

Aspects of Accounting and Financial Analysis Service Outsourcing: a Romanian Approach

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Abstract: In January 2010, Forbes magazine published an article with an attractive title: *Romania – became an accounting outsourcing destination*. The article states that our country has fully entered the market of accounting service outsourcing. Also, the results of a study ordered by PricewaterhouseCoopers in 2010 confirm that outsourcing has encountered a revival in the last six months and the trend is ascending. The director of PricewaterhouseCoopers says that companies still resort to service outsourcing primarily to reduce costs but at the same level, customers began to also appreciate other aspects such as high efficiency, high quality services and, of course, access to high-level talent and expertise. In the above mentioned context, in author's opinion, the theme of the current research seems appropriate as it proposes and emphasize of the fundamental aspects of outsourcing in general and specific issues related to outsourcing the services of accounting and financial analysis. This study illustrates novel aspects related to the requirements for outsourcing accounting services in our country and captures the authors' opinion on the possibilities of outsourcing the financial and economic analysis services, since these belong to a quite sensitive category. If this information comes across foreign hands, the financial and accounting information can be used for destructive purposes.

Keywords: outsourcing; outsourcing accounting service; outsourcing financial analysis service

JEL Classification: M15; M41; O31

1. Introduction

From a conceptual perspective, the outsourcing process can be defined as the activity that is transferred in order to be fulfilled by another company. Strategically speaking, outsourcing should be considered the long term activity meant to ensure both the survival and, more important, the prosperity of the company. On short term, outsourcing is a method (most of the times unloyal to employees) applied in order to diminish employment, the cost of salaries or to eliminate the conditions and rights acquired by employees through collective negotiations.

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Consequently, in terms of outsourcing, the innovation lies in the scale recorded in the area of all types of services, particularly among business and computerized domains. Service sector was long considered impenetrable by international competition. However, due to the improvements achieved by the communications technology and especially the Internet, services can cross political boundaries through specific connections and networks, thereby achieving benefits embodied in accessing cheaper labor force, but higher qualified. (CNP, p.1).

Although outsourcing can be expected to be beneficial on the long term, there may be a series of adjustment costs (Ferrusi, 2008, p. 4) in the form of lost jobs, a process that is especially noticeable at the microeconomic level, since even in the developed countries the services outsourcing process is at the beginning.

2. Specific Issues Related to Business Service Outsourcing

Although outsourcing is a common practice in the business environment, a survey (Stancu, 2008) conducted by KPMG International¹ reveals that 42% of outsourcing contracts are not based on a formal framework meant to assess the strategic benefits obtained by the enterprise. The study identifies a number of other issues, caused by the outsourcing agreements that the businesses face. Among those issues are identified the following: uncertainty regarding the costs involved in the process of selecting a provider for the outsourced services, long time required for completion the tendering phase (KMPG recommended that this phase should not exceed 6 months), the human factor (60%) and not technology (12%) is the main problem encountered in the development of the outsourcing process. Even though companies covered by the survey consider outsourcing as a process with real benefits to their business, they must be able to accurately demonstrate the measure of the obtained profits as decisions based on intuition or some unsubstantiated allegations, are not the appropriate means of action.

A study of the level of outsourcing services from our country, the analysis of Romania's balance of payments from the 2005, reveals the following information: Informatics services recorded a deficit of 14 million Euros, which represents an outsourcing amounting to 149 million euro and an internalization of 163 million Euros. By analyzing the evolution of legal services, financial & accounting and management consulting can be concluded that the internalization is higher than the outsourcing, since they have achieved revenues of 117 million Euros worth in the terms of making payments of 222 million Euros. From this brief analysis conducted in late 2005 we notice that, even since then, Romania can be considered

¹ KPMG is a network of professional firms providing audit, tax and business consulting. The network activates in 148 countries and has more than 113,000 employees in the member firms around the world. In Romania and Moldova KPMG operates in several offices located in Bucharest, Timisoara and Chisinau and, starting with October 2008 and opened an office in Iasi.

an attractive country for outsourcing, both in services and industrial sectors (CNP, p.5).

Concerning the international services outsourcing, during the year of 2005, they accounted for only 0.1% of GDP in Romania. The analysis took into the account the IT services area, while legal services, financial, accounting and management consultancy recorded and internalization amounted to 101 million Euros, approximately 0.2% of GDP.

