

## IN-HOUSE VS. OUTSOURCING IN ACCOUNTING

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*To keep all out from the strangers' view was „the appanage” of the communist system that spread over the entire society. But, once it was eliminated, the society started to reveal it „secrets” and that was extended over the companies too. So they have begun to outsource different services from cleaning to even accounting function. Still, a question raise up: is it outsourcing a way that will satisfy the enterprises' needs or they will return to in-house practice?*

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Sophisticated terms, came out certainly from American culture, in-house (known as retrosourcing<sup>435</sup>) and outsourcing are two different ways for an entity to accomplish its functions but not only.

### **1. What is the meaning of in-house and outsourcing?**

An entity can work out with own resources (human, material, financial) activities like some operational process (products delivery, carriage, repairs, cleaning) but also essential functions like IT, financial-accounting, marketing, human resources, legal etc. (own departments). This means in-house. Or, put them, totally or in part, on the shoulders of some experts hired for their quality services, more exactly outsourcing them. This last practice was initiated in USA mostly because of staff shortage but also thanks to the small prices of different services offered by foreign experts in many areas, from Asia (India, China, Philippines etc.) and also from Central and East Europe (Hungary, Romania, Bulgaria, Slovakia, Czech etc.). This turns out to be quite profitable in the financial way.

Outsourcing's beginnings are in IT area in that, even nowadays, it is still the leader. From IT startup, outsourcing became useful in any problems with an entity must face it. Experts in almost any domain are waiting for solving companies' difficulties.

Different services can be outsourced even outside of original country. For example Commerzbank from Germany outsource the processing services in Prague, while, electronics giant, Siemens, accounting, research and development services, also here. The Philips company, electronics Dutchman group, owns a service center outside Warsaw<sup>436</sup>.

Outsourcing companies are filled in our country too and that is why many entities well-try their services. Hence, having a supply and even a demand, means a market specialized in outsourcing. Within the communist regime all was accomplished inside of enterprise, in other words, in-house. Onwards 1989 entities have begun to outsource different services so today almost everything is able for outsourcing.

Thus, while some organizations outsource only major services, others prefer to outsource complete operations, including all important information technology and business process.

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435 Jerry E. Durant, The New Economics of Global Outsourcing, January 2009, The International Institute for Outsource Management - [www.outsourcing.com](http://www.outsourcing.com).

2 Roxana Pricop, The western big companies move its outsourcing centers from India in Central and East Europe, [www.zf.ro](http://www.zf.ro).

## 2. In-house or Outsource the accounting function?

Romania's European Union „aligned” the accounting too at the European and even international practices, outsourcing it being one of them. At the beginnings the accounting outsourcing was considered a luxury but today it is a necessity and more.

It known that accounting is one of the indispensable functions of any business organization, regardless of size and purpose of any company. Therefore, it is essential for all entities to manage every aspect of accounting very carefully. Thus, it became a habit outsource the accounting, being allowed even by law.

As it is known from literature, within an entity, usually, accounting tasks together with the financial ones (but not necessarily) are joined in an entity's function materialized in a financial-accounting department. But the presence of it is not a rule. According with the Accounting Law, no. 82/1991<sup>437</sup>, the entities shall organize and keep inside them their books in separate departments, headed by the financial-accounting director, the accounting chief or any other person empowered to fill this position or may also be organized and carried out by authorized legal persons or by natural persons having the status of expert and licensed accountants, who are responsible under the law. Therefore, by law, the organization and the management of accounting function can be fulfilled in-house or outsourcing. Even the accounting firms can tried outsourcing companies' services mostly in accounting's deadlines period.

Mostly, size of a business is an essential factor for deciding over an in-house or outsourcing accounting, but also the advantages and the risks that a manager can afford them.

Usually, in Romania all well-established companies have, inevitably, huge accounting department to maintain its daily accounting tasks from elementary operations to complex analysis and studies based on which the managers take their decisions. Therefore is an in-house accounting.

But the small and mid-sized businesses either accomplish some accounting tasks by their own employees handing over the accounting firms other tasks like preparing of financial statements, either decide for outsourcing all accounting tasks.

Still is not a general rule. A small firm can get the accounting software installed and small staff would suffice the requirement. But, for an industry running over a large scale, it would be real difficult and expensive to hire large manpower just for the purpose of accounting howsoever essential this function is<sup>438</sup>.

Steven M. Bragg considers that the accounting function is among the most commonly outsourced, though this is usually limited to only a few tasks within the function, like: payroll, accounts receivable collections, internal auditing, taxation, financial statement reporting, pension administration, transaction processing, cash management, accounts payable and even financial statement disclosures<sup>439</sup>. Some other important areas of accounting covered by an outsourcing firm for any business' purpose includes: budget, accounting charts, data entry, inventory, finance management, bookkeeping, data security and archiving, journal records etc.

A type of outsourcing, practiced in our country too, is factoring. Widely term, factoring has gained immense popularity over the years and in this process a company is able to eliminate the waiting period having it money earlier.

„Accounting business finance outsourcing with the help of factoring procedure can prove to be a useful tool allowing a company to focus it attention to core functions of business development”<sup>440</sup>.

