Why Finance and Accounting Outsourcing Makes More Business Sense Than Ever (Part 1 of 3)

By Jan-Hendrik Adendorff

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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.

Six Considerations Before Considering Outsourcing Finance and Accounting (Part 2 of 3)

By Jan-Hendrik Adendorff

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With the finance and accounting talent crunch still at its apex, more companies and CPA firms are seeking alternative staffing models. According to data from Clutch, 21% of small businesses planned to hire a nearshore outsourcing provider with outsourced functions and processes last year. In the U.S., approximately 300,000 jobs are outsourced each year.

In previous years, the move to outsource talent to a foreign country was primarily to reduce operating costs. In today's labor market, the increase in offshoring is due to the paucity of experienced talent, or in some cases, talent who wants to actually work. Large companies and the Big Four CPA firms have used offshore talent for decades and have established their own BPO (Business Process Outsourcing) centers in low-cost countries such as India, the Philippines, or South Africa. Because of the scale of these operations, large organizations invest in infrastructure, training, development, and local compliance (did you know that employees in the Philippines receive a mandatory 13th month of compensation?)

Smaller organizations considering hiring offshore resources should consider their own operations and culture before embarking on their own overseas adventure.

1. Process is King.

The most important factor in the success of offshoring finance and accounting functions is having repeatable, consistent processes and procedures for work intake, flow, and review. It still surprises me how many mid to large size companies and even typical pedantic CPA firms lack those disciplines. Hiring offshore resources is not too different than hiring someone in your own office, or a domestic remote resource—there must be specific responsibilities and timelines for each aspect of the function. Lacking process results in missed deadlines, rework, and frustrations on both sides of whatever ocean separates the company and the offshore resources. Does your organization have written workflows and reporting structures? Are they applied consistently, or in CPA firms, for example, do partners in the same department do things their own ways? This is part of a larger conversation in some organizations and is imperative to the success of offshoring.

2. Hire offshore for the talent, and not just to save money.

This is not to suggest that there is not savings to be had from offshoring finance and accounting functions, although the arbitrage between US and offshore labor costs has shrunk especially in the past three years. In India, for example, average wages have increased nearly 10% *per year* for the past three years. In today's global, connected world, many still in the US still find it surprising about the quality of higher education in countries around the world. Countries such as my own South Africa, for example, produce thousands of our equivalent to CPA designation, Chartered Accountants, per year. And in many other countries like mine, these first-generation college graduates and professionals are eager, engaged and want to build careers. Based on numerous conversations with CFOs or partners of CPA firms recently, finding US based talent with the same drive and willingness to work has been a challenge.

3. Treat your offshore teams as peers and not peons.

The most successful offshore arrangements are those in which the non-US teams are treated with respect. These professionals are people with families, ambitions, and curiosity, and organizations who hire these resources will optimize their return by treating them as such, getting to know them as individuals and not merely cogs in a global wheel. This is no different than cultivating your own talent in-house, and the organizations who successfully offshore finance and accounting functions have learned this along the way.

4. Start slowly, learn, and expand offshore resources.

As with any new venture, there is a learning curve to offshoring. We typically recommend starting slowly with teams of 3 to 5 offshore professionals and building from there. Things will inevitably not go precisely as planned (just as client work for CPA firms), frequent process check in meetings, regular status meetings and reporting on workflow and productivity (not hours), and coaching/tweaking during the first three months of a new offshore relationship is vital. It's important to initiate the process during the least busy time of the year to allow time for kinks to be straightened and teams to grow acclimated. I'm writing this in the first week of September, so right after the September 15 tax deadline is an ideal time to begin the offshoring process to be ready for year end close or busy season 2024.

5. Time, time, time is on your side. Yes, it is.

The time difference between the US and offshoring countries can be a boon and not an impediment. In establishing the working time parameters between the US and offshore resources, it is vital to provide overlap in working hours to facilitate communications—and live is far better than email, as getting lost in translation happens frequently in email, even between two native speakers. While some might think that offshore resources with a 12-hour time difference to the US (India, Vietnam, The Philippines) is advantageous, that scheme makes overlap to US working hours more difficult. And some of my colleagues in India and the Philippines providing offshore resources will attest, the best and the brightest in their countries no longer must work the graveyard shifts to accommodate US work hours, and as a result the B or even C players are those serving US organizations.