Table 1 Classification of business process outsourcing

Business process outsourced	Types of services associated to outsourced process	Service suppliers	
		Finance	Accounting
Finance and accounting	Internal Audit Management of expenses Receivables and payables analysis Billing Financial Reporting Management services taxes Tax Reporting Budgeting General Accounting Treasury	Accenture Capgemini CGI CSC EDS HCL Tech iGate Patni Satyam Wipro	BDO Seidman BKD CBIZ Convergys CroweChizek Delloite & Touche Ernst & Young Intelenet Global IQ Backoffice KPMG Mellon Financial Outsource Partners International PriceWaterhouseCoopers Grant Thornton RSM McGladrey

Source: (Brown-Wilson Group, 2007); (Mattoo, 2004, p.4)

Thus, in order to improve the activity of outsourcing the financial services, both companies (beneficiaries) and suppliers (outsourcing service providers) should apply the following rules (Păvăloaia, 2008):

- to define the indicators necessary to assess the contribution of outsourcing to achieve economic goals;
- not ignore the human factor issues;
- to have a common vision (customer-supplier) into the the definition of success;
- the selection processes used should be flexible;
- there should be a strong and transparent business relationship between supplier and recipient;
- to use auditing standards;

- outsourcing should be based on best international practices.

The literature contains numerous references to the classification of business process outsourcing. They are based on the type of economic process for outsourcing. In Table 1 are presented only specific types of services related to finance and accounting processes as well as firms that are located into the top providers of such services.

In Romania, too during the recent years it has been established a number of firms, especially small, aiming to provide services in financial accounting. They activate alongside with world renowned companies which have entered the market from our country one by one. The firms are Deloitte & Touche, KPMG, Ernst & Young and PriceWaterhouseCoopers, also known as the group of four, title granted after Arthur Andersen firm collapse. Thus, strictly linked to the economic environment, in Table 2 are presented as an example the supply of outsourcing services firm Deloitte Romania and structure.

Table 2 The offer and structure of the outsourcing services from Deloitte Romania firm

Type of outsourced service	Accounting and financial services	Payroll and secretarial services	Tax Administration
Types of activities	Complete records, including reports and financial statements for management use.	Preparation of annual statements for income taxes withheld from wages.	Record of the Financial Administration for income tax, VAT and other taxes.
	Review of accounting records	Payroll Preparation	Preparation of tax returns
	The program of staff agreements	Payroll	-
	Other services: electronic banking, etc.	-	-

Source: Adaptation after (Deloitte¹, 2008)

¹ Deloitte delivers services to the clients from public and private sectors into the following professional areas - audit, tax, tax advisory, financial advisory services - serving many industries. Through its global network of member firms in 140 countries, Deloitte brings customers local expertise and international resources to help them succeed wherever they operate.

For the year of 2009, the Black Book of Outsourcing study (Brown-Wilson, 2008, p. 15) predicts that a number of functional areas such as finance, accounting and IT infrastructure, will continue their upward trend in increasing the share of types of the outsourced services. Thus, financial accounting services will increase by 75.2% compared to 2008, being located on the 2nd place (due to their rate of growth) after acquiring services, brokerage, sales management and payments whose growth is estimated at 83.4%. The knowledge society has triggered activity centered on knowledge process outsourcing, called KPO - Knowledge Process Outsourcing. As a direct result, interpretations, diagnostic, market research, data analysis etc. are the work of specialists whose advance preparation is very laborious. As part of KPO, the level of qualification of human resources used and the degree of involvement of the beneficiary of these services will be much higher, since between the two partners must exist a close communication, and the customer will be responsible for validating or providing guidance to customer into its activity.

Market surveys show that the main processes or activities subject to outsourcing are: manufacturing (53%), logistics (51%), HR (35%), sales and marketing (33%), research and development (32%) and finance and accounting (24%).

Although outsourcing finance and accounting service are located on the last places we illustrate that a strong tendency to increase their share into the outsourced services is expected. On the other hand, the reason for not widely outsourcing the accounting functions in Romania, can be explained by the fact that the information in this area are considered crucial because the company supports the foundation of strategic decisions and, as a result, managers are reluctant to outsourcing.

