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Advantages & impacts of outsourcing accounting to accounting firms

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Abstract

Outsourcing accounting functions to accounting firms has become a prevalent practice among businesses seeking to streamline their financial processes and focus on core competencies. This study explores the advantages and impacts of outsourcing accounting to accounting firms, providing insights into the benefits and considerations associated with this strategic decision.

The findings reveal that outsourcing accounting to accounting firms offers several advantages. Businesses can realize cost savings by avoiding investments in accounting software, infrastructure, and hiring and training accounting staff. Access to specialized expertise allows organizations to tap into the knowledge and experience of accounting professionals, ensuring accurate financial reporting and compliance with accounting standards and regulations. Outsourcing also improves efficiency by leveraging the efficiencies and economies of scale achieved by accounting firms.

The impacts of outsourcing accounting to accounting firms extend beyond operational efficiency. It enhances financial reporting quality, as accounting firms possess the necessary skills and resources to prepare accurate financial statements and provide insights into financial performance. The availability of timely and reliable financial information improves strategic decision-making, enabling businesses to allocate resources effectively, identify growth opportunities, and manage risks.

However, outsourcing accounting to accounting firms also poses considerations and potential challenges. Businesses must carefully select and establish effective communication channels with their outsourcing partners. Data security, confidentiality, and potential cultural differences require proactive measures to ensure the protection of sensitive financial information and maintain a strong working relationship.

Keywords: Accounting, accounting firms, Advantages & impacts

Introduction

Outsourcing accounting functions to accounting firms has gained popularity among businesses as a strategic approach to manage their financial processes effectively. This practice involves delegating accounting tasks and responsibilities to specialized external service providers rather than handling them in-house. This study examines the advantages and impacts of outsourcing accounting to accounting firms, shedding light on the reasons behind this strategic decision and the resulting effects on organizations.

The accounting function is critical for businesses as it involves recording financial transactions, preparing financial statements, managing budgets, ensuring regulatory compliance, and providing valuable insights for decision-making. However, managing accounting functions in-house can be resource-intensive and divert attention away from core business operations. By outsourcing these tasks to accounting firms, businesses can benefit from specialized expertise, cost efficiencies, improved accuracy, and enhanced financial reporting. (Mikko, V., & Juntunen, J, 2018) ^[1].

The advantages of outsourcing accounting to accounting firms are multifaceted. Firstly, it enables cost savings by eliminating the need to hire and train in-house accounting staff, invest in accounting software and technology, and maintain dedicated accounting departments. Accounting firms leverage economies of scale, allowing businesses to access professional services at a fraction of the cost compared to maintaining an internal accounting team.

Outsourcing accounting functions provides access to specialized expertise. Accounting firms

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employ professionals with in-depth knowledge of accounting principles, regulations, and industry best practices. By tapping into this expertise, businesses can ensure accurate financial reporting, compliance with accounting standards, and access valuable insights for strategic decision-making.

Outsourcing accounting improves operational efficiency. Accounting firms have streamlined processes, advanced software, and established workflows that enhance efficiency and accuracy. Outsourcing allows businesses to leverage these efficiencies, resulting in timely and reliable financial information, streamlined workflows, and reduced administrative burdens.

The impacts of outsourcing accounting to accounting firms go beyond operational efficiencies. Outsourcing enhances financial reporting quality by ensuring adherence to accounting standards and providing expert analysis. Accurate and timely financial information enables businesses to make informed decisions, allocate resources effectively, and identify areas for improvement.

However, outsourcing accounting functions to accounting firms also poses considerations and challenges. Effective communication, clear expectations, and robust data security measures are essential for successful outsourcing relationships. Businesses need to establish strong partnerships and maintain open lines of communication with their outsourcing partners to address any concerns promptly.

Meaning of Outsourcing

Outsourcing refers to the practice of contracting and delegating specific business functions, processes, or tasks to external third-party service providers. It involves transferring the responsibility and management of these activities to external entities rather than handling them in-house. (Burko, K, 2022) ^[1].

