (2011) and et al. considered four factors regarding decision on outsourcing accounting functions. They selected asset specificity, trust to external accountant, competitive pressure and corporate strategy as main factors.

Authors selected 1750 manufacturing SMEs as samples randomly, they used a systematic probability method. A questionnaire surveys were sent by email to owners or managers of SMEs. They were asked how extent they are agree or disagree with the effects of factors on a 7-point Likert scale which includes answers from 1 totally disagree to 7 totally agree. Hence, they could not manage to receive enough feedback, data collection was conducted by two stages. 350 questionnaires were received during the first stage. After reminding emails to owners or managers who had not replied to the survey, 420 more feedbacks were collected, total research source reached to 770 respondents. After excluding incomplete answers 658 usable answers were used on determination.

This study found out that TCE predictions and RBV considerations are supported by the outsourcing of accounting functions. Effects of all four factors, asset specificity, trust in accountant, competitive pressures and corporate strategy, were answered positively by majority of respondents.

Analysis indicates that there is high level negatively association between asset specificity of accounting functions and outsourcing of accounting intensity. Authors mention that this finding corroborates previous studies.

Moreover, the study also showed that trust to the external accountant from SMEs managers positively associated with outsourcing decision on accounting functions.

Positive relationship between competition extent and outsourcing of accounting functions is proved as well by that study. Authors noted that this findings contradict with study implemented in Norway

(Gooderham et al., 2004), which found out that pressure of competition is not associated with outsourcing decision on accounting.

Researcher of the study said it was surprise result to determine positive relationship between corporate strategy and outsourcing accounting. And again this result was inconsistent with a previous study by Carey et al., in 2006, which resulted that there is no positive association between the corporate strategy and outsourcing of accounting services.

### **2.2.3. Study in Cameroon**

Study covered four factors related outsourcing decision on accounting functions (Gandja et al., 2013):

- Size of the business
- Educational level
- Type of training
- Financial reporting framework

Last factor considered accounting standards of the OHADA (Organisation pour l'Harmonisation en Afrique du Droit des Affaires). Organization has its name in French, it calls Organization for the Harmonization of Business Law in Africa in English and covers 17 African states include Cameroon.

The data was collected via face-to-face interviews with managers of four companies. Researcher mentions that each interview lasted around 90 minutes. Table 2 provides information about some key elements of the companies.

Authors mentioned that if they were asked to retain only one of those factors, they would prefer the size of the company. They said, after conducting interviews with managers, it became clear that size of the companies has significant influence on a decision regarding to outsource accounting functions. All managers of surveyed organizations were unanimous on that factor. Increasing the size is often followed by the increase on the size of their finance team, and accounting functions.

Table 2. Characters of the studied four companies (Gandja et al., 2013)

| Characteristics                           | Case A                          | Case B                          | Case C                     | Case D                          |
|---|---------------------------------|---------------------------------|----------------------------|---------------------------------|
| <b>1- Enterprise</b>                      |                                 |                                 |                            |                                 |
| Creation date                             | 1974                            | 1971                            | 1996                       | 1963                            |
| Legal status                              | Pub. Ltd                        | Pub. Ltd                        | Pub. Ltd                   | Pub. Ltd                        |
| Nature of activity                        | Car Dealer                      | Trade & distribution            | Insurance broker           | Cement production               |
| Total workforce                           | 247                             | 44                              | 35                         | 600                             |
| Parentage                                 | Subsidiary of CFAO              | Subsidiary of Presstalis        | Parent company             | Subsidiary of Lafarge           |
| Competitive Environment                   | Leader in Cameroon              | Monopoly                        | 10 <sup>th</sup> position  | Monopoly                        |
| Turnover                                  | 46.5 Mds FCFA                   | 30 Mds FCFA                     | 17 Mds FCFA                | 92 M €                          |
| <b>2-Accounting function</b>              |                                 |                                 |                            |                                 |
| Role                                      | Administrative and financial    | Administrative and financial    | Accounting department      | Administrative and accounting   |
| Budget clean                              | Yes                             | Yes                             | Yes                        | Yes                             |
| Workforce                                 | 24                              | 6                               | 5                          | 15                              |
| <b>3- Contingent dimensions</b>           | Yes                             | Yes                             | Yes                        | Yes                             |
| <b>4- Choice of management Activities</b> |                                 |                                 |                            |                                 |
| Internal                                  | Current operations and year-end | Current operations and year-end | General ledger and balance | Current operations and year-end |
| External                                  |                                 | Payroll and certification       | Operations year end        | Certification                   |

Unlike the size of the companies, the managers did not answer unanimously regarding the effect of education level on the outsourcing decision of accounting. Authors informed that managers of C did not agree on the relationship between the education level of managers and decision on outsourcing accounting. However, other three managers agreed with the factor. Authors wrote that this finding enough to confirm the second factor.

While education level was not fully accepted by all four managers, training was considered as a factor influence outsourcing decision by all four managers. Authors write that this finding is supported by study of Nyengué (2006) which confirm that leaders' trainings influences decision related accounting.

Surveyed managers mention that, since OHADA has provided major elements of accounting framework and new system acquires accounting techniques which are no longer simple techniques, thus people in charge of accounting are supposed to be able to answer the requirements. Hence, survey resulted that requirements of authorized organizations affect decisions of outsourcing accounting.

## 2.2.4. Study in Finland

The study has been conducted among four SMEs in the form of face-to-face interviews with managers of the four case firms of various industries which located in two different cities (Zhuang, 2013). He informs that he has asked set of questions related issue, he has classified question into three groups (Table 3).

Table 3. Categories of questions as basis of interviews (Zhuang, 2013)

|  |  |
|--|--|
| 1. The decision making process of FAO.                   | <p>What is the primary reason of the latest FAO?</p> <p>What had been the situation before the latest FAO?</p> <p>Who is the FAO decision initiator?</p> <p>Who is the FAO decision maker?</p> <p>Who else are involved in the decision making process?</p> <p>Why did the decision maker choose the service providers?</p> <p>What are the achievements of the FAO?</p> <p>What expectations or future plans for FAO?</p> |
| 2. Outsourcing operations (which have been outsourced?). | <p>The operations include:</p> <ul style="list-style-type: none"> <li>payroll</li> <li>accounts payable</li> <li>purchase-to-pay/transactional purchasing</li> <li>accounts receivable</li> <li>general accounting</li> <li>management reporting</li> <li>analytics</li> <li>logistics/supply chain management</li> <li>financial planning and analysis</li> <li>direct procurement</li> </ul>                             |
| 3. Technical and management features.                    | <p>Is the FAO system cloud-based?</p> <p>Who will have the access to the system?</p> <p>How does the case firm pay for the service package?</p> <p>Is the FAO system real-time?</p> <p>Can the case firm change the input data?</p> <p>Does the case firm use e-invoice?</p> <p>Is the service provider local or nearby (in the same region)?</p>  |

The interviews were conducted in one hour of each firm. Below mentioned tables show the answers given by respondents during the interviews.