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437 Accounting Law no. 82/1991, art. 10, republished in [Official Gazette, I Part, no. 454 from 18/06/2008](#).

438 Alvis Brazma, [Accounting Help](#) - Outsource Accounting Task Of Your Company, <http://www.articlesnatch.com>.

439 Steven M. Bragg, *Outsourcing, a guide to...selecting the correct business unit...negotiating the contract...maintaining control of the process*, Second edition, 2006, John Wiley & Sons, INC, <http://books.google.ro>.

440 Michelle Barkley, *Accounting Business Finance Outsourcing: Ensure A Professional Approach*, <http://www.articlesnatch.com>.

### 3. Why the enterprises should outsourcing the accounting function?

Steven M. Bragg states for outsourcing arguing that „many of these accounting areas are subject to automation - such as transaction processing, pension administration and payroll - and are therefore nonstrategic. Since they are not of importance to the company's strategic direction, they should be outsourced so that the company can concentrate on more important tasks that will impact its profitability or position in the marketplace”<sup>441</sup>. In deed this is a quite well reason, but is also for the major advantages that are within it.

But outsourcing each accounting topics has own advantages and disadvantages. Therefore, we describe below, generally, the advantages and disadvantages of using outsourcing for a variety of accounting services, being aware that they include also the advantages and disadvantages of outsourcing each accounting tasks in part.

Outsourcing's upholders (from accounting firms to enterprise's managers) bring forward outsource the accounting services it major advantages like:

- outsourcing companies are using well-trained and experienced staff as well as the most current procedure and technological advances availing complete assistance in handling, managing, and recording daily accounting tasks on regular basis ensuring that the accounting legislations are correctly applied to fulfill the contract's agreements for a reasonable fee;
- accounting outsourcing allows entities to focus all of its energies on core functions and diverts the resources like manpower and financial reserves towards other important sectors;
- by outsourcing the accounting, the companies can avoid the major investments in human resources, equipments, software, infrastructure, employees' payment, which are involved by an in-house department;
- outsourcing eliminates the startup time required to recruit, interview, hire and train accounting personnel and also the additional time devoted to sick, vacation days and other job description's rules;
- outsourcing firms' accountants can be mentors and also advisers on how to further make the strategies;
- by outsourcing the accounting activities firms gain decreasing costs, especially fixed cost (in this period of financial crisis is wisely to save money) and transfer of responsibility over the outsourcing company according with Accounting Law no. 82/1991;
- outsource the accounting is a way to face the competitors by managing better other strategies etc.

Yet, outsourcing the accounting function means not only the advantages but disadvantages too, which must be compared and weighted so the decision of the manager be justified one. Accounting outsourcing' risks can be:

- accounting outsourcing can bring with it „lost jobs, wholesale relocation of operations, and even a sense of disloyalty to our native country”<sup>442</sup>;
- hand over such a confidential task in the hands of an outsourcing company is quite risky, mostly because of the possibility of leaking information to the competitors;
- a hasty decision concerning the outsourcing company's reputation or wrong company for outsourcing entities' works may ruin a business' prospects completely;
- outsource the accounting involves a sustainable relationship between the entity and professional supplier which is not certainly especially in a time of recession;
- an outsourcing firm can't always raise to the expectations of the clients so the tendency is to return to in-house practice<sup>443</sup> etc.

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441 Steven M. Bragg, Outsourcing, a guide to...selecting the correct business unit...negotiating the contract...maintaining control of the process, Second edition, 2006, John Wiley & Sons, INC, <http://books.google.ro>.

442 Jerry E. Durant, The New Economics of Global Outsourcing, January 2009, The International Institute for Outsource Management - [www.outsourcing.com](http://www.outsourcing.com).

#### **4. Why the enterprises should remain at in-house accounting function?**

- for unfeeling trapped by relationships that seem to provide little or no suitable way out;
- for maintain the control over the accounting tasks, over the accounting department' employees, over the accounting information etc.
- because the presence of accounting departments within entity can assure at once the actions and the answers desired, hence, a better communication;
- for keeping the business secrets far from the competitors;
- for support the unity of entity etc.

Even the in-house practice of accounting function can have „black points” too, like below:

- spending additional time hiring and training replacement personnel due to employee turnover, managing internal conflicts and running the risk of employee fraud and embezzlement;
- maintaining the day-to-day accounting and financial transactions and bearing extra responsibilities can become a monotonous task; therefore the employees can ceiling and become bored and disinterested; thus affecting their efficiency and accuracy, which increases the possibility of errors;
- hiring in-house accounting professionals will increase the total cost of an entity with their handsome salaries, bonuses and other such things, and overhead cost of the accounting department;
- increasing the office spaces demand will suffocate real estate market.

#### **5. Conclusions**

Whatever the size of company, accounting is an essential part of all the business functions and it requires a special attention about the way it is carried out in a company. Since even a minor error can pave way towards a perfect disaster, it is imperative on the part of company's managers to be quite carefully while choosing an in-house or outsourced accounting. The decision made can turn a small business into a large organization

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