6. The right culture and world view.

As I mentioned above, the hiring organization's culture and ability to engage offshore resources as peers is important. This is part of a "world view" that frankly, many organizations have not yet developed. I've found that cities such as Miami or Houston, with diverse populations and a thriving global business economies, tend to be more amenable to using offshore resources. Others will likely come along to offshoring but will be late adopters and will continue to struggle with finding the right talent in today's war for finance and accounting talent.

We have created an omnibus worksheet for organizations considering offshoring their tax, bookkeeping and finance functions. Please contact me at the email below, and I'd be pleased to share it with you.

The Benefits of Offshoring Financial Functions to South Africa (Part 3 of 3)

By Jan-Hendrik Adendorff

In the previous two recent articles, I addressed the concept and considerations for offshoring for CPA firms and companies. In this article, I will share some information about an offshoring option that can alleviate some of the concerns US companies often have about offshoring—The Republic of South Africa.

South Africa is a popular destination for tourism, with wild game parks, an incredible wine country, British, Dutch, and indigenous history, and an amazing food culture. But South Africa is also becoming known for offshore outsourcing, and for good reason. The country offers several advantages for businesses looking to outsource their financial functions:

- No language barrier: English is the official language of South Africa, so there is no language barrier to communication between US companies and their offshored financial functions. This can save businesses time and money on translation and interpretation costs.
- Cultural alignment: South Africa has a strong Western cultural heritage, which makes it a good fit for US companies. This can help to facilitate communication and understanding between the two cultures, which can be essential for a successful outsourcing relationship.
- Cost savings: The cost of labor in South Africa is significantly lower than in the United States, which can lead to significant cost savings for US companies. According to a study by the World Bank, the average salary in South Africa is about one-third of the average salary in the United States. This can save businesses a significant amount of money on their financial functions.
- Highly educated professionals: South Africa has a highly educated workforce with a strong background in finance. Many South African universities offer degree programs in accounting, finance, and other related fields. This means that businesses can find highly qualified and experienced professionals to manage their offshore financial functions.
- Time zone: South Africa is only 6 hours ahead of the US east coast, so there's already an overlap of workdays, which makes it easy to coordinate work between the two countries. This can be

important for businesses that need to be able to communicate with their offshore financial functions on a regular basis. In other low-cost countries, the 12-hour time difference requires offshore resources to work the graveyard shift; the best talent in those countries typically don't have to work such hours, and US companies often wind up with lower performers.

In addition to these advantages, South Africa also offers a number of other factors that make it a good choice for offshore outsourcing, such as a stable political environment, a well-developed infrastructure, and a favorable regulatory environment.

The Benefits of Offshoring Financial Functions to South Africa for CPA Firms

CPA firms can also benefit from offshoring their financial functions such as accounting, audit, and tax to South Africa. In addition to the advantages mentioned above, CPA firms can also benefit from:

- Available talent: US firms continue to struggle to find qualified professional staff in today's labor market. South Africa is rapidly becoming an option to source qualified people at rates comparable or less than other low-cost countries such as India or The Philippines.
- Reduced risk: Outsourcing to South Africa can help CPA firms reduce their risk exposure. By outsourcing their financial functions to a reputable provider, CPA firms can reduce their risk of fraud, errors, and other problems—as long as the processes and procedures from the originating firm are consistent and consistently executed.
- Improved efficiency: Outsourcing can help CPA firms improve their efficiency. By offloading non-core functions to a third-party provider, CPA firms can free up their own resources to focus on more strategic activities.

Conclusion

Offshoring financial functions to South Africa can offer a number of benefits for US companies and CPA firms. By considering the advantages mentioned above, businesses can make an informed decision about whether or not to offshore their financial functions to South Africa.

Here are some additional things to consider when evaluating the benefits of offshoring financial functions to South Africa:

- The specific financial functions that need to be offshored.
- The size and complexity of the business.
- The budget available for outsourcing.
- The level of risk tolerance.
- The desired level of control over the outsourced functions.
- Data security and process protocols.

By carefully considering all of these factors, businesses can make the best decision for their specific needs.

About the Author

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