
OUTSOURCING ACCOUNTING – BENEFITS AND LIMITS IN THE CURRENT ECONOMIC ENVIRONMENT IN ROMANIA

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Abstract:

Economic environment today can be characterized as unstable and unpredictable result of globalization and the financial crisis. In such a business environment any entity is threatened and face significant challenges due to resource constraints. One way to address current challenges is to outsource accounting work. The aim of the paper is to underline (based on literature review) the benefits and limits of outsourcing accounting in the current economic environment in Romania.

Key words: *accounting, outsourcing, outsourcing accounting, benefits, limits*

1. Introduction

The accounting information represents the product of accounting and is obtained through methods, procedures and custom tools designed for this science in order to process economic data. It's the most real, accurate, complete and operational information, representing the support of the managerial process. The accounting information represents the exchanged product on the accounting information market. This product exists only through the rules and regulations that define it. The accounting information is a specific "legal" product because its production, presentation and dissemination have to be regulated. An accounting information market must ensure its associates and others protection of their interests by promoting: the development of the accounting information published in terms of quantity and quality; the publication and understandability of the accounting information (transparency); increasing the opportunities for comparison in time and space. The value of information can be defined as the difference between the net benefit generated by a decision after obtaining the information and the net benefit obtained by taking the same decision, unaffected by the information.

2. Benefits and limits of the outsourcing

The accounting information forms the basis for investment decisions, for their accuracy and relevance, decisively influencing the process of reaching the optimal

level of the expected results. The annual financial statements have become an important source of information, being analyzed very carefully by all participants in capital markets. In recent decades, accounting synthesis and reporting documents have undergone a number of key changes, in form and content, as the jurisdiction and the norms that rule the international financial markets are increasingly leaving their mark on the characteristics of accounting information.

The qualitative characteristics of financial statements are the basic attributes that give meaning to the usefulness of the accounting information and include: comprehensibility, relevance and credibility.

The diversity of the accounting information needs have led to the construction of two representations of the same reality: an "internal" representation and an "external" representation. The internal representation is achieved through managerial accounting, while the external one is achieved through financial accounting. The process of obtaining the accounting information at these two levels and then transmitting it to the interested users takes place within companies' financial and accounting departments.

Nowadays one of the developmental tendencies of the global economy is to delegate the functions that are not related to its basic business activities to the providers of outsourcing services.

Outsourcing is a strategy by which an organization contracts out major functions to specialized and efficient service providers, who become valued business partners. By outsourcing particular activities companies of all sizes want to achieve different goals, such as efficiency, competitiveness, flexibility, effectiveness, innovativeness.

Why do companies outsource? Here are some common reasons: reduce and control operating costs; improve host company focus; gain access to world-class capabilities; free internal resources for other purposes; a function is time-consuming to manage or is out of control; insufficient resources are available internally; share risks with a partner company. In earlier periods, cost or headcount reduction was the most common reason to outsource. In today's world the drivers are often more strategic, and focus on carrying out core value-adding activities in-house where an organization can best utilize its own core competencies (Handfield, 2008).

Outsourcing is usually explained as the contracting with an external party to provide services or activities that could be provided by an internal source (Carey et al., 2006).

At first, outsourcing was used in the field of IT, but it has now been extended so that any problem which appears in a company can be solved by experts from different fields.

Accounting outsourcing is among the most popular areas of company outsourcing. More and more small and medium size businesses use it because accounting is time consuming and difficult (Blokdiijk, 2008). On the one hand, the process of outsourcing involves the 'external accountant', including both the professional accountant and the accounting firm (Everaert et al, 2010). On the other

hand, the process of internalizing involves the 'in-house accountant' who is the company staff member performing the accounting functions in the SME (Everaert et al, 2010).

In today's environment, organisations may not have sufficient expertise and resources in-house to stay compliant and effectively monitor financial performance. The need for support from external accounting and finance specialists has grown for a variety of reasons, including increasing complexity of financial reporting and a business environment that demands more cost-effective and flexible solutions, such as outsourcing.

Global spending on finance and accounting business process outsourcing services will exceed \$25 billion in 2013 and rise at an annual compound growth rate of 8 percent through 2017, according to research by KPMG and HfS Research.

In Romania, during the communist regime there was no outsourcing, but after 1990 entities have begun to outsource different services so today almost everything can be outsourced. As far as accounting is concerned, after 1990 this has started to be outsourced, too.

