Outsourcing of the Accounting and Financial Function

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Abstract

Accounting and financial outsourcing consists of the full or partial transfer of administrative, financial and accounting functions to an external service provider as part of a service contract. Because accounting and financial functions are standardized and coded by nature, they are particularly suitable for outsourcing. Using the services of an accountant is one of the oldest practices of functional business outsourcing.

The aim of this paper is to determine the important role of outsourcing accounting services for better flexibility, this practice remaining more relevant than ever. Thus, companies outsource mainly for cost control reasons, to reduce them, and then to turn fixed costs into variable costs. Thus, outsourcing will allow a strategic concentration of the company's structural resources on its core business. A rigorous internal analysis precedes the outsourcing process. This strategic thinking will define the framework of the tasks to be outsourced on a time and financial scale.

Key words: outsourcing, company, accounting function, services
J.E.L. classification: M40, M41, M49

1. Introduction

Finding the skills that are best suited to provide customer service requires moving beyond the previous area of business. Therefore, the company needs to find more specialized technical and human knowledge from the outside in order to better manage the critical functions internally, with skill. At the same time, it must increase its efficiency by seeking to reduce or stabilize its management or production costs. This is how a new form of organization emerged: "Outsourcing". The outsourcing of the accounting function can be defined as the outsourcing of an external service provider who is responsible for the processing of all or part of the administrative and accounting function and for the production of results. The contract may provide, at the request of the customer, for the total or partial takeover of the staff and the operating instrument in question. This practice, also known as outsourcing, is common for critical activities. But it comes as an innovation when it comes to the accounting and financial function. Thus, outsourcing is the act of entrusting an activity and its management to an external provider or service provider, rather than carrying it out internally. The reorientation of the accounting function led to the rebirth of accounting firms specialized in providing audit and accounting services. The increasing complexity of accounting standards and the constraints on business costs and performance are leading more and more managers to consider outsourcing accounting. In order to meet the requirements and achieve their purpose, the implementation of collaboration policies is strongly considered by most companies. These policies are primarily based on outsourcing. Several factors explain the rapid development of this phenomenon. The most relevant seems to be the optimization and control of operating costs, which considerably strains companies' revenues. Executing outsourcing contracts through the practice of accounting assistance as a management practice has both advantages and disadvantages for executors. These disadvantages are a significant source of risk and therefore likely to have serious consequences for companies. Therefore, there is a risk management issue associated with the execution of outsourcing contracts signed with companies, which is a function of the performance of the accounting firm in general. Among these consequences we have, among others, the loss of accounting data, the preparation of financial statements that are not sincere and do not reflect the true image of the client's activity. These consequences are a source of poor performance for the company and a poor image of the customer. There are many root causes of these problems that explain the company's declining performance in outsourcing its accounting function.

Among the causes, we can cite:

• Poor choice of companies both in terms of outsourcing function and in terms of service provider;

• Poor customer appreciation of the role of the service provider;

• Lack of short-term reporting by the service provider to allow the client to see the progress of the work;

• The overly large portfolio of the company, which often has a limited staff in this mission;

• Poor definition of the objectives to be achieved when signing the contract between the two parties;

• Lack of a procedure manual setting out the various steps and actions to be taken when receiving supporting documents for the preparation of financial statements.

In the face of this problem, solutions must be found to reduce the high risks and therefore optimize both the performance of the activity and the satisfaction of the parties.

2. Literature review

Given the scale of the outsourcing movement in recent years, many researchers have proposed an analysis of the phenomenon.

In the managerial literature, the concept of outsourcing has been the subject of much research, and the definitions given are numerous and varied (Ivanajet Masson-Franzil, 2006). Outsourcing is above all a strategic movement born in the United States in the 1970s and takes various names such as the English word Outsourcing which has three meanings "outside-ressourceusing" to mean "use of external resources", or "obtaining goods" or contracting from sources outside a company or area, according to The Oxford English Dictionary.

Barthélemy (2006, p.7) defines outsourcing as "the use of a service provider or an external provider to carry out an activity that had previously been carried out within the company. Outsourcing is often accompanied by a transfer of material and / or human resources to a service provider that replaces internal services ".