3. Accounting and Economic & Financial Analysis Services Outsourcing

In order to establish the financial and accounting activities that are suitable for outsourcing is necessary to make a careful analysis that takes into account important criteria regarding the importance of the data and processed information. Thus, we can distinguish a number of situations that correspond to the following three classifications:

- (1) financial and accounting activities that are most often outsourced (known into literature (Sako, 2006, p. 507) as special transactional processes),
- (2) financial and accounting activities that are good candidates for outsourcing (outsourcing is suitable but there are some concerns about the loss of the internal competences due to outsourcing) and
- (3) the strategic financial and accounting activities, that normally are not outsourced.

While specific financial accounting transactional processes are easily outsourced as the applicable solutions are standardized, the activities involving a high level of expertise, as internal audit, budgeting, taxes, economic and financial analysis, are more difficult to outsource. They involve a high degree of knowledge of enterprise and internal and /or external factors that may affect the decisions and objectives fulfillment. If the latter activities will be outsourced, the processes will be called transformational processes because, in order to conduct them, the provider must perform a variety of customizations. Thus, in Figure 1 are graphically presented, the financial and accounting activities according to their degree of outsourcing.

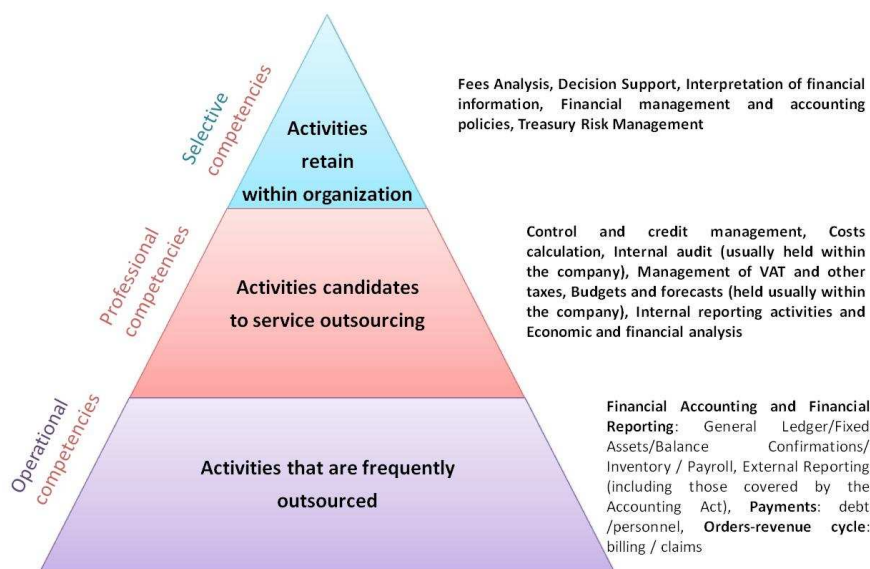


Figure 1 Classification of the financial and accounting activities according to the degree of outsourcing

Source: Adaptation after: (Rehmann Goup, 2007); (Morgan Chamber, 2007)

The taxonomy of the outsourced activities greatly influences the management manner of company providing accounting services. Thus, the main activity can be structured in accounting, auditing and other services, such as valuation services, research, restructuring, financial analysis etc. Latest services refer to more complex activities that require high-level skills.

At the start of start outsourcing services towards a customer, it can be carried out routine accounting activities such as information processing accounts and primary

records, and later may move forward to providing of value added services such as diagnosis and economic and financial analysis that helps the accounting officer or chief financial officer into the specific decision-making processes (www.outsourcing-journal.com).

3.1 Outsourcing the Accounting Service

Accounting firms in Romania are organized in double circuits, namely financial accounting (also known as general accounting) and management accounting (also called management accounting or analytical) which is not normalized, being applied according to the needs and particularities of the business.

In Romania, the Accounting Act¹ had established by Article 10 that "the responsibility for organization and management accounting is the administrator, officer or other person who is liable for the management of that unit". Specific accounting tasks can be carried out into two variants (Horomnea, 2007): throughout their functional departments or through agreements regarding the supply of accounting services. In the first case, firms held finance and accounting department under the leadership of chief financial officer, chief accounting officer or another person empowered to perform these functions. In the second case, the accounting can be performed on a contractual basis for the provision of services of accounting, done with individuals (accountant, chartered accountant) or legal persons authorized members of the Body of Expert and Licensed Accountants from the Romania (CECCAR). In this situation, changes to accounting by the enactment of Law no. 259/2007 refer to the art. 10 paragraph 4 of that responsibility lies with the organization and management accounting service provider, according to the contractual provisions and applicable laws.

