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OUTSOURCING ACCOUNTING FUNCTIONS IN BUSINESS ORGANISATIONS: BENEFITS AND CHALLENGES

Salau Oloruntoba Nasir & Salau Ayo Rahmat
Accountancy Department,
Federal Polytechnic Bida, Niger State
Email: meetnsalau@gmail.com

ABSTRACT

In recent years, accounting outsourcing is a business strategy that is fast-growing among business organisations seeking to organize their accounting processes and concentrate on core competencies for enhancement of their performance. Regardless of the valuable benefits of this practice to businesses, it is not without its potential risks and challenges. Hence, this study delves into the benefits and challenges of outsourcing accounting functions with the view of resolving the identified challenges so that business organizational objectives can be actualized. Based on the information gathered from the reviewed literature, the study concluded that business organisations can open several benefits to themselves if they are able to handle the associated challenges of outsourcing accounting functions strategically and overcome them.

Keywords: *Accounting, Accounting Functions, Accounting Outsourcing, Business Organisations, Outsourcing*

INTRODUCTION

Outsourcing is a system of engaging the services of specialized service providers in the performance of specific business functions. According to Evanson (2010), outsourcing was initially the practice of large business organisations. It has however become a favourite of small and medium sized firms.

Business organisations involve in the transfer of different business functions such as labour, marketing and accounting to specialized third parties for different reasons. For instance, labour outsourcing became a popular practice after the middle of 20th century among the US firms that were searching for credible solutions for minimization of production cost (Evanson, 2010). Similarly, Lahiri (2015) opined that organisations deploy outsourcing system as a strategy of enhancing their performances. Business organisations adopt a system of accounting outsourcing in order to manage their financial processes effectively. Outsourcing accounting functions is a strategic approach of delegating accounting tasks, duties and responsibilities to external service providers who specialize in the provision of such accounting tasks and responsibilities, instead of handling them in house (Sharma, 2023). Owing to the competitive nature of business environment, businesses employ the method of transferring part of their accounting functions to a specialized third party provider with the view of cutting costs, gaining accessibility to scarce skills or having competitive advantages (Egiyi & Alio, 2020).

Considering the firms' decision to outsource several business functions, Azucena, Balmeo, Borromeo, Jain and Sandoval (2015) observed increase in the outsourcing of accounting functions. This can be attributed to the resource-intensity of in-house management of accounting functions. According to Mikko and Juntunen (2018), accounting function is crucial for businesses and managing such critical functions like recording of financial transactions, preparation of financial statements, preparation and management of budgets, assurance of regulatory compliance and provision of valuable insights for decision-making by business organisations themselves can be resource-intensive and distract them from the core business operations. The authors emphasized that the outsourcing of these accounting tasks to specialized expertise can afford the businesses the opportunities of cost efficiencies, enhanced accuracy and improved financial reporting. In the opinions of Cahyaningtyas and Ningtyas (2020); Gooderham, Tobiassen, Doving and Nordhaug (2004); Jayabalan, Raman and Ching (2009), accounting functions have evolved from supporting periodic reporting and record keeping to playing vital roles in businesses, maintaining competitive advantage and facilitating effective decision making. Therefore, the need to engage the service of accounting firms that are expertise in the provision of these services cannot be over-emphasized.

Regardless of the numerous benefits derivable by business organisations from outsourcing accounting functions, businesses face certain challenges from the practice of transferring accounting tasks form employee groups to non-employee groups. Egiyi and Alio (2020) identified problems of loss of control, loss of organisational trust and security risks among the problems facing the organization that adopt the strategy of outsourcing accounting functions. Given the aforementioned advantages and problems of outsourcing accounting functions, this study is set out to discuss in details the benefits and challenges of outsourcing accounting functions with the view to proffer solutions to the problems faced by business organisations engaging in this practice of transferring specific accounting functions to accounting firms.

Concepts of Outsourcing, Accounting functions and Accounting Outsourcing

Outsourcing

The term 'outsourcing' has been given different definitions in the literature, according to Kakabadse and Kakabadse (2002), outsourcing is the means of acquiring products or services from outside a business organisation. In their study, Dolgui and Proth (2013) defined outsourcing as a system of acquiring semi-finished products, finished products or services from outside business organisations, particularly if these activities were traditionally performed in-house. A critical assessment of the two definitions by Kakabadse and Kakabadse (2002) and Dolgui and Proth (2013) shows that outsourcing was viewed from the perspective of acquisition of products or services by firms. However, while the former authors did not indicate any condition that must be fulfilled before an acquisition of items (products or services) outside the firm is considered as outsourcing, the latter authors emphasized that any function performed by outside vendors for business organisations can only be considered as outsourcing if such function was previously done in-house. This implies that business organisations must initially have the capabilities of performing any outsourced business function.

