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OUTSOURCING STRATEGY: OUTSOURCING THE FINANCE AND ACCOUNTING FUNCTION BY SMEs

Dushko Kocev[1]

Abstract

In this study, the outsourcing as a world trend cost saving strategy in businesses will be explained. Outsourcing is strategic use of outside resources to perform activities traditionally handled with internal staff and resources. Companies are increasingly deciding to hire firms from outside the company to handle some of their internal operations, but some of the companies hire outsourcing companies for every aspect from the operational circles except its core technologies. Outsourcing can be seen as a strategic way for managing technology initiatives and business goals, strategy for managing technology operations in today's difficult business environment, and as a way to reduce operating costs. Outsourcing succeeds when the client understands its business and its goals. Outsourcing fails when there is a lack of focus, clarity, process and procedure. The emphasis of this research is on the outsourcing strategies of SMEs, their implementation and contributions to organizational performance. In the following lines, the strategy for hiring outsourcing accounting companies by SMEs is analyzed in form of case study for SMEs operating in Macedonia business area.

Key Words: Outsourcing, Off-shoring, Appropriate Multi Sourcing

1. Outsourcing definition

The concept of outsourcing came from the American terminology "outside resourcing", what means to get resources from the outside. The term was used in the economic terminology to indicate the use of external sources to develop the business in connection with the operations previously managed with internal resources. Having in mind the demands of customers and shareholders, organizations are in permanent mission for finding ways that will improve their comparative advantage on the market. For many companies, the payoff for recent investments is unclear. Forced by investors and boards to rationalize expenditures, many managers increasingly look to improve performance by shifting resources, outsourcing various departments and the enterprise applications upon which fortunes depend. Outsourcing works best, analysts say, for companies that are resource constrained, can't bring new products and services to market quickly with existing staff and need for speed response. Most in-house staffs are already tasked with multiple responsibilities. Internal obstacles can delay or block new initiatives. Sourcing externally gives companies flexibility, shortens development cycles, and creates a distributed, multi-function business. Outsourcing succeeds when the client understands its business and its goals. Outsourcing fails when there is a lack of focus, clarity, process and procedure. Usually organizations look for the best service providers to whom to outsource their work, this gives them a chance to get their work done by experts which means good quality work leading to a good company name.

Outsourcing is one management tool that has gained relevance among managers in addressing today's business dynamics (Jae, et al. 2000). It is the replacing of in-house provided activities by subcontracting it out to external agents. In present day outsourcing is no more limited to peripheral activities such as cleaning, catering and security. As noted by (Jennings 1997) and (Dominguez 2006), outsourcing also includes critical areas such as design, manufacturing, marketing, distribution, information system etc.It is therefore pertinent