Table 4. The answers of the first category questions (Zhuang, 2013)

| Questions  | A   | B   | C  | D   |
|--|---|---|--|---|
| 1. The primary reason of FAO;                                  | The owner used to do all accounting, but as an entrepreneur, she has to focus on the management issues.                       | Both FAO were results of cost efficiency. The 1 <sup>st</sup> was made after a mistake accounting action.       | Too heavy workload for the financial controller to handle; as a strategy of the modernization. | By FAO, the owner could focus on other business processes.                              |
| 2. What had been the situation before the latest FAO was made; | book-keeping was outsourced, others made by the owner   | book-keeping and payroll outsourced; a big system was in use;   | book-keeping was outsourced;   | book-keeping was outsourced;  |
| 3. Who is the FAO initiator;                                   | Owner   | General Manager and financial controller  | General Manager  | General Manager   |
| 4. Who is the FAO decision maker;                              | Owner   | General Manager   | General Manager  | General Manager   |
| 5. Who else are involved;                                      | Other employees   | Financial controller  | Not known, see the reason below.   | The owner   |
| 6. Why did the decision maker choose the service provider;     | Expertise and reputation of the service provider; capability of system update; price level; consultation services; e-invoices | Compatibility of the system and integrate the old database into the new one, expertise of the service provider; | Not known, because the financial manager had not been in the company during the FAO happened.  | working experiences; recommendations;   |
| 7. What are the achievements of FAO;                           | Workload reduced; owner could now focus on management issues, e-invoices  | All accounting outsourced; system change; old system being integrated; e-invoices                               | All the procurement of the sub-clinics recorded; e-invoices; Financial analysis                | Workload decreased; the new strategy enabled others to make sales after the arrangement |
| 8. What expectation or future plans of FAO                     | Making more FAO, especially payment.  | Integrating old database into new system.   | To combine the data from different clinics into one platform.                                  | With a clear picture of business strategy, no concrete plans.                           |

Table 5. The answers of the second category questions (Zhuang, 2013)

| Accounting operations                       | A | B | C | D | %   |
|---|---|---|---|---|-----|
| Payroll                                     | Y | Y | Y | Y | 100 |
| Purchase-to-pay / transactional purchasing* | N | N | N | N | 0   |
| Accounts receivable**                       | Y | Y | Y | N | 75  |
| General accounting***                       | Y | Y | Y | Y | 100 |
| Management reporting                        | Y | Y | Y | N | 75  |
| Analytics****                               | Y | Y | Y | N | 75  |
| Logistics / supply chain management         | N | Y | Y | N | 50  |
| Financial planning and analysis             | N | N | N | N | 0   |
| Direct procurement*****                     | N | N | N | N | 0   |

Table 6. The answers of the third category questions (Zhuang, 2013)

|   |   |          |  |                                     |                  |
|---|---|----------|--|-------------------------------------|------------------|
| B | The technical and management features                                 | A        | B  | C                                   | D                |
|   | Is the FAO system cloud-based?  | Y        | Y  | Y                                   | N                |
|   | Who will have the access to the system?                               | owner    | Management team; auditors; the other FAO partner | Management team; subsidiary clinics | Management team; |
|   | How does the case firm pay for the service package?                   | Annually | Monthly  | Monthly                             | Monthly          |
|   | Is the FAO system real-time? Can the case firm change the input data? | Y/N      | Y/N  | Y/N                                 | N/N              |
|   | Does the case firm use e-invoices?                                    | Y        | Y  | Y                                   | N                |
|   | Is the service provider local or nearby (in the same region)?         | N        | One of the two partners is local.                | Y                                   | Y                |

Table 7. Aspects of analysis of the answers (Zhuang, 2013)

|          |                  |   |
|----------|------------------|---|
| Analysis | Cultural aspect  | Hofstede's cultural dimensions model        |
|          | Technical aspect | Cloud computing is the evolution of ITO     |
|          | Service aspect   | Vepsalainen's model of service and channels |

Table 4, 5 and 6 includes answer of the question within the first, second and third categories respectively. Table 7 shows aspects have been used to analyze the answers.

Authors writes that the answers confirm that in different industries financial and accounting outsourcing is the main trend of business operations. He mentioned that while he had assumed that broad



usage of social media could make staff much more attended in the deciding to choose accounting outsourcer, it became clear that employees had no effect on issue.

Moreover he found out that the managements prefer more traditional means to decide their outsourcing partners, rather than the internet-based searching tools. For example, the owner of the company-A confirmed that while she is using some blogs where she could easily find and accounting outsourcing server, but she made her decision regarding outsourcing partner after the recommendation of friends.

As regards the three aspects of the analysis, author wrote that within the cultural aspect, Finnish culture requires that “decision making can be achieved through involvement of others”, however he did not observe any enthusiasm from neither the managers – decision maker side nor the implementer – employees. Authors said that employees of the companies did not care much about the relevancy of outsourcing decision of accounting functions, unless it is directly related to their careers.

At the technical aspect, author of the research claims that the emerging of cloud computing has become one of the leading factor to the outsourcing accounting functions. Cloud based online services are proposed as a new form of outsourcing, since the some services have been started to deliver via the internet with usage of cloud-based techniques.

Regarding service aspect, Zhuang mentions that analyzing the outsourcing of accounting within the business aspect allows us to claim outsourcing of accounting is one of the form of service trading. From that aspect we can say that diffusion of IT related function into accounting will make new types of accounting service channels. Some model would add value to the users, while some could destroy the confidentiality of crucial data.

## **2.2.5. Study by the Chartered Institute of Management Accountants**

### **2.2.5.1. Identification of factors and metrics**

Chartered Institute of Management Accountants (CIMA) is the professional accounting associations in the UK and Ireland. Developing of the management accounting as a profession is special emphasis of

CIMA. In fact, it has more than 227,000 members and students in 179 different countries. CIMA is the biggest management accounting organization in the world ([www.cimaglobal.com](http://www.cimaglobal.com)).

The study was implemented by Eric Krell in 2007, and provides comprehensive information about finance and accounting outsourcing (FAO).

The study provides four evaluation means can be used by managers to ensure reliable decision on FAO which overlaps with long-term strategy, plans, goals and capabilities of the company. Those metrics are:

- Identify Strategic Drivers – Distinguishing the organization particular key drivers is fundamental procedure to decide on the outsourcing choice;
- Evaluate the Full Range of Options – all potential outsourcing and offshoring options need to be evaluated carefully;
- Assess Internal Capabilities – Completing the assessment of companies make companies closer to a better decision regarding the issue. Eric Krell claims that this decision is not only about the skills needed to execute accounting, other capabilities have influences over that decision;
- Determine Scope and Logic – Determining the scope and logic is an essential element of building and finalizing the business case for an FAO decision.

Before detailed examination of mentioned evaluations, reviewing of reasons why organizations need to outsource finance and accounting functions. Following factors are aimed to achieve by the companies:

1. Cost reducing;
2. Ensuring professional services;
3. Shortcut to solve labor deficiencies;
4. Shortcut access to contemporary technology;
5. Saving energy,
6. Increasing productivity;
7. Reduce fraud risks due to ineffective in-house control;
8. Concentrating on core values.

