

# Accounting Service Supply Chain and Accounting Outsourcing

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*A critical part of the accounting service supply chain is outsourcing. Outsourcing is an important function for both accounting professionals and small business professionals. An effective supply chain can reduce costs and manage limited resources. With the advancement of technology, outsourcing has become a major part of all global companies. While outsourcing has some risks to go with the many benefits, it can be managed. Outsourcing done properly can give companies a major competitive edge. This paper looks at the issues and benefits of outsourcing. It also gives a current list of companies who provide outsourcing accounting services.*

*Keywords: service supply chain, outsourcing, accounting, tax*

## INTRODUCTION

The purpose of this article is to look at research and literature available on service supply chains in accounting as well as the concept of accounting outsourcing. This paper will first look at what a supply chain is and then review how it is important in accounting. Next, the paper will look at outsourcing in accounting from the perspective of the accounting profession and the perspective of the small business owner.

### What Is a Supply Chain?

“Companies involved in effective supply chain management are lean because they use resources sparingly and produce less waste (Xiaomeng et al., 2023).” According to Yongtao, Bohai, and Eleonora, there was an early belief by academics that the service supply chain was just a secondary supply chain of the manufacturing supply chain. They did not believe it was or could be a standalone supply chain. After more research, they came to find the service supply chain had its own characteristics that differentiate it from the manufacturing supply chain (Yongtao et al., 2022).

Let’s look at what the two supply chains are. The manufacturing supply chain focuses on value added to a product, a service supply chain focuses on adding value through knowledge and labor (Mangan et al., 2021). Service supply chain consists of a network of suppliers, service providers, customers, and other resources needed to produce and deliver services (Mangan et al., 2021). Services do not need to be for a manufacturing business.

The service supply chain has grown significantly as technology unlocks the global market. In fact, 25% of global exports in 2018 came from the services. Digital technology has allowed the creation of new services and improved the delivery of existing services (Mangan et al., 2021). It is this digital technology that has continued to improve service supply chains through a behavior called data empowerment (Yongtao

et al., 2022). Data empowerment is known as the core of resource empowerment and divided into three capabilities, intelligence, connectivity, and analysis (Yongtao et al., 2022). These capabilities generate a large benefit to the service supply chain. Intelligence allows for the gathering of information with little manual participation. Connectivity finds a better faster way to connect to resources, information, and consumers using communication technology. Finally, analysis gives us the ability to look through the information of big data and make decisions (Yongtao et al., 2022).

### **Accounting Service Supply Chain**

The Global Service Supply Chain may seem obvious for the large CPA firms who offer services to Global businesses. At the time of this article, the Big 4 Accounting firms include Deloitte, Ernst & Young (EY), PricewaterhouseCoopers (PwC), and Klynveld Peat Marwick Goerdeler (KPMG). According to Wikipedia, they offer services in audit, assurance, taxation, management consulting, valuation, market research, actuarial, corporate finance, and legal services. They work on most audits for public companies and many private companies. While these firms are not actually single entities, they are known as professional services networks. Each network has established a global entity to co-ordinate the activities of the network. They would be considered the pioneers of the global service supply chain in the accounting industry (Wikipedia, 2023).

### **RESEARCH QUESTIONS**

What literature and research has been done on accounting and the service supply chain? More specifically, what literature and research is available in the area of accounting service outsourcing? What kind of benefits and risks are associated with outsourcing accounting activities?

Probably the easiest area to look for research in accounting service supply chain would be the area of manufacturing accounting. The manufacturing supply chain would have a secondary service supply chain for a global company. Surprisingly, there isn't as much recent literature and research available as one would expect. For this article, we chose to focus on the idea of outsourcing in accounting activities and services. Outsourcing is a prevalent part of the accounting service supply chain. If done correctly, can outsourcing of accounting services and activities help save money?

### **LITERATURE REVIEW**

While it is more obvious that the Big 4 have a global presence and most likely have a set service supply chain, it may be harder to discern if smaller CPA firms have a global service supply chain. Small and medium sized CPA firms would be known as small and medium enterprises or SMEs. SMEs are known as a major creator of employment and income worldwide (Davidsson, 2004). The most obvious level of the Small and Medium Size CPA firms having a global service supply chain would exist in the software of the company as well as possible outsourcing of the services. The most common form of outsourcing of small to medium size CPA firms would be for day-to-day bookkeeping, payroll, accounts payable, accounts receivable, and tax preparation data entry.