The information presented above helps us detach from the Romania Accounting Act that the law allows any enterprise, that belongs to either public or private sectors, to outsource the entire accounting functions or only certain accounting work to a third party, with only one condition: that the supplier of these services is an authorized member CECCAR.

Standardization of financial accounting's work led to the outsourcing with greater ease of this branch of accounting. The flexibility of the organization as well as the specific features that characterize the information in the course of managerial accounting industry, makes managerial accounting more difficult to be outsourced. We believe that outsourcing accounting services leads to an increased fairness and

¹ ***Accounting Law 82/1991, republished in the Official Gazette of Romania, Part I, No. 48 of 14.01.2005, amended by Law No. 259 of 19.07.2007 published in Official Gazette of Romania, Part I, Nr. 506 of 27/07/2007, republished in the Official Gazette, Part I no. 454 of 06.18.2008.

legality of business transactions reflected within the documents from both the beneficiary and the customer.

The Romanian literature (Dobrea, 2009) presents the following three directions regarding the outsourcing of accounting service:

1. Complete transfer to a specialized and authorized service provider, organized into company that have sufficient resources to manage large portfolios of clients whose activities came across various fields;
2. Hire of professional assistance and coordination in accounting, which means that the financial & accounting department of the company is directly and actively connected with one or more consultants of the outsourcer, for the purpose of achieving significant activity optimizations;
3. Active counseling (component of internal audit) or organized counseling desired to cover those components that are considered insufficiently addressed;

Strictly related to the above three directions, the experience has shown that by outsourcing the most cost reduction is not acquired as the difference between wages and professional rates of experts, but in financial and taxation costs optimization.

Therefore, by outsourcing its accounting services, the company, through its employees, will fully concentrate its resources and creative force for the purposes of carrying out those activities in which the firm excels, while ensuring the overall management and flexibility of conditions that no longer feel the risks associated with outsourcing activities, as they are transferred (through the conditions from the agreement) to the supplier (Păvăloaia, 2009).

The outsourcing companies promotes their service by stating the following set of advantages that comes with an accounting outsourcing agreement:

- effectiveness of the working time of the company's employee;
- increase employee productivity;
- clearing up the employee downtime related to dealing with computer and network;
- professional services of financial consulting and audit;
- reducing the costs up to 60 % when outsourcing to a specialized and professional company;
- accessing the know-how acquired by the outsourcer's experts;
- relevant objectives and status reports on how to manage and solve particular accounting issues;
- permanent availability: 24hrs/day, 7 days/week.

There should not be overlooked the access to industry best practices and latest and more advanced technologies. Unlike enterprises, outsourcing providers have every

incentive to keep up with the latest innovations in order to ensure their market competitiveness. Thus, if accounting is a back-office function for a firm, for the outsourced company is the main objective of activity and is, therefore, treated accordingly.

3.2 Outsourcing the Economic and Financial Analysis Service

In general, studies reveal that it is not possible for small and medium enterprises to hold employees which can develop industry-specific situations and analysis specific to the economic and financial analysis. Preparation of its specific synthetic documents, involves along with a time consuming activity, a rather important and a high level of expertise that should be paid accordingly. Furthermore, analysts must constantly participate to specialized training in order to be informed about the best and current practices in the field. The specific legislation should not be neglected. Rather, it should always be considered and therefore, employees must constantly update their knowledge on legislation. The experience gained by them is the expertise they own in this field and it is composed from the specific cases and general knowledge facts about the economic and financial area. Therefore, the above issues constitute some sources that could stand as the basis for calculating the personnel costs involved in the activities of economic and financial analysis.

In the light of the above information, outsourcing of financial services must take into account several criteria, among which in our opinion, the most important would be the size of the enterprise. Thus, SMEs must be treated differently than large companies. While the first category of companies is not motivated in holding their own employees for those somehow seasonal but highly complex activities, the last category must have at least one department or even a team of economic and financial analysis (Păvăloaia, 2010).

An outsourcing model is shown in Figure 2. It is obtained by combining the two models developed by the author Zhu (Zhu, etc., 2001, p.39, 373-378) and Lever (Lever, 1997, p.20, 37-48).