However, the definition proposed by Quélin (2003, p.16) incorporates the notion of duration and contract, stating that: "outsourcing also includes the fact that, in the medium term, the entrustment of a service the environment of a service provider; it is long-term, it requires a contractual framework ". In this regard, some authors consider that outsourcing can be understood as a contract between a service provider and a customer. In such a case, the service provider is responsible for replacing the internal services in a contractual relationship with the client company. Thus, we remember that all the company's functions can be outsourced. One of the main reasons for companies to outsource one or more of their activities is the desire to refocus on the core business. In this context, outsourcing should not affect core value-creating activities.

Norbaya (2010, p.6) states that: "Organizations should only outsource activities that do not give organizations a lasting advantage and do not directly support core activities". Each company must therefore focus most of its resources on basic functions in order to master its field of activity. For these two authors, companies waste their financial resources when they do not outsource all the activities that are not part of their core business. The notion of core business of an organization includes several meanings which are: - activities traditionally carried out within the company for a long time; - activities crucial for the company's performance; - activities that create current and potential competitive advantages; - activities that have prospects for future growth, innovation or rejuvenation of the organization. We understand then that the closer an activity is to the core business, the more its outsourcing risks failure. Carrying out the functions that belong to the core business would be a "mistake" that threatens the sustainability of the company. However, companies may be interested in outsourcing certain core business functions in certain (transient) contexts, especially when a company is lagging behind its competitors in a field or when launching into a emerging market. Outsourcing is facing a new boom today; it goes so far as to reach functions closer to the core business (research and development, after-sales service management, information system, accounting, etc.). Therefore, it is increasingly acquiring a real strategic dimension, which falls into the category of strategic outsourcing with resource transfer (Quélin, 2003). If we go back to the many recent studies that have dealt with the outsourcing of certain functions, we immediately see that there are certain functions that occupy a special place in the issue of outsourcing.

According to Huynh and Tondeur (2011, p. 24), the outsourcing of the accounting function consists in "entrusting an external service provider with one or all of its accounting activities that until then were carried out internally".

Based on a study by Fimbel (2003) among multiple studies that have reached almost exclusively the same results, in general, five functions are outsourced: computer systems, logistics, after-sales service, accounting and maintenance. The most common outsourcing practice is the accounting function (Chanson and Véronique, 2014). The organization of the accounting function requires compromises which mainly concern two aspects. The first issue concerns a choice between the decentralization of accounting services or the regrouping of administrative and accounting activities within a central function. The second question is whether it is better to keep an internal accounting department or outsource accounting production. All this necessarily depends on the importance of making organizational choices for the accounting function in order to mobilize adequate resources and thus streamline accounting systems. Outsourcing is seen by managers as a way to improve the quality of accounting information production. This is in line with Duganier's view that more than half of managers who have outsourced one of these functions believe that it "improves governance", "improves transparency of information and process" and "increases the visibility of controls". (Duganier, 2005, p.40). The companies are looking for quality assurance in outsourcing the accounting function due to the standardized nature of this activity. Outsourcing is part of the DIOCO (Doing in House Or Contracting Out) issue or more precisely of "To continue doing or getting done". In this context, there is outsourcing when a company, faced with the choice to do or be done, opts for the second term of the alternative and delegates part of its total system of activities to a partner company. The choice includes both service and production activities as in the case of subcontracting.

Three main factors explain the outsourcing movement:

• outsourcing allows the transfer to service providers of additional cost risks, related to overinvestment or underinvestment;

• outsourcing allows cost reduction;

• Outsourcing makes it possible to reap the benefits of the vertical division of labor between companies and the specialization of service providers.

The research of Tondeur and Villarmois (2003), which documented the phenomenon, is pioneering. Using an approach based on contingency theories, they highlighted the influence of the environment on the increasing centralization of the accounting function. This centralization has led to two recent phenomena for the accounting function: outsourcing and shared service centers. They then used (Huynh and Tondeur in 2011) the theory of transaction costs, a traditional theory of outsourcing, to explain the use of one or the other of these two forms.

The accounting function is unique among all the functions within a company: it has the particularity of producing information that allows fund providers to control the company. Beyond the cost and skills of the accounting function, this information problem will naturally weigh on managers' outsourcing decisions.

Outsourcing one of the accounting and financial functions improves the transparency of information and the process and increases the visibility of controls.