A small CPA firm which chooses to outsource tax preparation data entry to India is participating in the global service supply chain. For the small CPA firm owners, they may not realize that even they are participating in the global service supply chain and global business. Outsourcing of tax return information has been an area of much discussion in the mid-2000's and early 2010's. A brief article in the *CPA Journal* suggests that tax preparation outsourcing began around 2000 as the internet became more widely used. Back then, information was scanned into a PDF file and emailed over to the outsourcing entity. It was said that this outsourcing, particularly to India, saved labor cost around 50% or more per return and could create a 24-hour turnaround time depending on the work and location of the outsource company (Soled, 2005).

Another article written in 2013 also reviewed the concept of outsourcing tax return preparation. Chaplin tells us that academics believe labor arbitrage is a major motivation for the outsourcing of tax return preparation (2013). While this article is 10 years old, there is still a lot of relevance in it. Data was scarce

on the topic back then. Literature and research on the topic are still scarce, despite numerous outsourcing businesses now available.

One important issue brought up in the articles on outsourcing of tax return preparation is compliance issues. It is important for CPA's to understand the compliance issues that can arise from outsourcing the data. The CPA needs to inform and get consent from tax clients to outsource the preparation of the tax return. This isn't enough though. When the return comes back, it is imperative that the CPA firm reviews the tax return for quality and ensuring nothing was missed. CPA is still responsible and if the outsource company makes a mistake that could cost the firm a lot of money. Prepare fines from the IRS are not small and cannot be excused as someone else made the mistake.

This article does have two tables that summarize benefits and risks to outsourcing developed from Del Vecchio in 2005 and summarized by Chaplin in 2013 as still relevant. These tables have been recreated and listed below.

### Del Vecchio / Chaplin Outsourcing Pros and Cons

**TABLE 1**  
**CATEGORIES OF OUTSOURCING BENEFITS**

Category	Benefits
Operational	<ul style="list-style-type: none"> <li>• To free up internal resources for other purposes</li> <li>• To eliminate an in-house function that is time-consuming to manager or is out of control</li> <li>• To increase flexibility in dealing with exchanging market conditions and organisational requirements</li> <li>• To access short term labour</li> </ul>
Strategic	<ul style="list-style-type: none"> <li>• To allow management to focus core competencies and strategic plans</li> <li>• To gain access to world-class capabilities</li> <li>• The supply of motivated staff and highly specialised skills</li> <li>• To strengthen international and cultural coverage</li> <li>• To provide expanded geographic coverage</li> </ul>
Financial	<ul style="list-style-type: none"> <li>• To reduce and control operating costs</li> <li>• To promote economies of scale that should result in cost saving for the same services, or improved services at lower costs</li> <li>• To reduce fixed costs and replace with variable costs</li> </ul>

Source: Benefits summarized from the literature using Del Vecchio categories (Del Vecchio, 2005)  
Reproduction of Table (Chaplin, 2013, p291)

**TABLE 2**  
**CATEGORIES OF OUTSOURCING RISKS**

<b>Category</b>	<b>Benefits</b>
Operational	<ul style="list-style-type: none"> <li>• Social costs including low morale, high absenteeism, lower productivity</li> <li>• Reduced education and skill level of workers</li> </ul>
Strategic	<ul style="list-style-type: none"> <li>• Loss of organisational control and stability</li> <li>• Loss of unique 'local knowledge'</li> <li>• Loss of competitive advantage with confidential information being entrusted to</li> <li>• Theft and security issues</li> </ul>
Financial	<ul style="list-style-type: none"> <li>• Reduced costs not being realised</li> </ul>

Source: Risks summarized from the literature using Del Vecchio categories (Del Vecchio, 2005). Reproduction of Table (Chaplin, 2013, p293–294)

There is one large issue not listed in the risks above. The issue is governance. “Legally, governance refers to the use of policies with proper implementation and continuous monitoring by a governing body (Aman et al., 2022).” Despite the risks, the continuing advancement of technology and governance is helping to move forward the outsourcing services offered in the accounting service supply chain. A model called Global Business Services (GBS) model was developed to ensure better governance when outsourcing around the world (Aman et al., 2022). GBS integrates accounting services from multiple locations into a global operation at a select location for cost efficiency (Rothwell et al., 2011 & Aman et al., 2022).

The theoretical framework for the GBS model is migratory governance path framework (Simon et al., 2009 and Amen et al., 2022) This framework believes global sourcing need to have the following aspects of governance: “type of relationship, contract, communication, value of services, location of vendor’s staff, trust, and coordination of work (Aman et al., 2022).” Most issues can be found in the coordination and communication aspects. There is a need to have standardization in the coordination section. In the communication section there needs to be an agreed upon communication methods as well as understanding of possible cultural communication issues and how to overcome them (Amen et al., 2022).

Up to this point, we have looked at the accounting service supply chain concept of outsourcing from the perspective of SMEs and other accounting professionals. But what about outsourcing accounting services from other industries. SMEs that are not accounting professionals still have a need for accounting services. Often, these SMEs cannot afford internal accounting services and need to bring in outside help for their accounting needs to help optimize the chance of success for the SME.