Researchers show cost reduction as the main benefit of outsourcing, and it is primary motivation of companies to prefer outsourcing. The survey among North American companies shows that price of offered services is the decisive one among overall financial and non-financial factors to select a FAO services provider company.

Outsourcing companies generally mention their competent accounting team to prefer outsourcing over in-house accounting, they claim it brings value to their clients.

Companies are investing too much effort and money in collecting their receivables and mostly they are facing disappointing results. Thus they would prefer to contract with an external firm to deal with the company's receivable accounts and collecting processes. In that case the decision of outsourcing originates from difficulties of hiring an accountant who can deal with receivable accounts and money collecting simultaneously. Moreover, companies are saving the energy, and concentrate on their core values. Mr. Krell also mentions that companies purposefully prefer a service provider in the U.S.A. due to following reasons – prevent local criticism for transferring job opportunities to foreign countries, keep managing over the outsourcing services and being served in the same time zone, since having time differences with companies' accountants can bring some unexpected drawbacks.

The study shows practical case, in which a company decides to outsource their receivable accounting functions. The paper illustrates how outsourcing decision increases productivity and efficiency within the company. Company name is Open Works, and their CFO has decided to outsource their sales and receivable accounting due to low receivable collecting. The CFO has described the changes in following steps. It took eight months to deliver whole sales and receivable accounting to outsourced service. In the first step, the company reappointed three experienced receivable clerks to new duties where their knowledge and know-how abilities became more useful to build stronger bonds with customers, and improve cash flow in the company. One of the former receivable clerks started to conduct auditing of signed contracts to make certain that Open Works and customers are following the all contractual affairs. The second previous receivable clerks started directly deal with receivable collecting duties together with outsourced company. The CFO stressed that after this reposition collections has significantly improved. At least 45 percent of the current month's credit sales were collected by the ending of each month. After eight months of changes, the mentioned number increased to 60 percent.

The author mentioned that larger companies would consider FAO agreements within larger scope, since they have more comprehensive accounting needs. Eric Krell writes that the before mentioned four evaluations steps have to be taken into consideration as a part of the decision-making process regarding FAO.

#### **2.2.5.2. Identify strategic drivers**

The aim of this step is identification and understanding of the reasons for the companies to outsource their accounting functions. The results are needed to be documented, and compliance of the results to general corporate strategy is need to be clarified. After getting through the three other evaluations steps in the decision-making process, a company becomes able to make a decision either to outsource or hire its accounting functions.

The paper provides some questions which are useful to answer in determination of the FAO lifecycle, from deciding of the issue to finding of the most suitable outsourcing provider company, and monitoring and managing relationship with the selected outsourcing company according a signed agreement:

- Why does a company need to use FAO?
- What are the possible effects of FAO over the company's long-term strategic objectives, goals and plans?
- Outsourcing accounting functions would end up resigning of accounting staff who may be a crucial part of tangible value of a company. Does that comply with long-term strategy and objectives of the company?
- On the other hand deciding on in-house accounting means turning away from alluring opportunities of the FAO? Does that comply with long-term strategy and objectives of the company?

#### **2.2.5.3. Evaluate the full range of options**

Author mentions this metric is more suitable for larger companies. Large companies have three options when to consider on their accounting needs.

1. Continue their in-house accounting
2. Move to shared internal accounting services
3. Using outsourcing services

The second option needs to be clarified. The author offers this option as an integration method from in-house accounting to outsourcing. This option allows the company to keep some advantages of in-house accounting. Shared services describe a notion which is more than a consolidation of similar functions in one center. Shared services might also mean implementing those functions as a business and offering services to the internal customers. Cost, quality and timeliness of shared services are competitive enough with alternatives.

Following questions need to be addressed around the offered metric to make a true decision among above mentioned three options:

- What are the possible advantages and drawbacks of going on with current internal accounting?
- What are the possible benefits and restrictions of rearranging the internal accounting function either to the shared services or outsourcing model?
- What are the pros and cons of turning to outsourcing services?
- Has the company made any investments, improvements or bought any innovative technology and software in order to have much more sufficient accounting functions in the last three years?
- Are there needs for investments, improvements, staffing, technology and software in order to keep accounting functions up-to-date during the next five years?

#### **2.2.5.4. Assess internal capabilities**

The companies that prefer to outsource finance and accounting functions need to assess their internal capabilities in early stages of their decision. After completing the assessment companies can make a better decision regarding the issue. Eric Krell claims that this decision is not only about the skills needed to execute accounting. Other capabilities have influences over that decision, such as the abilities required:

- Managing the transfer of accounting functions to an outsourcing provider

- Monitoring and managing the relationship with the outsourcing company, and assessment of their services.

It means outsourcing services would arise new two needs for a company. Managing the transfer of in-house accounting to outsourcing and the managing day-to-day relationship with the outsourcing accountant. It requires remote control skills.

As regards the questions offered by the study to ask during the evaluation within the third metric are followings:

- Is the company currently able to operate the accounting processes within the internal accounting form?
- What are the possible new competences and staffs can be required to manage the accounting functions in the future?
- Does the company have sufficient expertise and staff to move to alternative internal models (e.g., shared services)?
- Are the company managers or owners capable enough to select an efficient outsourcing provider?
- Are the company managers or owners capable enough to manage the transfer of the internal accounting functions to the outsourcing provider?
- Does the company have required experts to monitor the relationship with outsourcing partner and control their function?