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to submit here that, all forms of organizations engage in one form of outsourcing or another regardless of their size (Isaksson & Lantz, 2015).
(Rob Aalders 2001) note the fact that outsourcing is not a new phenomenon; otherwise companies have outsourced advertising, legal services, maintenance and production, many years before. (A. Duhamel and B. Quélin 2003) say that outsourcing is often accompanied by a transfer of material and human resources to the chosen provider. It has the task of substituting domestic services in a medium or long term relationships with the customer enterprise. In order to achieve its set goals in the presence of technological advancement, sophistication of business processes, knowledge explosion and need for constant growth, an organization looks out for strategies to enhance performance (Dominguez, 2006). It therefore reflects on the capabilities of its own workers, its technological knowhow, business processes and so on, and answers the question of whether it can achieve its own goals with what it already has on ground or look out for ways to complement (Isaksson and Lantz, 2015). It therefore focuses on core competences and seeks to reduce operation cost which presents outsourcing as the right strategy (Akewushola and Elegbede, 2013).Outsourcing avails organizations the opportunity to concentrate her core competencies on definable preeminence business area and provides a unique value for customers (Dominguez 2006).
Studying the views of the authors, we could identify the following options for outsourcing, given the multiple criteria of classification (Wilcocks et al. 2004):
-The proportion of outsourcing: total, selective, partial.
-Outsourcing can be applied in: human resources, project development management, and service management.
-The outsourcing contract can be: general, transitional or of an economic process.
-The type of outsourcing relationships can be described as: one provider
- One customer, one supplier more customers, some vendors - a client or several vendors - more customers.
-The period of outsourcing can be on long term or short term.
-Location of the supplier is local, international (offshore) and regional (near shore) - closer to the customer.
Just like any other concept in the academic world, outsourcing has diverse definitions. This is due to the diverse nature of the perceptions of those who use it. It is therefore not feasible for one to state in a clear cut manner a definition that is generally acceptable (Troaca and Bodislav 2012).According (Eya2006), outsourcing is a decision by firms to have an external supplier to take over an activity that would have otherwise been performed in-house by organization employees. (Lysons and Gillingham2003), states that outsourcing is the strategic use of resources to perform activities traditionally handled by internal staff and their resources. It is a management strategy by which an organization outsources major non-core functions to specialized and efficient service providers to help the organizations perform best where it is best capable. Outsourcing is a decision and subsequent transfer process by which activities that constitute a function that earlier have been carried out by a company are instead purchased from an external supplier. Usually companies that provide outsourced services choose what they can do better, this means training their workers to perform to the best of the clients expectations. This means specialization with all its benefits to organizations. Outsourcing is defined according to (Yalokwu 2006), as the process of subcontracting operations and services to other firms that specialize in such operations and services that can do them cheaper or better (or both). (Dominguez 2006) views outsourcing as the practice of hiring functional experts to handle business units that are outside of a firm's core business. She describes it as a method of staff augmentation without adding to headcount.
Base on the above definitions, outsourcing can be comprehensively said to be the contracting and/or subcontracting of operations and services whether they are outside of a firm's core

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business or not to other firm(s) that specializes in it and can do it better or cheaper (or both)(Troaca and Bodislav 2012).
This definition supports the fact that organizations have their areas of specializations. An organization that performs its administrative and business services and operations may not perform all of them efficiently.
This may lead to low quality products/ services. When an organization focuses on areas that it has advantage comparatively and outsource those it performs minimally this would lead to efficiency and high quality productivity.
(Baily 1998) claims that many organizations today are turning to external procurement, where we even find that functions such as transport, accounts, computer services, even purchasing can be outsourced. This gives the company employees time to perform their duties to the company's satisfaction and this improves the organizational performance which is every company's objective to achieve competitive advantage.
Business Process Outsourcing (BPO) is that an external service provider can be given operational ownership of the company's business for one or more than one activities. The firms seeking a BPO strategy can also outsource back office functionalities to an outsider at relatively lower cost. Outsourcing decision is variable to the type of the business entity and the structure of the corporate but the cost factor has been dominating and overall lower global cost advantages cannot be ignored. According to (Narayanan 2009) there are four strategic reasons to outsource respectively: improved cash flow, improved control of payment, scalable staffing and to improve overall business performance. Outsourcing decision is not solely to bring the cost down but the fundamental objective of the business is to gain and maintain competitive advantage.
However, outsourcing decision is not easy to take because the key question is what to outsource? The firms need to identify core competences before outsourcing them, according to competence based view, but firms also outsource their core competences now a days.
There is complementary meaning by different authors like, that the following activities should not be outsourced or if done it should be done with great management consideration; management of strategic planning, management of finance, management of consultancy, control of supplies quality and environmental management.