Outsourcing of the accounting and financial function is a frequently mentioned approach (by service providers), but rarely implemented. The aim of this paper is to define this practice, which, in the case of the accounting and financial function, is often confused with subcontracting and identifying the factors that explain this decision. Outsourcing and the creation of shared service centers are proven organizational changes for many functions. However, they seem to be innovations for the accounting function. This movement is part of the more general context of the emergence of new forms of organization that are reflected, among other things, in the development of networked organizations (Desreumaux, 1996). Outsourcing and the creation of a shared service center consist in reorienting the exercise of the accounting function, either by entrusting it to an external service provider, or by carrying it out "in-house", within a specialized branch. This similarity of processes makes it possible to identify the common causes and objectives of such reorganizations. The starting point is the inefficiency of the service or, in the worst cases, its inability to meet the expectations of general management (inefficiency). However, our thinking will be limited to outsourcing. After trying to define outsourcing, we will present the main theories that explain the choice of this form of organization.

3. Research methodology

The aim of the paper is to understand why companies decide to outsource their accounting function. In the sense of Yin (1994), the chosen method "is an empirical investigation that invests in a contemporary phenomenon in its real context, especially when the boundaries between phenomenon and context are not clear." The research topic is the outsourcing of the accounting function, a strategic movement, a topical issue that has gained momentum in recent years. As Yin (1994) explains, our study is based on the contemporary phenomenon in certain real-life contexts, being the most appropriate strategy for investigating the phenomenon, because it is explanatory and descriptive.

As a basic method for this article, qualitative research using the documentary collection was used, making it possible to collect information from existing writings on the subject of research (external documents: websites, brochures, internal documents, activity reports, organization charts, etc.). .

The chosen qualitative research is generally interpretive: it is not about testing theories, but rather about understanding a given phenomenon based on interpretations, testimonies or opinions gathered.

4. Findings

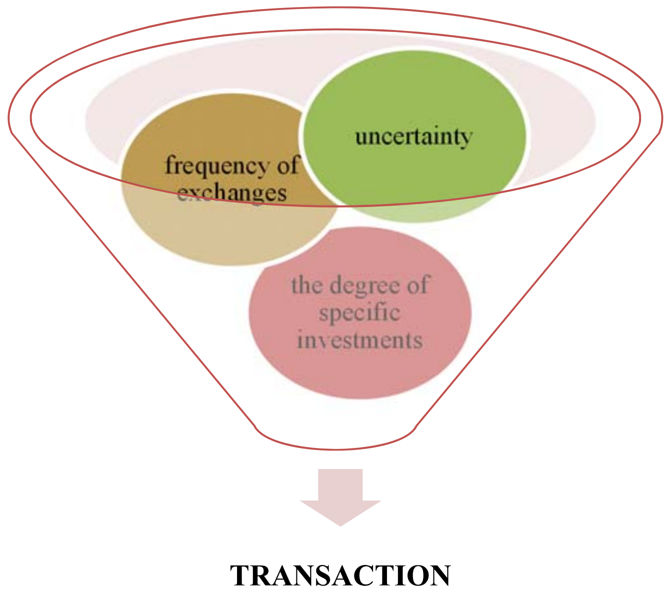
The choice of a particular organization should answer the following question: What is the arrangement that makes the best possible contribution to the company's control strategy? costs, flexibility, decision support, information quality and knowledge production? Beyond intra-organizational arrangements, the company is faced with a choice between what it does (internally) and what to do, especially through outsourcing. In general, contingency theories and transaction costs are often mentioned to justify the choice to carry out an in-house or outsource an activity or function. However, once we set ourselves the goal of analyzing the content of outsourcing (contract development, implementation, relationship management) these theories are no longer enough. To position outsourcing in a theoretical framework, we need to return to its definition (Lacity and Hirschheim, 1993): "Outsourcing can be conceived as the acquisition of a good or service that was previously provided internally. It represents a significant transfer of assets, property and personnel to a seller who is responsible for profit and loss. " This definition allows us to distinguish the exteriorization of a certain number of practices and to broaden the theoretical framework for explaining the phenomenon. Outsourcing differs from outsourcing in that it involves entrusting a service provider with an activity or function that has been performed in-house.