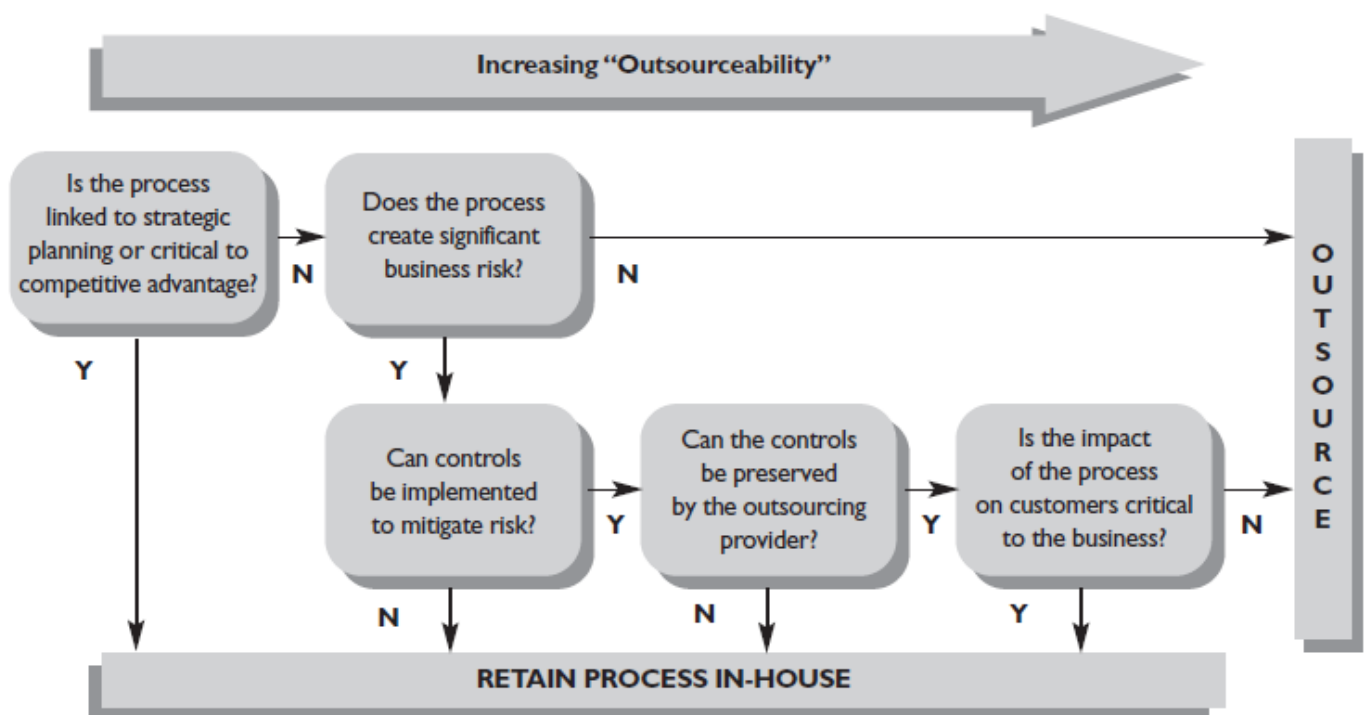
While evaluating the above mentioned questions, responses may arise another questions, practical implementation would generate unexpected deficiencies, as well.

#### **2.2.5.5. Determine scope and logic**

That is the final step within decision-making, which finalizes the case, and identifies which functions can be outsourced. The analysis carried out in the previous decision-making metrics should contribute to the final decision in the last step. The last metric is frequently connected with the next step – the selection of an appropriate accounting outsourcing service provider.

Decision regarding outsourcing accounting functions is frequently showed as a matter of core or non-core distinction. Deciding over the “outsource ability” of a process is more complicated than simply making core vs. noncore allocations. The term of “outsource ability” covers the essence of the result of an evaluation in the decision-making phase. Author mentions that all the previous metrics and questions are designed to assist to the managers and business owners to answer to the next question:

- How appropriate is a process or processes for outsourcing given our organization’s strategy, capabilities and other unique characteristics?



**Figure 4. Decision tree on accounting outsourcing (Krell, 2007)**

The author provides the decision tree showed in Figure 4 as a result of the study:

As a result, the paper shows that according to the mentioned decision tree, a consulting firm would make following decision over mentioned accounting areas:

Outsourced:

- Accounts payable
- Payroll
- Travel & Expense Management
- General Accounting
- Fixed assets accounting

Performed in-house:

- Corporate controllership
- Financial planning & analysis
- Business finance
- Treasury operations
- Tax
- Strategic / key account collections



### **3. RESEARCH METHODOLOGY**

My thesis focuses on the advantages and disadvantages of in-house and outsourcing accounting, and the factors affect decision made by the companies regarding the issue. Qualitative research method has been used in the study as a form of individual in-depth interviews.

“An in-depth interview is an open-ended, discovery-oriented method to obtain detailed information about a topic from a stakeholder. In-depth interviews are a qualitative research method; their goal is to explore in depth a respondent’s point of view, experiences, feelings, and perspectives” (Wallace Foundation). Below mentioned advantages of the in-depth interview method can be mentioned (Babbie, 2013):

1. As in-depth interviews enable you to find out “the real story” from the source, it can uncover valuable insights.
2. Respondents are most likely to open up on a one-on-one basis.
3. As questions can be added or altered in real-time if needed, skilled interviewers are able probe for greater detailed information.
4. Data can be collected faster than other research methods.

#### **3.1. Selection of the interviewees**

Three experienced accountant have been attended for the in-depth interviews in order to be able to collect the required data. Below mentioned criteria gave us true direction to select needed interviewees:

1. At least 5 year finance-related job experience
2. Having adequate knowledge on tax-related accounting issues
3. Having background on the in-house accounting
4. Currently being part of an international outsourcing accounting team
5. Having decision making authority in their companies

The first requirement makes it clear that the respondent has sufficient experience to answer the questions. I would like especially mention the second requirement. I decided on this one after doing the

first interview with a director of an outsourcing-accounting team. He recommended me to take into account tax-related accounting experience, such as tax refunds, VAT refunds issues, while selecting respondents, since tax issues are main factors on outsourcing and offshoring accounting function. The third and fourth criteria are needed to make it sure that the interviewee is able to discuss the issue from both in-house and outsourcing accountant aspects. The fourth requirement is also crucial since being part of an international outsourcing accounting team clearly makes a respondent much more competent to provide data regarding my thesis subject. I decided that employees with decision-making authority have access to almost all data of a company, since they are aware of all details about how their companies are functioning, thus I selected the last criteria to be sure about credibility of collected data.

Each interviewee is described on the Table 8.

Table 8. Interviewees' characteristics

| <b>Characteristics</b>                      | <b>Interviewee A</b> | <b>Interviewee B</b>              | <b>Interviewee C</b> |
|---|----------------------|-----------------------------------|----------------------|
| <b>Role in companies</b>                    | Director             | Assistant Manager and Team Leader | Team Leader          |
| <b>Experience in Finance</b>                | 14 years             | 9 years                           | 7 years              |
| <b>Experience as an in-house accountant</b> | 5                    | 4                                 | 2                    |
| <b>Employees under his/her authority</b>    | 25+                  | 6                                 | 4                    |
| <b>Tax Expert</b>                           | Yes                  | Yes                               | Yes                  |

### 3.2. Data collection

According to Carolyn Boyce and Palena Neale (2006), the process for conducting in-depth interviews follows the same general process as is followed for other research: plan, develop instruments, implementation, analyze data, and disseminate findings.

#### 1. Plan

- Deciding interviewees. As I mentioned earlier three accountants were attended to the data collection step. They are director and two team leaders of an accounting-outsourcing company, which one of them is also working as an assistant manager as it is mentioned on the Table 9.
- Identification of required data. Sufficient data is needed to be able to decide if proposed hypotheses are true or false.

## 2. Develop Instruments

Open-ended questions much more appropriate compared closed-ended (Boyce, 2006), since they have flexible boundaries and make interviewee much more able to express their opinions.