2. The difference between Outsourcing vs Off-shoring

The phenomenon of outsourcing generally refers to procurement of materials and services inputs by a firm from a source outside. In this context, outsourcing can be both internal and international. Internal outsourcing is the purchase by a company of services or material inputs from a source located in another firm within the same country.
International outsourcing is defined as the purchase by a company of services or material inputs from a source located in another country. This term includes both intra-firm international outsourcing (by which foreign supplier of inputs is still held by the firm), and distance international outsourcing (by which foreign supplier of inputs is independent of the company that uses inputs). International outsourcing is part of imports of goods and services of the country. Another term often used for international outsourcing is "off shoring". International outsourcing is mostly used by firms in advanced economies, which directs part of the work by companies located in developing countries in particular to reduce costs.
"Outsourcing refers to the practice of transferring activities traditionally done within a firm to third party providers within the country or "off-shore" (Sen and Shiel, 2006). Offshore outsourcing is an old phenomenonand many of the multinational companies' strategies to bring the operating cost down. Outsourcing is handingover one or many of the business

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processes to an outside vendor or the utilization of outside available servicesprovided by third party to carry out business activities is the outsourcing strategy.
Outsourcing, traditionally known as “make-or-buy” decision, is the act of contracting internal business activities to outside (either domestic or offshore) suppliers.
Outsourcing and/or off-shoring is one of the important and key strategic approaches in complex, dynamic and competitive global supply chains. It is one of the sustained trends of business undertaken by the firms. Despite having debate about the impact on the firms of outsourcing, outsourcing / offshoring is considered as a typical competitive strategic phenomenon in both the domestic and international marketplaces. Outsourcing can produce positive, negative, mixed, moderated or no significant impact on the firm. Cost saving, improvedmanagement effectiveness and flexibility, access to market and better product/service quality are some of the benefits ofoutsourcing and offshoring identified in literature.
Several definitions of outsourcing and offshoring are reported in the outsourcing/offshoring literature. According (Ishizaka et al. 2019),outsourcing is a business agreement, either domestic and/or international (known as offshoring), and strategic management initiative for gaining a competitive advantage of a firm by contracting out their existing internal and/or external non-value added functions, and/or value-added functions, and/or core competencies to competent supplier(s) to produce products and/or services efficiently and effectively for the outsourcing firm. Outsourcing is a strategic tool used by organizations to achieve competitive advantage. The unfavorable economic context determines the large companies to outsource business processes in the main line, thereby sacrificing a part of control over resources and information to reduce costs. The level of savings made by outsourcing companies can reach 10 to 15% on the total cost, mainly due to economies of scale. Short-term outsourcing can bring some benefits, providing a shortcut to a more competitive product', but consider that this does not allow creation of the necessary abilities to maintain competitive advantage gained.
There can be seen some factors that influence changes in the world and, at the same time, make outsourcing attractive to business people around the world. Globalization and competitiveness forces companies to find better ways to develop and use the technologies to obtain competitive advantages and increased performance. Development of information systems has become increasingly expensive, requiring human resources skills and competencies growing, highly trained and professional. To cope with fierce competition, companies must be efficient, to provide products to market on time and within a budget as small. Moreover, the requirements and preferences are in a continuous change. In response to these challenges, companies are trying to transfer the responsibility of having specialists, facilities and equipment to a third party, localized mostly in developing countries where there is great potential for human and multiple opportunities, which favors the development projects in a short time and at minimal cost.
The novelty at this time in the field of outsourcing is that it has gained momentum in the services. For a long time the service sector was considered impenetrable to international competition. With improved communications technology, such as the internet, services can cross political borders via the airwaves, getting at the same time, access to cheap labor, but well prepared.

3. Advantages and Disadvantages in outsourcing strategy

Although outsourcing is seen by many as a future trend, which brings many benefits to the partners, yet there are voices that question the effects of this phenomenon.