Small business owners could benefit from resource-based view (RBV) theory. This theory believes that resources are the drivers of both performance and competitive advantage (Lobacz & Glodek, 2015; Oosthuizen et al, 2020). RBV looks at how internal resources, knowledge, and human resources are handled (Oosthuizen et al, 2020). A study was conducted to see if proof could be provided in research that Small Business Owners (SBOs) would benefit from obtaining the services of Small Accounting Professionals (SAPs). This study was able to support the theory that SBOs can benefit from outsourcing services to SAPs. “In addition, from a pedagogical and policy perspective, educators, training providers, bans, and business coaches can use these results to encourage SBOs to build a strong relationship with their SAPs and motivate long-term economic sustainability (Oosthuizen et al., 2020).”

Another study was done on accounting outsourcing in the agricultural industry. This study set out to prove that the use of accounting outsourcing was justifiable for small agricultural businesses. “Accounting outsourcing allows you to reduce the costs of the company for the services of accountants and at the same time increase their efficiency (Yekimov et al, 2021).” “Outsourcing allows agricultural enterprises to gain access to the resources and technologies that outsourcers possess (Yekimov et al, 2021).”

## DISCUSSION

Research in the area of the accounting service supply chain is not as extensive as this author had hoped for. Outsourcing does have a bit of research in accounting service supply chain. Digital Technology and the internet have made outsourcing easier and more economical than ever before. While technology has allowed the global service supply chain to flourish, it still must be monitored for data issues and communication issues.

Resource-based view theory is a prime example of where outsourcing is helpful. RBV theory is where the allocation of resources would logically lend its view to outsourcing. Outsourcing globally helping the markets to save of labor, find expertise or services otherwise not available to smaller companies.

Below is a list of company websites who currently offer accounting outsourcing services. This list is not conclusive and was gathered from internet search as well as an article on the top outsourced firms. Numbers 1 – 6 below are from the article in Jetpack Workflow (2023).

What are some outsourcing companies and their countries?

- 1) TOA Global – [www.toaglobal.com](http://www.toaglobal.com) – Philippines
- 2) Paro – [www.paro.ai](http://www.paro.ai) – US (Chicago)
- 3) Maxim Liberty – [www.bookkeeping-services.com](http://www.bookkeeping-services.com) – India
- 4) Bench – [www.bench.co](http://www.bench.co) – Canada
- 5) Botkeeper – [www.botkeeper.com](http://www.botkeeper.com) – Philippines
- 6) InDinero – [www.indinero.com](http://www.indinero.com) – US but also use people from around the world
- 7) Baltic Assist – [www.balticassist.com](http://www.balticassist.com) – Baltic States (Lithuania)
- 8) Finairo – [www.finairo.co](http://www.finairo.co) – Canada
- 9) Emapta – [www.emapta.com](http://www.emapta.com) – Philippines
- 10) MossAdams – [www.mossadams.com](http://www.mossadams.com) – US-with Global reach

Another important aspect of outsourcing is governance. Companies need to ensure that they are following a good model for governance. Many times, outsourcing issues can be found in communication and lack of standardization. If companies are aware of these issues before jumping into outsourcing, then they can plan for these possible challenges.

The literature suggests that the continued changing digital environment must also be considered when outsourcing. As outsourcing becomes more acceptable and accessible, the competitive edge begins to lessen. This requires a constant search for the most cost-effective accounting service supply chain. Perhaps technologies like blockchain and artificial intelligence will give SMEs back their competitive edge.

## CONCLUSION

This article's research was able to review the things to consider when outsourcing accounting activities and services. Data empowerment is now the driving force of service supply chains. Data empowerment and the ability to cost effectively allocate resources will be key in the future to help companies gain a competitive edge.

It is important that more research be done in these areas as technology continues to evolve. Research is needed to see the effects of artificial intelligence on outsourcing of accounting activities and services. Blockchain accounting research needs to be done to see if there is a way to make blockchain accounting more standardized and economical for SMEs to be able to outsource where possible.

Another important part of the accounting service supply chain is outsourcing of accounting activities and services. Outsourcing these services can be cost effective for both accounting practices and SMEs of other industries. The labor costs for outsourcing can be over 50% depending on the service. SMEs who utilize outsourcing to a local accounting practice can also capitalize on the expertise of the accountants to help them grow their companies.

Research in the cost-effectiveness of outsourcing should also be expanded. It isn't known how much money is spent on outsourcing accounting activities every year. It also isn't known how much is saved. Most of the articles in this paper were not based on research conducted in the United States. There should

be more follow-up on research to see if the same results can be achieved with companies based in the United States.

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