Outsourcing refers to activities necessary for the operation of the company that will be the subject of a contractual relationship that provide in particular the conditions of exit from the relationship, ie the internalization of the activity or change of service provider. Outsourcing, as a particular form of inter-organizational cooperation, comprises two aspects: on the one hand, the reallocation of existing resources, which can be explained in particular by the analysis of transaction costs and, on the other hand, the establishment of the contractual relationship and the production of knowledge. -how that requires the use of other theoretical frameworks. Thus, the most commonly used theories to explain the outsourcing decision are transaction cost theory and resource theory (Barthélémy, 2004). However, theories as diverse as institutional theory and contingency theory offer a complementary perspective on the decision-making phase.

A. Transaction cost theory

Transaction cost theory makes it possible to explain the choice of outsourcing by reversing the analysis of organizational optimization by using vertical integration. The optimal organizational form for carrying out a transaction must allow the minimization of production and transaction costs. There are three fundamental dimensions that characterize a transaction and determine the optimal organizational form: uncertainty, frequency of exchanges, and the degree of specific investment required to complete the transaction. (figure no.1)

Figure no. 1 The dimensions that characterize a transaction



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These three characteristics will influence the organizational behavior of the economic agents and will influence the transaction costs. Regarding outsourcing:

• uncertainty is related to the customer's dependence on his service provider. Uncertainty can also be analyzed through ex-post dependence and moral hazard: through outsourcing, the client is exposed to a loss of control;

• the frequency is to be related to the repetitiveness of the tasks and their degree of complexity. The more repetitive and complex the tasks, the more they can be part of an outsourcing;

• the specificity of the assets (tangible and intangible) is the most important dimension related to the decision on the choice of the governance structure. It determines whether or not to redistribute the asset in other economic contexts, without changing the value of production and therefore to transfer it to another economic agent who will handle the transaction.

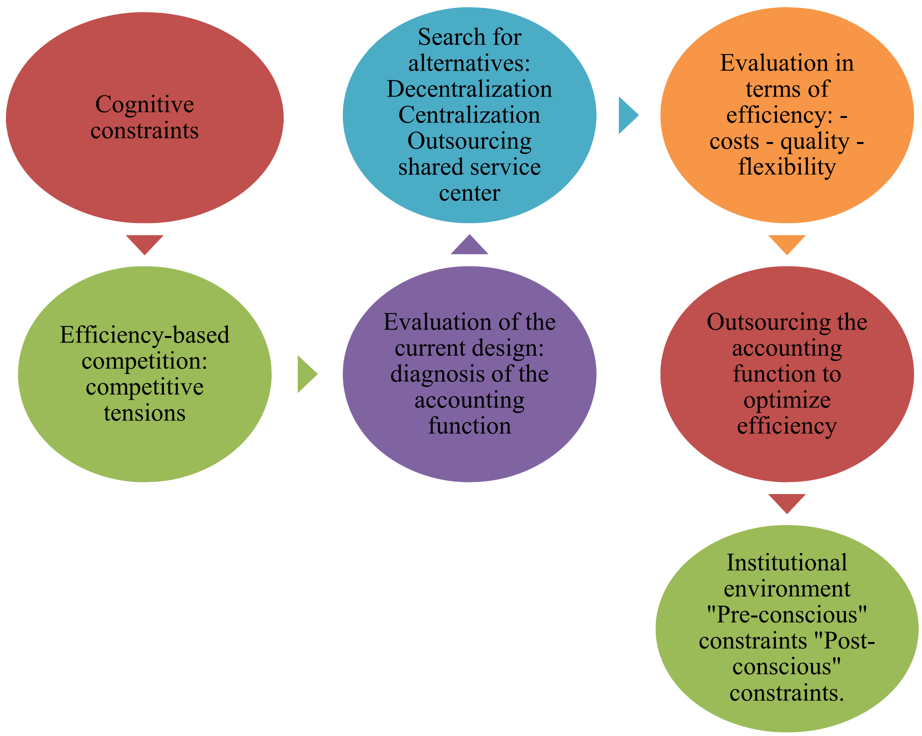
In reality, the solution adopted is not always rational, ie it is not necessarily based on the criterion of efficiency. It is also influenced by institutional logic, especially for regulated activities such as accounting. The company, the market, the bureaucracy are embedded in the institutional environment.