Outsourcing can encompass various functions, including but not limited to information technology (IT), human resources (HR), customer support, accounting, manufacturing, and logistics. Organizations often outsource non-core activities to focus on their core competencies and strategic objectives, while leveraging the expertise and resources of external service providers.

Outsourcing can take different forms, such as offshoring and nearshoring. Offshoring involves outsourcing to service providers located in distant countries, often characterized by cost advantages, while nearshoring refers to outsourcing to service providers in nearby or neighboring countries.



The primary motivations for outsourcing include cost reduction, accessing specialized expertise or technologies, improving operational efficiency, and enhancing flexibility and scalability. By outsourcing, organizations can benefit from the economies of scale, external knowledge, and established processes of service providers, allowing them to streamline operations, gain competitive advantages, and

focus on core business functions.

Defining Accounting outsourcing

Accounting outsourcing refers to the practice of delegating specific accounting functions, processes, or tasks to external service providers. Instead of handling accounting activities in-house, companies opt to outsource these functions to specialized accounting firms or service providers. The scope of accounting outsourcing can vary, ranging from basic bookkeeping and payroll processing to more complex financial reporting, tax compliance, and auditing services.

By outsourcing accounting functions, companies can leverage the expertise, technology, and resources of external accounting professionals or firms. This enables organizations to streamline their financial processes, reduce costs, improve accuracy, and focus on their core business activities. Accounting outsourcing may involve transferring tasks such as recording financial transactions, preparing financial statements, managing accounts payable and receivable, conducting tax planning and compliance, and providing financial analysis and reporting. (Egiyi, M. A., 2020) ^[6].

The decision to outsource accounting activities is driven by factors such as cost savings, access to specialized accounting knowledge and skills, increased efficiency, and the need for strategic focus. Outsourcing allows companies to tap into external expertise, leverage advanced accounting software and technologies, and ensure compliance with ever-changing accounting regulations and tax laws. However, it is important to carefully evaluate and select reliable and trustworthy outsourcing partners to maintain data security, confidentiality, and quality of service.

Meaning of Accounting Firms

Accounting firms, also known as CPA (Certified Public Accountant) firms or accounting practices, are professional services firms that provide a range of accounting and financial services to clients. These firms are typically comprised of a team of accountants, auditors, tax professionals, and financial advisors who offer expertise in various areas of accounting and finance.

The primary function of accounting firms is to help clients with their financial management and reporting requirements. This includes tasks such as preparing financial statements, conducting audits, providing tax planning and compliance services, offering financial advisory and consulting services, and assisting with bookkeeping and record-keeping.

Accounting firms cater to a wide range of clients, including individuals, small and medium-sized businesses, corporations, non-profit organizations, and government entities. They may specialize in specific industries or offer a broad range of services to clients from various sectors.

Clients engage accounting firms to ensure accurate financial reporting, maintain compliance with accounting standards and tax regulations, optimize financial operations, and obtain strategic insights for decision-making. Accounting firms play a crucial role in helping clients manage their financial affairs, minimize financial risks, and navigate complex financial matters. (Mikko, V., & Juntunen, J, 2018) ^[11].

Accounting firms are typically led by certified public accountants (CPAs) or chartered accountants (CAs) who have obtained professional accounting qualifications and licenses. These firms may operate as partnerships, limited

liability companies (LLCs), or professional corporations (PCs) depending on the legal structure and jurisdiction.

Need of the study

The need for studying the advantages and impacts of outsourcing accounting to accounting firms arises from several factors:

Strategic Decision-Making

Outsourcing accounting functions is a strategic decision that can have significant implications for businesses. Understanding the advantages and impacts of outsourcing can help organizations make informed choices regarding their accounting operations. This study can provide valuable insights for decision-makers in evaluating the potential benefits and risks associated with outsourcing accounting functions.

