Why Finance and Accounting Outsourcing Makes More Business Sense Than Ever

By Jan-Hendrik Adendorff

Managing Director, Adendorffs

The Big Four CPA firms and Fortune 500 companies have been using outsourced offshore resources for decades, the genesis of which was the lower cost of living and the plethora of university graduates in developing Low-Cost Countries such as India, The Philippines, and many Eastern European countries. Fast forward to 2023, and now many large national and regional CPA firms and middle market companies have followed suit, with BPO (Business Process Outsourcing) Centers preparing tax returns and performing audit functions, Client Accounting Services duties, or AP and AR processing and reporting.

But as every CPA firm is acutely aware, the shortage of labor today and the dwindling pipeline of new accounting students at the university level in the US presents a clear and present danger for firms to be able to complete work for their current clients, much less grow through the acquisition of new clients. In a recent study published in *Accounting Today*, less than 1% of surveyed firms indicated they could staff adequately. As a result, firms are shedding clients, missing deadlines, paying more to retain people, and hoping that something will change, which, unfortunately, is not very likely.

So, while the move to offshore outsourced labor began as a cost saving scheme, given the arbitrage between labor costs in the US and elsewhere, more firms today are taking a second look at offshore labor not as a cost savings, but to source highly talented, highly motivated young professionals to help complete client work.

The COVID Factor and Remote Working

The global COVID epidemic created a sea-change in the way white collar work gets done. Working from home is now commonplace, and not likely to go away. According to a 2023 survey by Upwork, by 2025, 32.6 million Americans will be working remotely--22% of the workforce. And in 2022, the most common position advertised as a remote position was accountant. The COVID factor effected two changes for public accounting: the working environment expectations of employees and new hires has shifted; and firm management begrudgingly became receptive to the notion that work could be done remotely. “I don’t care where they’re sitting, as long as the work is getting done,” I was told by one managing partner recently. Some firms have taken that logic/comfort level a step further to include offshore resources—an even more remote solution, but one that’s become seamless due to attitudinal changes about remote work, improved technology and data security protocols, and, of course, the necessity of finding qualified professionals in a hyper-competitive labor market.

The Increasing Outsourcing Venues

Firms now have the greatest number of options when it comes to offshoring; the wave began in India as their education system improved and the cost difference between a graduate in India vs. the US was significantly different. The wave extended to The Philippines where a similar demographic and economic shifts were occurring. Today, as collaboration technology perfected during COVID has become omnipresent in all companies across the world, US based companies have outsourcing options literally around the world, either near shored in Central or South American countries; in eastern Europe; and in African countries such as South Africa.

In our experience, there are three challenges that US firms face in offshoring, once they overcome the initial hurdle to decide to make the strategic move: cultural, time, and language. In the next article in this series, I will delve into those more deeply, but do want to mention here that the ability to communicate effortlessly in English is one of the most important factors for success.

Offshoring Structural Models

The other evolving option that companies or firms face when it comes to offshoring is the organizational structure of the agreement. In some instances, firms will hire an offshore company only to recruit workers who become employees of the US firm. In those instances, the US company must learn and abide by the local labor laws (like the 13th month of pay in the Philippines and local legal holidays), but more importantly, must train the new offshore hires, make sure they are following processes and procedures and are adhering to policies and procedures, especially those related to data security. The other model is a contract arrangement with a local offshore firm that specializes in a certain skill set, such as finance and accounting. In those arrangements, the daily work management, quality control, and data security are organized and administered by the management team in the offshore country, at the direction of the hiring firm in the US. In our experience, this model has proven far more effective and efficient than the first model.

Initiating the offshoring process

In the next article, I will provide a step-by-step guide for firms or companies contemplating a sustainable offshoring strategy that can provide high quality, motivated workers and reduce labor costs.

About the Author

Jan-Hendrik Adendorff is a Chartered Accountant, Registered Auditor, and Forensics Practitioner in The Republic of South Africa; and a Forensic Examiner in the US and RSA. He is co-founder of Adendorffs, a Pretoria based firm providing finance & accounting, forensic accounting, IT help desk and software development talent to US and Australian based CPA firms and commercial enterprises. He is also an international member of the Texas Society of CPAs.

Contact: jh@adendorffs.co.za

Website: www.adendorffsgroup.com

https://kruschecompany.com/global-outsourcing-sector-statistics-facts/

https://www.forbes.com/advisor/business/remote-work-statistics/