Figure 2 An outsourcing process model

Source: Adaptation after (Marshall, ș.a., 2005, p. 348)

At the strategic level, the issues and circumstances that must be considered in the case of outsourcing the economic and financial analysis are (Pāvāloaia 2008):

- establishing the competence over the firm that takes over the activities (degree of competence and expertise of employees), hence the quality of prepared statements;
- establishing confidence, loyalty of the external partner, the degree of trust toward the partner, that will ensure confidentiality on company accounts;
- the size of the company that takes over the activities, the ratio of customers and employees; could the partner complete the tasks in due time ?;
- the costs involved in outsourcing, it would be desirable to establish a fixed amount paid monthly or annually for the possibility of a proper budget allocations.

One way of resolving or, more secure, to mitigate the effects of the above problems would be to specify all the details in the contract that covers outsourcing services contract between the beneficiary and provider.

For many businesses, regardless of size, outsourcing could be an essential element in achieving its objectives, including those that relate to business profitability. Therefore, we mention some of the reasons why a company is forced to turn to the outsourcing of financial and economic analysis:

- diminish and control costs;
- restoring the company's vision and focus on its core competencies;
- using a high-level expertise and know-how;
- release the internal resources and focus on other aspects;
- a high-performance services contribute to the added value of the enterprise;
- outsourced business resources are not available within the enterprise.

The effects of outsourcing specific economic and financial analysis can be identified through the annual accounts, as they present the following aspects: an increase in working capital, because the entity no longer purchase computer equipment for specific records; a reduction in borrowing cycle operation, whereas the external benefits are paid at intervals greater than the wage debts; a reduction of value added, because the fees will take the place of wages and social expenditures.

Also, by working with an external provider, the company is exempt from responsibility for drawing up the synthesis documents specific to accounting and reporting, which is taken over by the provider under the law governing financial and accounting activity. Also, professional risk insurance (which every accounting firm is required to hold) guarantees compensation in case of errors.

Closely related to the outsourcing company's financial and economic analysis, in Table 3, is illustrated the projections presented by Black Book of Outsourcing (Brown-Wilson Group, 2008) on trends for 2009 budgets for outsourcing.

Table 3 Outsourced areas and the trend of budgetary allocation in 2009

The field intended for outsourcing	The trend of budget allocation
IT Infrastructure	63,4 %
Computerized applications	55,1 %
Accounting and financial processes	21,8 %
Knowledge processes	11,7 %
Mediation processes	11,3 %
Transactions and business processes	6,9 %
Call centers	0,7 %
Human resources	-2,4 %

4. Discussion and Conclusions

In conclusion, we point out that in Romania, the firms that provide financial analysis and accounting services, consulting and/or audit, are members of professional organizations such as CECCA.R. and/or C.A.F.R.¹ These bodies that governs the accounting profession and the manner of keeping the accounts in our country. Under these circumstances, the firms are sheltered under the umbrella of those bodies that ensure quality financial and accounting services to members through regular audits².

The main advantage that outsourcing brings to a company is cost diminishing. Thus, variable expenses consumed by financial-accounting turns into fixed costs, and this action allows avoiding the costs of seasonal activities, characterized by over-activity (overtime payment) and/or sub-activity periods (assumption downtime). Outsourcing leads to costs reduce and eliminates the costs of employee access to legal expertise and fiscal accounts in Romania. Thus, employees must participate in training courses on a regular basis. Such trainings can be quite expensive, and through outsourcing, their cost is passed on to the service provider. Due to outsourcing, the company no longer needs to keep up with technology and computer software, which brings a new set of economies, worthy of consideration.

In addition to these advantages, we point out that outsourcing the accounting function entails some risk. Firstly, the company could lose control of the essential functions that includes information regarding other core business functions, such as

¹ C.A.F.R. – The Chamber of Financial Auditors from Romania (Camera Auditorilor Financiari din România)

² Members of C.E.C.CA.R. are audited annually or once in 3 years.

commercial office, production, personnel. Secondly, confidentiality and integrity of financial accounting information is a strategic goal, which must thoroughly observe. Thirdly, a number of mandatory accounting justifying statements cannot be accessed quickly, as long as they are in the possession of the service provider. This deficiency could be removed by e-accounting, which would allow 24/7 access to company accounting and financial information. Finally, credibility, expertise and reputation of the service supplier must be thoroughly tested and checked before signing the agreement with the provider. This way can be prevented a number of drawbacks such as fraud, missing the deadline dates for the financial statements, over-invoicing, lack of professionalism, etc.

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