B. Institutional theory

Meyer and Rowan (1977) analyze the impacts of institutional environments on organizations. The arguments allow a deeper understanding of the outsourcing of the accounting function. It would be a way to gain some legitimacy, to follow the rules.

When the environment is uncertain and the goals are ambiguous, the organization tends to imitate the model of other organizations that it perceives as successful. Following the same line of thinking, Roberts and Greenwood (1997) analyze the institutional environment distinguishing two types of constraints: - "pre-conscious" constraints: these are factors that actors do not perceive because they seem obvious. For example: social rules or guidelines ... - "post-conscious" constraints: in this case, the actors are aware of the need for change and the factors that condition their solution. However, environmental pressures prevent any change. For example, we will talk about "post-conscious" constraint if an organization does not choose to outsource due to the lack of references when this is the most effective solution. The process of choosing to outsource the accounting function in Roberts and Greenwood's (1997) analysis called "constrained efficiency" can be outlined as follows: (Figure no.2)

Figure no. 2 Roberts and Greenwood's choice of organizational design analysis framework (1997)



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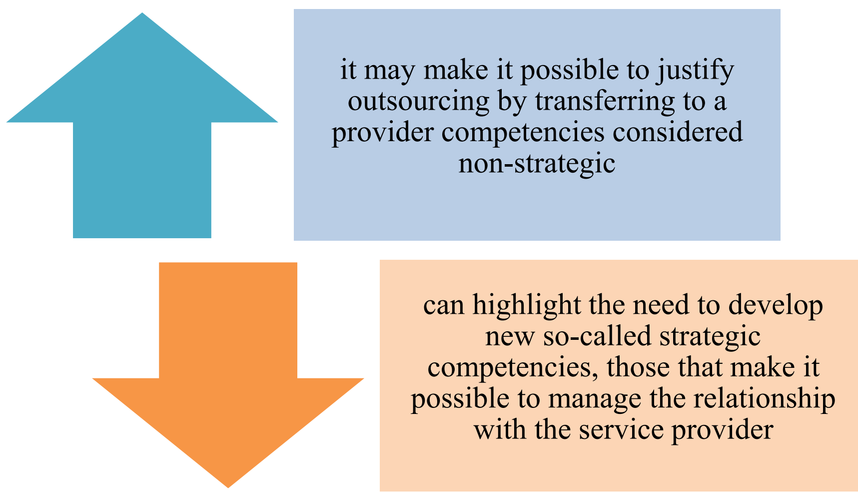
Efficiency-based competition leads the organization to diagnose its current situation. Then, the solutions are identified and evaluated to choose the most effective ones. The criterion of efficiency is present at all stages, but the novelty of Roberts and Greenwood's (1997) vision is the introduction of the institutional environment. Indeed, throughout the process, organizational choice is influenced by multiple constraints: cognitive, "pre-conscious", and "post-conscious" constraints. Transaction cost theory has provided a widely used theoretical framework in outsourcing analysis regardless of the function being analyzed. However, as this theory is attached to the analysis of the phenomenon of vertical integration, which is an organizational form of optimizing transaction costs, it has some limitations, especially in its contribution to the development of contracts that allow recourse to the market while limiting costs. as well as its failure to address the management of the initial transfer and the future management of resources and competencies from the company to the service provider with the compulsion to allow a possible reintegration. In addition to transaction cost theory, the resource approach is the most commonly used theoretical framework to explain the outsourcing decision (Barthélémy, 2004).

C. Theory of resources and knowledge

The theory of resources and knowledge makes it possible to explain the use of outsourcing as a means of optimizing the use of its resources for core business and recourse to the complementarity of external service provision to providers, as soon as this is considered more efficient than internally provided service. In addition, the issue of skills management is at the heart of the issue for companies when it comes to managing the restoration of the outsourced function.