Similar to the definition of Dolgui and Proth (2013), Carey, Subramaniam and Ching (2006) in Adekoya and Ojediran (2024) defined outsourcing as the practice of sub-contracting specific services or activities to external parties that could otherwise be performed internally by an organisation's employees. Cahyaningtyas and Ningtyas (2020) viewed it a strategic decision to contract non-core, often repetitive, specialized activities or business processes to external parties that are capable of performing them more efficiently and effectively. In another study by Burko (2022), outsourcing is described as the practice of contracting and delegating specific business functions, processes or tasks to external third-party service providers. It involves transferring the responsibility and management of these activities to external parties instead of handling them in-house. It is obvious from this definition that weather or not the business organisations are capable of previously performing certain functions, the delegation of such functions to expertise is outsourcing. Outsourcing can therefore be referred to as the strategy of engaging the services of third party professionals to take over the responsibility and management of specific business functions on behalf of the business organisations rather than performing those functions internally.

Outsourcing encompasses several business functions such as information technology, human resources, customer support, accounting, manufacturing and logistics ((Sharma, 2023). The author posited that business organisations frequently outsource non-core activities to external service providers in order to concentrate on their core competencies and strategic objectives. Outsourcing is not a mere practical choice of business organisations but rather represents a strategic decision by businesses (Everaert, Sarens & Rommel, 2010) and outsourcing decisions are motivated by optimizing efficiency and effectiveness within business organisations (Agburu, Anza & Iyortsuun, 2017). Sharma (2023) affirmed that the primary motivations of outsourcing include cost reduction, accessibility to specialized expertise or technologies, improvement of operational efficiency and enhancement of flexibility and scalability. This implies that outsourcing provides the benefits of economies of scale to business organisations by concentrating on core business operations and gaining competitive advantages. According to the author, outsourcing can take the forms of offshoring and nearshoring. Offshoring relates to outsourcing form whereby business functions are transferred to external service providers located in distant countries and it is frequently characterized by cost advantages. On the other hand, nearshoring is a form of outsourcing to nearby service providers or service providers within neighboring countries.

Accounting functions

Accounting is measuring, processing and communicating financial information about economic entities (Kamyabi, 2012) to various users of such financial information. Okoye (2006) described accounting as the process of identification, measurement and communication of economic information for users of such information for their decisions. Salau, Salau and Yahaya (2021) described accounting as a profession through which financial or economic information is generated, processed and disclosed to investors (existing and potential) and other users (internal and external) for their various investment or otherwise decisions. According to the authors, it is an information-generating discipline that supplies financial information to decision makers who are either insiders or outsiders to an economic entity for rationalization of their economic decision. Accounting is often called the language of business because it constitutes an imperative facet of financial reporting process and quality for businesses (Feyitimi, Nasieku & Muturi, 2016). According to Kipsang and Mwangi (2017), effective accounting practices afford the businesses the opportunities of adhering to regulatory requirements provide stakeholders such as investors, creditors, management and regulators with decision-useful information.

Accounting is a profession with several specialized areas like financial, cost and management, auditing, forensic, public sector, environmental and taxation (Ali, Ghani, Muhammad & Widuri, 2023; Salau et al., 2021). The primary objective of these branches of accounting is to provide accounting reports with adequate and timely information needed for informed judgements by users of such reports. Ani and Obara (2002) agreed that the overall goal of accounting and financial reporting is to provide financial information to the identified user groups for making informed decisions and demonstrating accountability and stewardship. Accounting functions refer to the various roles or activities performed by accountants in the aforementioned fields of accounting to ensure provision of useful and relevant accounting information to various identified user groups for their investment decision making. According to Alan (2002) in Egiyi and Alio (2020), accounting functions range from account receivable, internal audit services, account payable, general ledger, lease administration, payroll, sales audit to tax, property accounting.