Below mentioned question have been selected and asked to the interviewee during interviews:

- 1) Describe the reasons why some companies prefer outsourcing services over in-house accounting
- 2) Please list some advantages of in-house accounting
- 3) Main factors affect decision making process on outsourcing.
- 4) Which size companies are more likely to use outsourcing function?
- 5) Please describe effects of below factors:
  - cost
  - trust (reliability)
  - industry
  - risk of outsourcing
  - Human Resources
  - financial reporting frameworks

I think, it should be especially mentioned that all respondents of my study are currently working as a member of accounting outsourcing services companies, and they have work experience as a traditional in-house accountant. I had taken into account those facts while deciding on the questions. I think above mentioned questions are appropriate to collect the required data. Moreover the facts mentioned regarding interviewees' backgrounds make my research findings much more reliable, since they have over 5-year experience, and they all currently have at least 100 customers in their portfolios, whose are being served accounting services.

Interviewees had been informed that audiotape will be used during the interviews, since taking written notes would cause to miss some crucial details of answers. Questions had been sent to them at least one day in advance. I informed them about the aim of my research, why they have been chosen. Moreover, I had sent them the prepared part of the thesis till the interview date.

3. Implementation

I set up individual interviews with each interviewee. Each interview took around 15 minutes.

4. Analyze Data

As I mentioned before I had recorded all interviews, I listened them in order to review and transcribed key data in order to be able to conclude the findings of the research.

#### 4. RESEARCH FINDINGS OVER THE FACTORS AND DISCUSSION

As I stressed before, my interviewees are outsourcing services providers. That is the key and special side of my research. Most related research works I reviewed based on interviews or questionnaires with directors of companies from different industries over their approaches outsourcing their accounting needs. I strongly believe that these kind of interviews are less likely to provide solid data on the studied issue. Authorized employees of the outsourcing-service-provider companies are much more suitable to be attended to the studies regarding making a decision over outsourcing and the factors affect this process. Hence I strongly believe findings of my thesis work are reliable, and reflects the truth over the studied issue.

Table 9, provides comparative view of the answers given by the interviewees during the in-depth interviews.

Table 9. Comparative view of the answer to the given questions

| Questions  | Interviewee A  | Interviewee B  | Interviewee C  |
|--|--|--|--|
| <b>1. Describe the reasons why some companies prefer outsourcing services over in-house accounting</b> | <p>1. Hiring a full-time accountant would cost quite high.</p> <p>2. Outsourcing the accounting functions is a cheaper option.</p> <p>3. Demand for experienced accountants is higher than supply.</p> <p>4. Most companies do not need 40-hour per week in-house accounting services.</p> | <p>1. High cost of hiring an internal accountant is the main factor.</p> <p>2. Experiences of outsourcing companies with their always-available services.</p> <p>3. Most companies have roughly 20-hour per month accounting needs.</p> <p>4. Saving time of hiring training an accountant and waiting till he/she gets used to the business.</p> <p>5. Outsourcing companies are able to meet all kind of accounting needs of</p> | <p>1. Workload is the main factor.</p> <p>2. Outsourcing provide companies with more professional accounting services.</p> |

|   |   |   |   |
|---|---|---|---|
|   |   | customers from different industries.  |   |
| <b>2. Please list some advantages of in-house accounting</b>                | <p>1. In-house accountant would have better understanding over the business.</p> <p>2. They provide better communication link with all stakeholders.</p> <p>3. In-house accountants are more likely to meet deadlines – time constraints.</p> | <p>1. Communication is the only considerable advantage of having internal accounting employee.</p>  | <p>1. Daily face-to-face communication is the main advantage.</p> <p>2. Confidentiality is higher.</p>  |
| <b>3. Main factors affect decision making process on outsourcing</b>        | <p>1. Pricing.</p> <p>2. Size of the companies.</p> <p>3. Reputation of outsourcing services provider companies.</p> <p>4. Expertise and specialization of outsourcing services provider companies.</p>                                       | <p>1. Cost saving</p> <p>2. Experience advantage of outsourcing companies</p> <p>3. Tax legislations (in case of offshoring or having branches in more than one countries)</p> <p>4. Startups and solo traders mostly have little or no clue how to handle accounting, since they are tend to outsource their accounting needs.</p> | <p>1. Cost</p> <p>2. Reliability</p> <p>3. Some industries require special expertise in accountancy, small companies or startups in those sector would not be able to afford to hire a competent accountant they need.</p> <p>4. Outsourcing companies are ready to answer all kind of accounting needs of the companies.</p> |
| <b>4. Which size companies are more likely to use outsourcing function?</b> | <p>1. Large companies are less likely to outsource their accounting functions.</p> <p>2. Small companies, holding companies –</p>   | <p>1. Startups.</p> <p>2. Solo Traders.</p> <p>3. Small companies.</p> <p>4. Large even medium-size companies generally</p>   | <p>1. Small companies.</p> <p>2. Large companies would prefer in-house accounting, unless they have special accounting needs which their in-</p>  |

|   |  |  |   |
|---|--|--|---|
|   | which have subsidiaries in different countries, solo traders are more likely to use outsourcing accounting services.   | prefer having in-house accounting department.  | house accountants are not able to meet.   |
| <b>5. Please describe effects of below factors:</b><br><b>5.1. Cost</b> | Clients give a lot of importance to this issue, hence it is a very important factor.   | That is the main factor is put emphasis on by the customers.   | Outsourcing account function would cost the companies less than having in-house accountants.                    |
| <b>5.2. Trust (reliability)</b>   | In professional environment, if clients do not trust you, they will never entrust their functions to you.  | That is another key factor, hence we are regularly meeting with our clients or their representatives. In case outsourcing companies providing domiciliation, managerial, fiduciary and etc. services apart from bookkeeping, there should be mutual trust. | Accounting data is highly confidential, companies would not commend to unreliable outsourcing companies.        |
| <b>5.3. Industry</b>  | Generally countries have regulations regarding outsourcing service provider companies, and companies need to obtain some licenses from particular authorities for providing accounting services for certain industries. Moreover, outsourcing companies can refuse | Some industries are more likely to outsource their accounting functions. There are some industries with high risk which most probably would never outsource their accounting needs. Outsourcing companies also tend to stay away from some industries.     | Different industries have different accounting needs, thus they would have different approaches to outsourcing. |

|  |   |   |  |
|--|---|---|--|
|  | providing services for some industries – such as adult industries, weapon manufacturers.  |   |  |
| <b>5.4. Risk of outsourcing</b>            | Accountants need time to get used to clients' business. Within this period, there is a risk of misunderstanding and misleading the transactions.<br><br>As an advantage, outsourcing accounting functions would decrease risk of accounting fraud within the company. | Risk of outsourcing accounting function is not risky than having in-house accounting.   | You could be much more able to monitor in-house accountants, thus outsourcing accounting function is more risky.                                       |
| <b>5.5. Human resources</b>                | In the EU, supply of accountant do not meet with demand.  | There is a shortage of qualified accountants.   | Especially certain industries suffer from lack of experienced accountants.   |
| <b>5.6. Financial reporting frameworks</b> | In-house accountants are less likely to follow the changes of the standards.<br><br>Outsourcing companies are keeping their knowledge up-to-date.   | Apart from offshoring or having a branch in another country, this factor does not have an effect. Most of the time, clients (managers who decide on outsourcing or hiring) do not aware about the financial reporting frameworks. | Despite of fact that each country has its own financial laws, accounting frameworks are in harmony. Thus I do not think this factor have a major role. |

Interviewee A and B mentioned cost as a major factor, however C stressed relatively little workload of small some companies as a major reason of preferring outsourcing over in-house accounting. Interviewee



A and B also mentioned workload they said most companies do not need 40-hour per week accounting functions.