Cost Optimization

Cost reduction is often a key driver behind outsourcing decisions. By outsourcing accounting to accounting firms, businesses can potentially achieve cost savings through lower labor costs, reduced infrastructure expenses, and access to economies of scale. Studying the advantages of outsourcing accounting can help businesses understand the cost-saving potential and assess the financial impact of such a decision.

Access to Specialized Expertise

Accounting firms have specialized knowledge and expertise in various accounting functions. By outsourcing accounting tasks, businesses can tap into this expertise, ensuring accurate financial reporting, compliance with accounting standards, and access to industry best practices. Understanding the advantages of accessing specialized expertise through outsourcing can help businesses assess the impact on the quality and reliability of their financial information.

Operational Efficiency

Outsourcing accounting functions can lead to improved operational efficiency. Accounting firms often have well-established processes, advanced software, and dedicated teams, allowing for streamlined workflows and faster turnaround times. Exploring the impacts of outsourcing on operational efficiency can help organizations gauge the potential benefits in terms of time savings, reduced administrative burden, and improved productivity.

Organizational Performance

The outsourcing of accounting functions can impact overall organizational performance. Accurate financial reporting, access to timely information, and strategic insights derived from outsourcing can influence decision-making, resource allocation, and overall business performance. Understanding the impacts of outsourcing accounting on organizational performance can help businesses assess the potential value-add and make informed choices in their outsourcing strategies.

Risk Management

Outsourcing accounting functions involves sharing sensitive financial information with external service providers. Assessing the advantages and impacts of outsourcing

accounting can help businesses evaluate the associated risks, such as data security, confidentiality, and regulatory compliance. This knowledge can assist organizations in implementing appropriate risk management strategies when outsourcing their accounting functions.

By addressing the need for studying the advantages and impacts of outsourcing accounting to accounting firms, this research can contribute to a comprehensive understanding of the potential benefits, challenges, and implications of such a strategic decision. It can provide valuable insights for businesses, decision-makers, and researchers in navigating the accounting outsourcing landscape and optimizing their financial management practices.

Reasons Companies Utilize Outsourcing

Companies utilize outsourcing for several reasons, driven by the potential benefits it offers. Here are some common reasons why companies choose to outsource:

Cost Savings: Cost reduction is a significant driver behind outsourcing decisions. By outsourcing certain functions or tasks, companies can access lower-cost labor markets, reduce overhead expenses, and avoid investments in infrastructure, equipment, and technology. Outsourcing allows companies to benefit from economies of scale and operational efficiencies achieved by specialized service providers.

Access to Specialized Expertise

Outsourcing provides access to specialized expertise and resources that may not be available internally. Companies can leverage the knowledge and experience of external service providers who specialize in specific areas or industries. This allows companies to tap into cutting-edge technologies, industry best practices, and the latest market insights, enhancing their competitive advantage.

Focus on Core Competencies: Outsourcing non-core activities enables companies to concentrate their resources, time, and energy on core competencies and strategic initiatives. By delegating secondary functions to external experts, companies can streamline their operations, improve efficiency, and allocate more resources to value-added activities that directly contribute to their core business objectives. (Weigelt, C., & Sarkar, M. B, 2012) ^[13].

Increased Flexibility and Scalability: Outsourcing offers flexibility and scalability, allowing companies to adapt to changing business demands more effectively. Companies can easily adjust the level of outsourced services based on fluctuating market conditions, seasonal demands, or business expansions. Outsourcing enables companies to scale their operations up or down without the complexities of hiring, training, and laying off employees.

Risk Mitigation

Outsourcing can help mitigate risks associated with specific functions or processes. External service providers often have specialized knowledge and experience in managing risks within their domains. Companies can leverage their expertise to minimize potential risks, comply with regulatory requirements, and ensure business continuity, particularly in areas such as IT security, compliance, or legal matters.

Improved Service Quality and Efficiency: Outsourcing can lead to improved service quality and efficiency. Service providers focused on specific functions can deliver higher-

quality outputs, enhanced accuracy, and faster turnaround times. They may have established processes, quality control measures, and performance metrics that result in better outcomes compared to in-house operations.