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Not all functions and processes can, or should be outsourced, without careful analysis of the advantages and disadvantages. This analysis forms the basis for a plan of action that deals with the true costs, risks and tradeoffs of outsourcing.
Besides financial considerations, there are some advantages of outsourcing, such as increased focus on core processes, access to resources not available internally and standardizing processes. On the other hand, there are some concerns about outsourcing, organizational strength, loss of control and doubts about the quality and performance.
If in the choice of outsourcing routine activities, accounting, human resources, marketing things are relatively clear and can call on previous experiences in the systems development quite a few problems appear, due to demanding requirements of clients, lack of experience leading to difficulties in selecting the strategy that best meet business objectives.
Although outsourcing may be expected to bring long term benefits, there may be adjustment costs in the form of job losses, a process visible especially at the microeconomic level, since even in the advanced process outsourcing service is started.
(Troaca and Bodislav 2012) cited the Outsourcing Institute, a strong voice in the field of outsourcing, have built a top 10 reasons that a company would have to resort to such services:
1. Cost reduction and operations control;
2. Improving company focus;
3. Gaining access to the various possibilities;
4. Free internal resources for other purposes;
5. Resources are not available within the company;
6. Accelerate the benefits reengineering;
7. Driving is expensive for some time;
8. Employment equity becomes available;
9. Sharing risks;
10. Capital injection.
There are also additional benefits such as specialized, complete, professional solutions ease of installation and configuration, integrated applications, powerful, flexible and secure, increase accuracy, productivity and efficiency, reduce or even eliminate storage needs.
Also, outsourcing brings benefits at the macroeconomic level, directing capital flows to developing economies in the process. These capital flows materializing by building units of production and in creating jobs, helping to raise living standards and sustainability of these economies primarily by reducing unemployment rate and by increasing the gross domestic product.
Of course there are also disadvantages, as in any association in which one of the basic conditions is a compromise. One disadvantage is lack of knowledge of his client outsourcer environment, both internally and externally. Of course, with good collaboration, communication and patience, this impediment can be easily removed.
A second disadvantage would be an incorrect definition of the objective of outsourcing an activity, after a serious analysis of the outsourcing decision. Decision must be made taking into account both benefits and other considerations. From these considerations we can remember poor alignment of objectives, response time and quality, with control by various methods pre supplier, and the difference in mentality between “the company employees” and “outsource colleagues' level of personal pride to compensation packages.
Outsourcing results are not immediate. Most organizations had a 20% decline in labor productivity in the first year of an outsourcing contract, mainly because of time spent on knowledge transfer to the outsourcing provider. After bringing their customer and supplier knowledge and goals, they can work together more effectively, thereby generating cost savings.
At the macroeconomic level, the disadvantages are more pronounced for advanced economies, because the outsourced activities are transferred to a different economy, and

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along with it and jobs, leading to a diminution of the living standards and an increasing at least on short-term of the unemployment rate.

4. Appropriate Multi-sourcing model for outsourcing

The need for flexibility, control and risk management, make traditional outsourcing a less-than-ideal strategy for many businesses. Result from these factors is the executives to consider Appropriate Multi-sourcing, a model recommended and translated in practice by (Cohen and Young 2006) which is based on an analysis of business needs, costs, market pressures, need for process and productivity enhancement, requirements for integration, complexity and volume of work. By considering carefully which aspects of the business are core functions with high communications requirements versus non-core functions with stable requirements and fewer variables, companies can develop a methodology for selecting what to keep in house and what to source elsewhere.

If a business determines that it is appropriate to consider outsourcing, managers should realize that they need an appropriate multi-sourcing strategy. Issues to consider in formulating such a strategy include:

Business process: Is this a core competency that differentiates your company from your competition? Is the performance of this process visible to your key customers? Or is this an internal, back-office function that supports, but does not drive, business operations?

Interaction requirements: Does the process require constant, real-time communication? Is the accuracy and currency of information critical? Or is this a process that can be defined, documented and transmitted to an independent work group, with periodic status updates?

Complexity: What kind of expertise is required to perform the function? If the process is inherently complex, undocumented and high variable only personnel with extensive institutional knowledge and experience should be involved. Straightforward, well-defined, common business practices can be performed well by trained and experienced external providers.

Current Cost: Cost efficiency is always desirable, but cost is relative to value. If the current cost of a function is well matched by the value received, and the cost does not impair competitive performance, then cost reduction should not be the driving factor in sourcing. If the current cost is out of proportion to value received, or if competitors have found ways to operate at lower costs, then cost becomes more important.