After mentioned answers, I can show accounting workload as another main factor for the decision-making over the outsourcing accounting functions. However, I would say there is a relationship between those factors, as companies have less accounting workload, it would be waste of resources to hire a full-time accountant, since they are doing cost saving and prefer outsourcing their accounting functions. All answers directly or indirectly confirm effect of the cost issue, since the H2 is verified.

As regards other answers given by interviewees to the first question, A mentioned that there is a lack of accountants, hence most companies even do not have an option to hire accountants, and they need to outsource their accounting needs. B said outsourcing companies offer always-available professional accounting services and are able to respond all accounting needs, while having in-house competent accountants requires a long period, from hiring to training, till the hired accountant will adapt to the work and transactions. C also mentioned that outsourcing companies provide more qualified services.

All answers agreed on better communication links of in-house accounting. They all said they are communicating with customers via skype or emails, and it sometimes lead to misunderstanding or time-sink. However, having in-house accountant would provide stakeholders with face-face communications and would prevent any loss of time due to different reasons.

Furthermore, interviewee A, who is director of an outsourcing accounting company mentioned that in-house accountant would have better understanding about the transactions run by the companies, he/she also stressed that in-house accountants are more likely to get the works done within time constraints. Respondent C said confidentiality be maintained highly within in-house accounting.

Cost, size of the companies, expertise of outsourcing companies are agreed by all respondents as the main factors. Size factor was explained by B and C with different ways. B said that shareholders of small companies and solo traders have almost no understandings regarding accounting issues, since they need to outsource accounting function, he/she said since those kind of companies have no clue about accounting, he/she meant they do not know even which kind of accounting needs they have, hence they almost do not have an option to hire an accountant. Interviewee C specially mentioned specialization issues, and said that some industries involve special accounting requirements, which small companies have no chance to afford to hire an accountant with these abilities.

Moreover, reputations of service provider companies, tax legislation in different countries and reliability of an outsourcing company mentioned as main factors by interviewee A, B and C respectively. B said that branches of international companies constitute considerable part their customers. Parent companies prefer to use outsourcing services in overseas branches rather than hiring an accountant in each branch.

All respondents referred that small companies are more likely to use outsourcing accounting services due to some direct and indirect reasons. Interviewee A particularly mentioned subsidiary companies. C said that sometimes even large companies prefer outsourcing some special accounting functions due to lack of competences of their in-house accountants. They all especially mentioned large companies are less likely to outsource their accounting needs, and B stressed that even middle-sized companies would prefer in-house accounting. Those answers partly confirm the H1.

All answers mention necessity of the cost issue. They said outsourcing cut cost of running business for costumers, which again confirms the H2.

All interviewees mentioned that reliability is another key issue, respondent A said without provision of this factor, it is impossible to sign an agreement with any customers. B named some conditions and informed that when outsourcing company providing some managerial and registration services beside of bookkeeping, trust should be mutual. C said it is a key factor due to confidential characteristics of accounting data which almost cover all transactions of the companies. Hence it can be stated that the H3 verified.

All answers verified that industry is one of the main factor on the studied issue. However, each of them approached differently to the question. A answered that there are some regulations regarding the issue, and service provider companies need some licenses to be able to offer accounting services to different industries. He/she also mentioned that sometimes outsourcing companies have their own regulation and they refuse to service certain industries due to business ethics. B mentioned connection of this factor with risk factors and said some industries contain high risk, such as gold and diamond industry, thus they would never outsource their functions. C confirmed that that is the key factor, and he said each industry would have different approaches to outsourcing their accounting functions. Those answers absolutely validate the H4.

None of my respondents mentioned risk-related factors as major ones. B said in-house accounting is not less risky than outsourcing accounting. A approached to the question from the both sides, he/she answered that there can be risk due to misunderstanding and misleading till the outsourced accountants get used to the business, however he/she also said outsourcing would decrease risk of fraud within the company, he/she said in-house accountants can collude with other sections within the company and misuse resources, he gave me two fraud examples, from hotel and construction industries, which in-house accountants were stealing companies resources together with sales managers. Only interviewee C said in-house accounting has an advantage over that issue, since it is more able to be monitored by managers. Thus, I can stat that the H5 is partly denied by my research.

As it seems clearly from the answers, all interviewees mentioned lack of experienced accountants, and they mentioned that factor within answering other questions as well. Responded A specially mentioned this factor when he answered the first question regarding key factors affect decision making by companies over the studied issue. Interviewee C discussed the question on basis of accounting needs of different industries, and he/she said that factor especially affects curtain industries such as gaming, shipping, yachting and etc. which have special accounting needs and labor market is not able to answer their demands, thus hiring competent accountants who are able to answer those needs would cost them a lot. Those answers make me able to indicate that the H6 is another major factor affect the studied issue.

I had also asked them role of legislations of different countries over the suited issue. Only A said this factor has some role during decision making process regarding outsourcing accounting functions. B and C said it is not a major factor. B described his answer from an aspect that mostly small companies are using outsourcing functions and their managers (shareholders) are not aware even regarding the framework differences in different countries. C spoke about variations of frameworks, however he/she said this factor does not have such a role need to be especially mentioned. Those answers make it clear that framework differences do not have a role on outsourcing accounting functions.

Hypothesis No1 – Outsourcing accounting functions is much more appropriate for small and medium size companies, was partially verified, participants of in-depth interviews mentioned that main users of outsourcing accounting services are small companies.

Hypothesis No2 – Reducing cost is another main factor affects decision regarding outsourcing, was verified, the study made it clear that most users of outsourcing services do not need 40-hour per week accounting services, thus they prefer outsourcing their accounting functions.

Hypothesis No3 – Reliability of a service provider company, being trusted by potential customers is a determinant issue on decision making process regarding outsourcing, was verified. Outsourcing companies should be reliable, since companies commend their confidential data to them.

Hypothesis No4 – Some industries are more likely to use outsourcing accounting services than others, was verified. Interviewees approved this factor either answering direct question regarding the factor.

Hypothesis No5 – Risk arising from outsourcing accounting function is a crucial factor has an influence decision of outsourcing accounting functions, was only factor denied by the answers of the interviewees. Only respondent C claimed that in-house accounting has an advantage on this issue. However, he/she did not mentioned this factor as a crucial one on decision making process regarding whether hiring an accountant or using outsourcing services. Hence I can state that this hypothesis is partly denied by my research.

Hypothesis No6 – Lack of experienced human resources on accounting forces companies to outsource their accounting function. All interviewees verified this factor, even interviewee A specially named this factor within first questions regarding key factors. Interviewee C especially named some industries which suffered lack of competent accountants. Thereby, it need to be stated that this hypothesis is verified by the study.