Global Expansion and Market Penetration: Outsourcing can facilitate global expansion and market penetration for companies looking to enter new markets. By partnering with local service providers or establishing offshore/nearshore operations, companies can gain insights into local market dynamics, navigate cultural differences, and overcome regulatory barriers more effectively.

However, it is important to note that outsourcing also comes with potential risks and challenges, such as data security concerns, loss of control, communication issues, and quality control. These risks need to be carefully assessed and managed through proper due diligence, contractual agreements, and ongoing monitoring (Jara, P, *et al.*, 2022) ^[15].

Literature review

Burko, K. (2022) ^[1]. Accounting outsourcing has gained popularity as a strategic business practice, allowing organizations to delegate their accounting functions to external service providers. This study explores the advantages and risks associated with accounting outsourcing, providing insights into the key considerations for decision-making. The research methodology involves a comprehensive literature review and analysis of empirical studies and industry reports. The advantages of accounting outsourcing identified in this study include cost savings, access to specialized expertise, increased operational efficiency, and enhanced focus on core business activities.

Nandagopal L, Santhi V, *et al.*, (2017) ^[2]. The implementation of the Goods and Services Tax (GST) has had significant impacts on the economy, businesses, and consumers. This study has explored the impacts and challenges associated with the GST, providing insights into its effects on various stakeholders. The analysis of impacts reveals several positive outcomes of the GST. It has facilitated the creation of a unified market by removing barriers to inter-state trade and harmonizing tax rates across the country. This has resulted in increased efficiency, reduced compliance costs, and improved competitiveness for businesses. The GST has also led to a broader tax base and improved tax collections, enabling the government to allocate resources more effectively for public welfare programs and infrastructure development.

Nyameboame, J., & Haddud, A. (2017) ^[3]. The analysis of the literature reveals several key findings regarding the impact of outsourcing on organizational performance. Outsourcing can positively influence performance indicators such as cost reduction, increased efficiency, enhanced focus on core competencies, access to specialized expertise, and improved service quality. By outsourcing non-core activities, organizations can allocate resources more strategically, streamline operations, and leverage external capabilities to achieve higher levels of performance.

Mikko, V., & Juntunen, J. (2018) ^[11]. Outsourcing accounting functions has become a popular strategy for businesses looking to streamline their operations and focus on core competencies. This abstract summarizes the measurement of benefits, impact on capabilities, and firm performance when outsourcing accounting functions. The benefits of outsourcing accounting functions include cost

savings, as it eliminates the need for in-house accounting staff and infrastructure investments. Additionally, firms gain access to specialized expertise and improved efficiency, leading to accurate financial reporting and timely insights. By outsourcing non-core accounting functions, firms can redirect their resources to strategic decision-making and core business activities. Outsourcing accounting functions also impacts a firm's capabilities. It enhances the skillset by providing access to advanced financial analysis, forecasting, and strategic insights that may not be available internally. Furthermore, outsourcing allows firms to leverage the technology and standardized processes of accounting service providers, improving data accuracy, reporting capabilities, and operational efficiency.

Tazilah, M. D. A. K., Majid, M., & Suffari, N. F. (2019) ^[9]. Outsourcing internal audit functions has gained attention as a strategic decision among small and medium enterprises (SMEs). This abstract provides an overview of the effects of outsourcing internal audit functions on SMEs. Outsourcing internal audit functions refers to the practice of engaging external professionals or firms to conduct internal audit activities on behalf of an organization. SMEs often face resource constraints and limited expertise in internal audit processes, making outsourcing an attractive option. The effects of outsourcing internal audit functions on SMEs can be analyzed in several areas. Firstly, it provides access to specialized knowledge and skills that may not be available internally, enhancing the quality and effectiveness of internal audits. Additionally, outsourcing enables SMEs to tap into a wider pool of experienced auditors who possess industry-specific insights and best practices.