The resource and skills approach approaches the company as a collection of productive resources whose goal is to create and allocate these resources (Quélin, 1997). The company is not a tool for organizational optimization as opposed to the market, but a tool for creating resources. Resources, although defined in different ways, can be considered, according to Barney (1991), as "all assets, capabilities, organizational processes, company attributes, information, knowledge, etc., controlled by a firm that allow it to design and develop implementation. strategies to increase its effectiveness and efficiency. "In terms of competencies, these are all individual and collective resources that make it possible to carry out an activity consisting of routines or organizational processes. These skills will be strategic when they are the basis of a competitive advantage and when they are durable, non-transparent, difficult to transfer. In the context of outsourcing, which consists in the transfer to a third party of an activity carried out internally through the transfer of both physical and human goods, the notion of transfer and management of resources and skills is at the heart of the relationship between two parties to the contract. This is why this theory is useful at different levels to shed light on the phenomenon of outsourcing: (figure no.3)

Figure no. 3 Theory of resources and knowledge



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• may make it possible to justify outsourcing by transferring to a provider of skills considered non-strategic (not having the qualities mentioned above) in order to reorient the use of resources over skills considered strategic;

• can highlight the need to develop new so-called strategic competencies, those that make it possible to manage the relationship with the service provider due to the incomplete nature of contracts, in particular the creation of resources and skills needed to reintroduce functions.

The "theory" of organizational learning aims to build "an organization that is expert in creating, acquiring and transferring knowledge, as well as changing its behavior in ways that reflect their new knowledge and strategic thinking" (Garvin, 1993). In a turbulent and uncertain environment, this allows the organization to transform at least as fast, if not faster than the waiting environment. This theory provides a framework for analyzing the outsourcing of the accounting function by studying the learning process of the company at the establishment of outsourcing and during the course of the service. A similar analysis can be developed by the supplier.

D. Contingency theory

Contingency theory provides an analytical framework for outsourcing, in the case of the accounting and financial function. Indeed, this theoretical current has never been used to explain the decision to outsource. Contingency theorists, according to Desreumaux (1997, p.3165) "[refer] to a kind of impersonal process that is reflected in the actions of individuals, but which is largely separate from their intentions. The explanatory principle of reference here becomes that of contextual determinism; the context imposes on individuals who create or modify the structure of an organization such a degree of constraint that they can only adapt that structure accordingly ". Thus, it will appear that the outsourcing of the accounting function is associated with unique organizational structures.

5. Conclusions

In the age of market globalization where competitiveness is no longer just about prices, the company must be able not only to produce at a lower cost, but also to be very receptive and able to offer quality products and services. Managers have no choice but to make relevant decisions to ensure the sustainability of their companies. The constant search for profitability based on good performance leads the economic life of companies. To do this, several companies have opted to reduce costs by outsourcing certain functions, including accounting. Outsourcing thus appears as a cost-cutting alternative, allowing the company to refocus on its core business. Regular accounting has the advantage of producing adequate accounting and financial information for decision making. Very rarely, the accounting information system has been considered a strategic tool.

In the accounting literature, the strategic objectives of accounting data management are numerous, but in most cases remain supported by information asymmetry in the managerial context. Most companies do not always manage to reflect the faithful and sincere image of the company's activity in the exercise of the accounting profession. Several reasons explain this state of affairs: lack of administrative, financial and accounting procedures, lack of a reliable information and management system, incompetence of internal accountants, concealment of certain information; poor accounting. Companies face difficulties in applying the new framework in terms of accounting for certain transactions, the content of certain accounts, the interpretation of standards, and also difficulties in processing and presenting financial statements. Implementing the requirements of the new discipline is therefore not easy for companies. Accounting, legal and financial standards are not being met and this is all the more accentuated as the informal sector seems to be gaining an advantage over the sector. Unfortunately, experience has shown that piloting at sight can only bankrupt companies. Moreover, the importance of taxation in the national economy, either due to the magnitude of budgetary needs or the concern for interventionism, can no longer be demonstrated. It affects everything, especially business. But if companies have a lot of taxes to pay, they also have options, allowing them to look for the most advantageous tax treatment.

Accounting and tax information are essential for decision making and business survival. For the reliability of accounting information, outsourcing the accounting function seems to be a solution for shareholders against the strategy of rooting the company's manager by managing the accounting results. In view of these various difficulties, several promotion and supervision structures have been set up to provide assistance to businesses, the nature of which may be financial, commercial, technical, social, accounting, fiscal, etc. These include accounting firms that assist companies in general in auditing, legal advice, taxation and accounting. Accounting is the memory without which the proper functioning of the business could be called into question. Accounting and tax assistance will require better organization to meet the requirements of collection, maintenance, control, presentation, communication, verification and implementation of regulatory methods and procedures.

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