With respect to the organization and management of accounting in Romania, the Accounting Act (Accounting Law 82/1991 republished in the Official Gazette, part I no.454 of 06.18.2008) established two possibilities:

- In the first case, firms have a finance and accounting department under the leadership of a chief financial officer, chief accounting officer or another person empowered to perform these functions;
- In the second case, the accounting function can be performed on a contractual basis for the provision of accounting services, done with individuals (accountant or chartered accountant) or legal persons who are authorized members of the Body of Expert and Licensed Accountants from Romania (CECCAR).

So from a legal perspective, the outsourcing of the accounting function is allowed in Romania. As far as the accounting activity in Romania is concerned, this is carried out in two ways: financial accounting (which is normalized) and management accounting (which is not normalized, being applied according to the needs and particularities of the business). The outsourcing of these two types of activity has been done in different ways. Financial accounting has been outsourced at a more rapid pace. One of the explanations for this situation would be that this type of accounting is normalized, and firms have to make public statements of their financial and accounting information, while managerial accounting offers information only for internal use and can therefore be conducted according to the company's internal needs.

All types of companies can benefit from outsourced accounting services. The size of the company will determine the amount of accounting work that is to be done by an outside company. The work can be as specific as putting leverage for a single task or hiring a firm to manage all back-office work. All accounting services may be outsourced. Companies may seek the services of a firm to take care of their

receivables, payrolls, or payables. It is also important to note that having a firm perform these services will not compromise the security of the company.

Dobrea, 2009, presents the following three directions regarding the outsourcing of accounting services:

- Complete transfer to a specialized and authorized service provider, organized into a company that has sufficient resources to manage a large portfolio of clients whose activities come from various fields;
- 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. The importance of accessing the best practices in the field and the latest and more advanced technologies should not be neglected. Unlike enterprises, outsourcing providers have every incentive to keep up with such innovations as this concern ensures their competitiveness. Thus, what for the accounting firm is a back-office function for the outsourcer is a main objective and should be treated accordingly.
- Active counseling (a component of internal audit) or organized counseling desired to cover those components that are considered insufficiently addressed.

Depending on their size, companies may opt for one of these three directions of outsourcing.

The specialized literature discusses the following advantages of outsourcing:

- ***outsourcing accounting allows entities to focus on core competencies*** - by delegating this task to an outside firm, the employees may be able to focus on their specific responsibilities and achieve more. Managers can also have the extra time to deal with other problems that need their attention;
- with outsourced accounting services, ***a valuable third-party perspective from an outside firm may be provided***. This firm can have licensed and experienced personnel to complete the accounting tasks. With this, all requirements needed for accounting may be achieved. The outsourcing firm's accountants can be mentors and advisors on how to further devise the firm's strategies;
- with outsourced accounting services, the ***companies can avoid the major investments*** in human resources, equipments, software, infrastructure of an internal accounting department. The initial investments in time and money, which are necessary for staff recruitment and training, are also eliminated.
- ***the outside firm's performance is more efficient*** – the people who work at the outside firm do not need benefits or vacation time. They will not be calling in sick and they do not have meetings to attend to. Because this is what they are paid to do all day long, they have already mastered their craft.
- ***the externalization of the accounting function enables the transfer of the fixed expenses of the accounting department to variable expenses***. *More expenses savings appear by avoiding the payment of overtime, of upkeep and of computer technology maintenance;*

When hiring outsourced accounting services, the company may choose to have the services provided electronically or in person. For some, personal contact is important, while some others prefer the employees of the outside firm to work in their own respective offices.

Outsourcing the accounting function involves not only advantages but also disadvantages, which must be compared and weighed so the manager's decision will be a justified one. Among the limits can be underlined: an emotional factor intervenes before and during the externalization (Spencer Pickett, 2005) – the organization resistance; lack of acceptance within the company, cooperation risk (cooperation can fail); loss of control and know-how and dependency on an external provider; the appearance of suspicions in what concerns the information confidentiality; the relationship between the entity and the professional supplier is not always a sustainable one; the accounting service provider's performance is not always up to the client's expectations.

3. Conclusion

We can conclude that outsourcing the accounting function has both benefits and limitations. As regards the outsourcing of this type of service in Romania after 1991, the process has been developing regardless of the company size and its type of activity. However, small and medium enterprises have used this type of outsourcing, as they cannot afford an in-house accounting department.

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