Overall, H2, H3, H4, H6 were verified, H1 partly verified, H5 partly denied after analyzing the given answers during in-depth interviews.

My study has revealed that below mentioned factors are main elements within decision-making process regarding outsourcing accounting function:

1. Small companies are more likely to outsource their accounting functions, since they do not need 40-hour peer week in-house accounting services. Two respondent said that small companies do not even part-time accountants, and when they hire an accountant (part-time or full-time), it is expected to see their accountants are assigned to do some works they are not supposed to do by their employers, since their accounting-related works do not fulfill their work hours. Generally small

companies have simple or less-complicated accounting tasks, which do not require high experience to do. This is another reason experienced accountants refuse to work in small companies even if they would be paid same amount as in large companies, since they cannot use their knowledge and improve themselves in small companies. Hence small companies need either to hire an inexperienced, newly graduated accountants or to outsource their accounting functions. As interviewee C said some industries such as gaming, shipping, yachting and etc., have relatedly more complicated accounting tasks regardless size of the companies. In that case those companies have only one smart option for getting their accounting tasks done – using more professional and cheaper outsourcing accounting functions.

2. Cost is the main factor affects decision making regarding outsourcing accounting function. This is a fact that all named factors within the study are related with one-another, and it is hard to claim which factor is the starting point of the studied issue, but if I am asked to name one factor as a major one, I would definitely say cost factor. I would say cost saving is the starting point for the notion of “outsourcing”, and all other outsourcing-related factors directly or indirectly are associated to the cost factor. All respondents named cost as the first factor while answering the third question - main factors affect decision making process on outsourcing. The interview with the respondent B lasted around 22 minutes, approximately 6 minutes he/she only spoke about role of the cost on the their industry (outsourcing industry). He/she mentioned that salary of a fully qualified accountant is at least 25,000 Euros in the EU, however outsourcing companies would do the same job with less than a part-time accountant fee.
3. Reliability was another key issue mentioned by the interviews by the respondents. As respondent A said, it is impossible to sign a single agreement without provision of this factor. Interviewee B said trust should be mutual during outsourcing, since accounting does not only cover bookkeeping and some services contain risk for service provider companies as well. C mentioned confidentiality issues and said accounting data is confidential data, thus customers (companies) would only rely on to trustworthy companies (accounting service provider companies).
4. The study proved that different industries might have different approaches to accounting outsourcing services. Interviewee A mentioned relationship of that issue with the regulations, and said in some countries outsourcing companies need to be provided with some licenses to be able to provide outsourcing services to particular industries. C showed an overall approach to the answer and said since each industry might have different accounting needs, they would have different

decisions regarding using outsourcing services. B said some industries contain high risk and they would not outsource their accounting functions.

5. My study also showed that outsourcing accounting functions is not more risky than in-house accounting that is not a main factor affects decision making over the issue. Respondent A claimed outsourcing accounting would even decrease risk (fraud risk) within a company, and he/she gave two practical example from his/her personal experience. B definitely disclaimed this factor, and he/she said companies need to trust their accountants regardless they using outsourcing or in-house services. He/she said most probably there were same concerns regarding traditional accountants when “accounting” started to appear as a specialization. He/she said accounting data is highly confidential data, and it is always risky to share this data with someone, but outsourcing accounting function would not increase the mentioned risk, since accountants in outsourcing companies have responsibility to clients (companies) and their own companies (outsourcing companies). I think there is a relationship answers given by A and B. The answer of B explains the answers of A from another aspect, since accountants in outsourcing companies would feel much more responsible, it would decrease risk of fraud. As I mentioned before respondent C mentioned monitoring factor and said outsourcing would be more risky than in-house accounting. There would be two reasons to disagree with C’s answer. The first reason is the approach showed by B to the same question, the second reason is – all interviewed agreed that small companies are more likely to outsource accounting functions, and respondent B mentioned that managers of have almost no idea regarding accounting issues, and that is a reason they outsource accounting needs. Since, small companies are main users of outsourcing services and their managers (in most cases the shareholders of the companies) have no clue about the accounting, they are not able to monitor accounting transactions properly, thus I personally think it would be true to claim outsourcing decrease monitoring chance of the companies, on the contrary as A and B mentioned outsourcing would also provide them with monitoring over their confidential accounting data, since accountants in outsourcing companies are responsible to their managers who are competent and experienced finance clerks and able to recognize fraud within the running transactions.
6. The study revealed that there is lack of competent accountants in the labor market, and that is another main factor force small companies to outsource their accounting functions. As I mentioned before all factors are related with one another, I would say there is a strong relationship between human resources and industry factors. Respondents mentioned lack of experienced accountant

factor while answering the question regarding industries and industry element for human resource factor. There is overall shortage of competent and experienced accountants and it specially affects some industries which have special accounting needs such as gaming.

7. Study also revealed that accounting workload of companies can be taken as a separate factor influences outsourcing decision. All respondents directly or indirectly mentioned this element. Interviewee C started to answer the first question with this factor, he/she explained effects of cost over this element.

All in all, the study has revealed that small companies, startups, solo traders are more likely to outsource accounting their functions in order to decrease the cost of their operation. Moreover, companies would use only outsourcing services of reliable companies, since accounting data is highly confidential and should not be entrusted to external sources without being provided with appropriate securities. My thesis work also showed that approaches to services of outsourcing companies can be different in different industries, since they might have different accounting needs, and their operations might include specific risks. Furthermore, it was illustrated that outsourcing accounting functions is not more risky than in-house accounting, even it would decrease fraud risk within the company in some extent, since in-house accountants would have chance to collude with other employees in their companies, if proper internal control has not been provided, while accountants in outsourcing companies have responsibilities to their managers who are experts on accounting and able to provide needed internal control. And lack of competent accountants was another finding of the thesis study. Lack of competent human resources in accounting was another finding. Labor market of the EU has shortage of qualified accountants, and as there are some industries with special and much more complicated accounting needs, this drawback force those industries to outsource their accounting needs in order to have professional accountants.

I personally think the risk factor needs to be clarified and studied with broader accounting group. Interviewee C emphasized superiority of in-house accounting over that factor, and he/she described it monitoring advantage of managers in in-house accounting scenario. Risk arises due to outsourcing accounting services is described as a risk within adaptation period of accountants in outsourcing company by respondent A, however the same period needs to be got through by in-house accountants, since as I mentioned before small companies are main users of outsourcing services, and due to cost, less workload and lack of experienced accountants small companies would be able to hire almost only new graduated or unexperienced accountants. I think this factor needs to be studied with companies' managers and

shareholders, since they are aware of details of their businesses and are much more able to understand and recognize a risk can be risen within their operations.

Influences of workload needs to be specially mentioned as a finding of my thesis study. This factor is being overlooked by the researches, and needs to be evaluated within the investigations regarding outsourcing.