Problem Statement

The outsourcing of accounting functions to accounting firms has become a prevalent practice among businesses. This problem statement aims to explore the advantages and impacts of outsourcing accounting to accounting firms. Advantages of Outsourcing Accounting to Accounting Firms:

Cost Savings

Outsourcing accounting functions can result in cost savings for businesses by eliminating the need for in-house accounting staff and infrastructure investments.

Access to Expertise

Accounting firms employ professionals with specialized knowledge and expertise in various accounting areas, ensuring accurate financial reporting and compliance.

Increased Efficiency

Accounting firms have efficient processes and advanced technology systems, allowing for streamlined and timely financial operations.

Scalability and Flexibility

Outsourcing offers the flexibility to scale accounting services based on business needs, providing businesses with the ability to adapt to changing requirements.

Focus on Core Competencies

By outsourcing non-core accounting functions, businesses can focus their internal resources on core activities, enhancing overall productivity and performance.

Impacts of Outsourcing Accounting to Accounting Firms

Improved Financial Management: Accounting firms provide timely and accurate financial information, enabling businesses to make informed decisions and effectively manage their finances.

Enhanced Compliance and Risk Management

Accounting firms possess knowledge of regulatory requirements, ensuring compliance with accounting standards and tax regulations, while mitigating risks associated with financial operations.

Strategic Insights

Accounting firms offer valuable insights into financial data, helping businesses identify areas for cost savings, revenue growth, and overall strategic planning.

Resource Optimization

Outsourcing accounting functions allows businesses to allocate their internal resources effectively, focusing on activities that directly contribute to their core business objectives.

Increased Competitiveness

Outsourcing enables businesses to access advanced accounting technology and expertise, positioning them competitively in the market.

Understanding the advantages and impacts of outsourcing accounting to accounting firms is crucial for businesses when making decisions about their accounting functions. By exploring these aspects, businesses can determine the potential benefits and consequences of outsourcing and make informed choices that align with their financial and operational objectives.

Conclusion

The practice of outsourcing accounting functions to accounting firms offers several advantages and impacts for businesses. This study has explored the benefits and considerations associated with this strategic decision, shedding light on the reasons behind outsourcing accounting and the resulting effects on organizations.

The analysis reveals that outsourcing accounting to accounting firms provides significant advantages for businesses. It enables cost savings by eliminating the need for in-house accounting staff, infrastructure, and software investments. Access to specialized expertise ensures accurate financial reporting, compliance with accounting standards, and valuable insights for strategic decision-making. Additionally, outsourcing improves operational efficiency through streamlined processes, advanced software, and economies of scale achieved by accounting firms.

The impacts of outsourcing accounting to accounting firms extend beyond operational benefits. Outsourcing enhances financial reporting quality, ensuring adherence to accounting standards and providing expert analysis. Timely and reliable financial information enables businesses to make informed decisions, allocate resources effectively, and identify areas for improvement.

However, businesses need to consider certain considerations and challenges when outsourcing accounting functions. Effective communication, clear expectations, and robust data security measures are crucial for successful outsourcing

relationships. Selecting the right accounting firm and establishing strong partnerships are key factors in ensuring a positive outsourcing experience.

Outsourcing accounting functions to accounting firms provides significant advantages and impacts for businesses. By leveraging specialized expertise, achieving cost savings, improving efficiency, and enhancing financial reporting, organizations can focus on core operations and make informed strategic decisions. While considering the considerations and challenges associated with outsourcing, businesses can maximize the benefits of outsourcing accounting and drive performance through this strategic approach.

Future research can delve deeper into specific industries or contexts to provide more nuanced insights into the advantages and impacts of outsourcing accounting to accounting firms. Additionally, studies exploring the evolving role of technology, such as automation and artificial intelligence, in outsourced accounting processes can contribute to a better understanding of the accounting outsourcing landscape and its implications for organizational performance.

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