Accounting Outsourcing

Egiyi and Alio (2020) defined accounting outsourcing as process of reassigning some part of accounting functions to a third-party provider or a fully owned subsidiary for the purpose of gaining access to scarce skills, cutting costs or obtaining competitiveness. The authors identified accounts payable outsourcing, general accounting, payroll processing, treasury and cash management, invoice processing, inventory management, preparation of financial statements as some of the accounting functions that firms can outsource. Krell (2006) also listed internal services, general ledger and financial reporting as some components of accounting functions suitable for outsourcing by business organisations. Similarly, Sharma (2023) referred to accounting outsourcing as the practice of delegating specific accounting functions, processes or tasks to external service providers. The author noted that the scope of accounting functions transferred to specialized accounting firms or service providers instead of handling them in-house varies and it ranges from basic bookkeeping and payroll processing to more complex financial reporting, tax compliances and auditing services.

Based on the reviewed literature, accounting outsourcing can be described as a business strategy of transferring specific accounting functions across all branches of accounting such as financial reporting, tax services, auditing and management reporting to specialized accounting firms or external service providers who possess required knowledge and expertise of handling such functions better than the firms' internal employees, so that businesses can concentrate on their core competencies for optimum maximization of the organisational goals and objectives. Several authors have pointed to specific ways through which accounting outsourcing can bring about objective maximization for the business organisations. For instance, Jayabalan et al (2009) attested to the fact that outsourcing accounting functions is an influential vehicle to minimize costs and enhance performance because accounts payable outsourcing will reduce administrative costs and cost savings without capital investment. Similarly, Agburu et al (2017) stated that tax processing outsourcing can save businesses' time and lessen the risks associated with late payments and filing errors. Also, Kipsang and Mwangi (2017) opined that businesses can focus on the value-creating functions that drive competitive benefits by outsourcing accounting functions or tasks.

Kamyabi (2012) ascribed the evolution of outsourcing accounting functions to several factors such as technological advancements, globalization and the recognition of substantial benefits of accounting outsourcing by business organisations. According to Adekoya and Ojediran (2024), accounting outsourcing has witnessed a notable surge in recent years and it has transformed the way businesses manage their financial processes. The authors believed that the significant momentum gained by outsourcing accounting functions among business organisations in the 21st century will continue to grow.

Benefits of Outsourcing Accounting functions

The increase in the practice of outsourcing accounting functions by business organisations in recent years has been ascribed to the numerous benefits that businesses derive from the adoption of such strategic business decision. Among the benefits of outsourcing accounting functions to business organisations are cost optimization, access to specialized expertise, increased operational efficiency, better organizational performance, risk mitigation (Burko, 2022; Egiyi & Alio, 2020; Sharma, 2023).

Cost Optimization

Cost reduction has been identified as a key driver behind the outsourcing of accounting functions in business organisations. Mueller (2011) noted that the idea of accounting outsourcing originated from the need to save money and increase profit.

Outsourcing accounting functions can bring about cost savings for businesses by eliminating the need for in-house accounting staff and infrastructure investments (Sharma, 2023). Outsourcing accounting functions to accounting firms offer business organisations the potentiality of achieving cost savings through reduction in labour costs, reduction in infrastructure costs and accessibility to economies of scale. According to Egiyi and Alio (2020), expenses relating to employment like payroll taxes, insurance, social security benefits, workspace, office furniture, computer software and hardware are reduced drastically through outsourcing of accounting functions.

Access to Specialized Expertise

Outsourcing service provider firms like accounting firms have specialized knowledge and expertise in various fields of accounting since they are deal with the various accounting needs of several companies. This means that employees of service providers are much more likely to be experts in their fields than the internal employees of business organisations. By transferring accounting tasks to these outside service providers, businesses stand the chance of tapping into the expertise of the service providers and therefore, access to accurate financial reporting, access to industry best practices and compliance with accounting standards are guaranteed.

Increased Operational Efficiency

Service providers like accounting firms have well established processes, advanced software and dedicated teams which support streamlined workflows and timely financial operations (Sharma, 2023) and outsourcing accounting functions is a popular strategy for businesses seeking to streamline their operations and focus on core competencies (Mikko & Juntunen, 2018). Therefore, engaging the service of outsourcing service providers to handle certain accounting functions can improve the operational efficiency of businesses through time savings and reduced administrative burden.

Better Organizational Performance

Outsourcing of accounting functions can result in accurate financial reporting and provision of timely and relevant accounting information required for rational decision-making and better allocation of business resources for improvement in the performance of business operations. According to Weigelt and Sarkar (2012), business organisations can streamline their operations, improve efficiency and allocate more resources to value-added activities that directly contribute to their core business objectives by concentrating on their core competencies and outsourcing their non-core activities. Also, Egiyi and Alio (2020) agreed that accounting outsourcing affords the business the opportunity of saving time and concentrating more on core activities and network building activities which facilitate the achievement of firm's goals. Proper concentration on core operations through accounting outsourcing can free up resources for business expansion and growth.