Strong communication link was mentioned as a major advantage of the in-house accounting by all interviewees. Accountants in outsourcing companies are communicating with the clients via skype chats or emails. Especially in case of branches of international companies or offshoring the company address, there can be time difference between countries of company owners and country of their outsourcing companies. It makes the communication drawback of outsourcing services much more complicated. Respondent B mentioned that outsourcing companies are aware about necessity of strong communication links, thus accountants of outsourcing companies need to travel at least one time in a year to meet with their main clients, and clients are also allowed to visit their accountants regularly to have face-to-face discussion over their accounting needs.

As I mentioned before, I strongly believe reliability of the findings of the study. First of all, all respondents are qualified and experienced accountants, and they have authorization to access to the database in their companies which makes them much more able to have a holistic view of the studied subject and show a true approach to the given questions. They also have backgrounds as in-house accountants and this element makes their answers much more reliable and objective.

As regards limitation of the research, I managed to do interviews with only three accountants, and this is the main drawback of my thesis work. Interviewing with at least 10 experienced accountants, who are in conformity with the given five criteria, would make me able to discuss around the topic of outsourcing much more successfully. Almost all research over the topic have been done over the questionnaires with managers of the companies and questions regarding outsourcing different kind of accounting needs such as sales, purchases, payroll and etc., I can say it is the second main limitation. I would be able to take some ideas about the questions or criteria, and benchmark findings of my thesis, if there were studies with outsourcing companies.

Tax legislation and accounting standards are getting much more complicated day-by-day. Number of startups and young entrepreneurs are increasing in all countries and they have become to constitute a



considerable part of the economies. Thus, I would say outsourcing of accounting functions will be much more widespread in near future. On the other hand, studies regarding end of globalization are increasing significantly in recent years, I think this trend will have some effects on outsourcing companies, as well, since important part of customers of outsourcing companies are branches of international companies. Further, we cannot ignore influences of Big Data on accounting needs of companies.

Moreover, accounting outsourcing companies in “tax heavens” such as Switzerland, Cyprus, Malta, Gibraltar, Luxembourg and etc. should be specially studied. Enormous number of outsourcing companies are running their businesses in those countries and offering accounting services. Companies are offshoring their businesses to those countries and using outsourcing accounting services regardless size, industry, cost and other factors, since they are not able to find in-house accountants in their local countries who are aware about the legislations in mentioned countries, in that case limited human resources becomes the only factor which affects the decision.

Unfortunately I did not find comprehensive studies over the relationship between above mentioned elements and outsourcing accounting. Studies over those elements would provide much more holistic view over the subject and reveal new factors.

## **5. CONCLUSION AND RECOMMENDATIONS**

The aim of the thesis was analyzing advantages and disadvantages of the outsourcing accounting, and determining the main factors influence decision making whether outsourcing accounting functions or hiring in-house accountants. Evaluating the factors according their effects over the studied subject, and providing characteristics of the companies which are much more likely to outsource their accounting functions, in other word, in which cases or for what type of companies, it is more feasible to use outsourcing accounting services.

First of all, I provided general information regarding advantages and drawbacks of in-house and outsourcing accountings, and I gave reasons for preferring outsourcing or in-house accounting services. I mentioned six necessary factors – size of a company, cost saving, trust (reliability), industry, risk of outsourcing and competent human resources in accounting, which are emphasized by most articles as main elements of the studied issue, and I had found four researches in four totally different countries – Malaysia, Iran, Cameroon and Finland, in order to provide much clearer view of the subject.

I used in-depth interview method to collect appropriate data to draw a conclusion regarding the study. I had decided 5 criteria to select interviewees, which provided security on findings of the thesis study. Key sides of those criteria were – respondents needed to have experience as both in-house and outsourcing accountants, and they were supposed to be an authorized one in their companies. Three competent, experienced and qualified accountants were attended to the interviews. Each interviews took around 15-20 minutes, and all interviews were being implemented individually.

As I mentioned before the main superiority of my study is the interviews with authorized members of accounting outsourcing companies. Most of the researches over the subject have been studied over the questionnaires with SMEs' managers, and questions regarding their approaches to outsourcing different type of accounting needs. This kind of study is less likely to provide reliable findings, since most of managers or owners of small or middle size companies do not even have proper information about how accounting system works and what is the key side of their accounting needs.

As regards findings of my study, it has showed that small size of companies are main users of outsourcing accounting services, cost saving is the main factor on decision making process regarding outsourcing, and since small companies do not have heavy accounting workload they do not need and they

mostly are not able to afford to hire 40-hour per week in-house accountants. Moreover, study revealed that as different industries have various kind of accounting needs, all factors over the issue depend on the industries of the companies, and in all cases outsourcing companies need to be relied by their clients, without gratifying this factor it is almost meaningless to speak over other factors, since accounting data is highly confidential and can be easily abused. Furthermore, the shortage of qualified accounting clerks was determined as another main factor force some companies in particular industries to outsource their accounting services in order to be provided with professional accounting services.

Stronger communication tools of in-house accounting was showed as a major advantage of hiring internal accountants. Interviewees provide information that outsourcing accountants are communicating with clients via skype calls and emails. However, internal accountants are always able to be reached and providing face-to-face communication, which can be determined element on decision making regarding the studied issue.

Two interviewees denied arising risk due to outsourcing as a major factor, and claimed outsourcing even providing an advantage over risk issue, since it might prevent fraud within the company. I would like to offer deeper examination of this issue within a separate topic – risk factors within outsourcing services. This factor need to be examined over the practical cases and interviews with managers (or owners) and authorized persons in accounting outsourcing companies.

As I mentioned before I think outsourcing were arisen as an advanced form of globalization process. Recently enormous amount of studies are being conducted regarding ending of globalization process. If there is a relationship between outsourcing and globalization, in which extent shrinking globalization process would affect the operation of outsourcing companies?

Furthermore, studies concern effects of big data on accounting are increasing significantly, some authors even claimed that accounting would disappear as a profession soon. Unfortunately, I did not find appropriate studies on possible negative or positive effects of the Big Data on the outsourcing accounting.

As it is mentioned before, there are a large number of accounting outsourcing companies in countries which are recognized as “tax heavens”. They are offering offshoring and outsourcing services to companies all over the world, companies are transferring their legal address and operating their businesses under a holding company opened in those countries. Since they do not aware of accounting legislation of those countries, they need to outsource their accounting services to the outsourcing companies in those countries.

In that case decision regarding outsourcing is not affected by any factors mentioned within my or other typical studies. Outsourcing in this scenario need to be studied, as well.

I would like to finish my thesis with this recommendation – a comprehensive study need to be carried out with a group in order to reveal more detailed elements of outsourcing accounting. Almost all studies, include mine, are being carried with interviews 3-4 related people. As I mentioned before the main advantage of my study is the interviews which are being done with authorized outsourcing team members. However, as I mentioned, there are some elements related the studied subject need to be investigated with managers or owners of businesses. Thus I offer a group study over the outsourcing accounting which involves comprehensive interviews with at least five authorized member of outsourcing companies and five company owners or managers. It would be more appropriate if this study is carried out to the specific industries. Elements of industries are different, hence factors affect decision regarding outsourcing accounting would be various in different industries.

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