Risk Mitigation

Given the expertise of outsourcing service providers, accounting outsourcing enhances compliance and risk management. External service providers like accounting firms possess knowledge of regulatory requirements, ensuring compliance with accounting standards and tax regulations while mitigating risks associated with financial operations (Sharma, 2023). Through outsourcing accounting functions, business organisations are assisted in the reduction of risks associated with specific accounting functions or processes. For instance, outsourcing of tax processes can mitigate the risks associated with late payments and filing errors. Feyitimi et al (2016) noted that accounting outsourcing alleviates the pressure of complying with regular changes in tax regulations and keeping pace with evolving technology.

Challenges of Outsourcing Accounting functions

In spite of the numerous benefits of accounting outsourcing to business organisations, it is important to mention that outsourcing accounting functions also come with potentials challenges and risks. Egiyi and Alio (2020); Sharma (2023) identified data security and confidentiality, communication issues, limited control over accounting processes and quality control as some of the challenges facing businesses for outsourcing accounting functions.

Data Security and Confidentiality

Accounting data such as payroll, tax information and firm expenses contain all the necessary information about a firm and it is sensitive and confidential to the firm. Considering the nature of business environments where data can easily be manipulated or stolen, businesses face the risk of data breaches or misuse when sharing the accounting data to service providers.

Communication Issues

Difference in time zones of the businesses and outsourcing service providers, language barriers and poor communication channels can create misunderstanding between the firms and service providers. This can bring about delays in the execution of accounting tasks outsourced to the service providers, particularly if the accounting outsourcing takes the form of offshoring.

Limited Control over Accounting Processes

Outsourcing accounting functions has the tendency of detaching businesses from their accounting processes, reducing visibility and oversight. By outsourcing the tasks that were initially performed by the firm employees to outside service providers over whom the firm has little or no control, accounting processes can be disrupted.

Quality Control

The quality of outsourced task is another concern to businesses. According to Egiyi and Alio (2020), business managers often complain about the loss of control they experience over the quality standards of the outcome when certain functions or services are outsourced. Businesses may experience economic losses and compliance issues from poor service delivery like financial statement or payroll processing errors.

Solutions to Challenges of Outsourcing Accounting functions

To overcome the challenges or risks of accounting outsourcing, businesses need to carefully select reliable and trustworthy outsourcing partners. According to Jara, Tolentino, Robles, Diaz, Cardenas and Figueroa (2022), firms need to assess and manage these challenges of outsourcing accounting functions through proper due diligence, contractual agreement and ongoing monitoring.

Specifically, the identified challenges in this study can be handled in the following ways:

Problem of data security and confidentiality can be addressed by selecting service providers that have adequate information security management systems. Such service providers must be certified by International Organisation for Standardization and comply with General Dada Protection Regulation (GDPR) or other data privacy regulation (Divij, 2024). In another words, businesses should choose an accounting service provider with strong data security measures from the initial stage of accounting outsourcing. Other measures to data breaches include but not limited to use of encrypted systems for data storage and transfer, contractual agreement with detailed confidentiality clauses, continuous audit of outsourcing partner's security protocols.

Also, the challenge of communication issues can be handled by selecting service providers with overlapping working hours, using Zoom or Microsoft Teams to ensure smooth coordination, scheduling frequent calls to review progress and clarify issues and assigning a single point of contact for regular updates and faster problem-solving.

Furthermore, the less control problem can be tackled through clear definition of Key Performance Indicators (KPIs) to monitor the provider's performance, deployment of cloud-based tools and dashboards for real-time updates and reporting and maintaining transparency with periodic reports and regular review meetings. Issues pertaining to quality control can be arrested by partnering with experienced outsourcing accounting firms, setting clear Service Level

Agreements (SLAs) for accuracy and timeliness, using automation tools to reduce manual errors and frequently conducting performance checks to ensure delivery of satisfactory quality.

CONCLUSION

This study explored accounting outsourcing and provided detailed explanation on the benefits, the challenges of outsourcing accounting functions in business organisations and the several ways through which those associated challenges can be managed for better outcome of accounting outsourcing to businesses. Based on the information gathered from the reviewed literature, the study concluded that businesses stand the chance of benefiting immensely from the practice of accounting outsourcing provided its potential risks and challenges are tactically handled and managed.

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