Control Requirements: Loss of control is often a serious concern in outsourcing decisions. How tightly coupled is the process to business performance? Does the process consume key resources, or does it directly impact other key operations? Will changing business conditions require rapid response? Or is this a loosely coupled process that can be performed independently of other operations?

Risk of Failure: Risk assessment and mitigation is a core fiduciary responsibility of executives making outsourcing decisions. The higher risk is probability of catastrophic failure and the greater impact to business performance.

According to (Cohen and Young 2006), the best sectors for outsourcing are those that are the most isolated from the rest of your business, and those that do not face your customer.

When the functions will be outsourced are determined, the requirements and expectations for the outsourcing should be defined. Expectations should be rigorously defined as specific and objective metrics that you can use to verify that the outsourcing is meeting those expectations. Quality of work can be measured by references and trials. Consistency of performance may be judged by whether the organization’s processes have been certified byISO or CMM. Because an external organization will functionally become part of your organization, you should make sure that the interface between the organizations completely defines your relationship and that there is a cultural compatibility between the organizations.

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Appropriate Multi-sourcing is good business practice. Companies that choose to multi-source are best positioned to realize the benefits of investments in intellectual property while gaining flexibility in staffing and skills, controlling costs, strengthening global reach, shortening development cycles and improving operations.
A multi-sourcing strategy, where some work is done in house, some remotely with a near shore provider, and some with an offshore provider –yields what the authors calls sourcing 'at the intersection of access, cost and quality'. Multi-sourcing offers the best mix of risk containment, financial control and flexibility for most companies seeking to improve processes or expand development or customer service without growing operations. Fundamentally, any outsourced work is distributed work. The challenge client's face is how to source work externally – to near shore and offshore providers – while keeping the outsourced efforts operating as a relevant, vital part of the host company. Companies that use Appropriate Multi-sourcing successfully use management, business and work processes that enable them to diversify core operations without losing control. Multi-sourcing transforms companies, enabling them to control forward trajectory, meet goals, and satisfy customers by steeringmore than by leading, choosing partners and distributing operations to meet the demands of a difficult world economy.

5. Outsourcing Accounting Services

Business process outsourcing is an act of delegation of one or more information-intensive business processes to a third-party provider (Borman 2006). Companies commonly outsource processes in non-core business functions, such as finance and accounting, call centers and human resources, to third-party service providers for various reasons. The extant literature identifies a plethora of these outsourcing motivations, the most widely cited being access to expertise, cost reduction and scalability (Redondo-Cano and Canet-Giner, 2010).
Developments in the outsourcing market have enabled greater flexibility in designing outsourcing deals. For example, in accounting, cloud computing provides a platform where two parties (a client company and an outsourcing service provider) can jointly access the data and workflow in real time. Endowed with greater transparency and control through, this new breed of accounting information systems (AIS) allows the outsourcers to make outsourcing decisions on a task level instead of outsourcing the whole business function (Asatiani et al. 2014).
For example, in accounting outsourcing, some may outsource a particular payroll-related task (e.g. payroll calculations), while others may choose to outsource the preparation and submission of financial statements. This emerging complexity and flexibility in outsourcing calls for a revised understanding of outsourcing motivations, which requires us to delve deeper from a company level analysis into a task-level analysis.
Most SMEs outsource their major accounting operations to external accounting firms instead of employing accountants (Kumar et al. 2019). They most at times have one or few accountants whose job is to record transactions and then acquire the services of external accountants who do the computation and preparation of sophisticated accounts and also audit their operations.
More recently, some businesses have begun outsourcing at a more strategic level not just to reduce costs in non-core processes but to improve business performance. This is being driven by a number of factors such as competitive and budgetary pressures, advances in technology and communications and the need to transform the finance and accounting function. Finance and accounting outsourcing (FAO) has undergone major transformation over the years. The market for FAO has matured in terms of the type of work undertaken from routine, transactional work to delivering customized, complex and higher-value services (such as fore casting and planning and treasury).Some companies are consolidating their outsourcing work, citing reduction in complexity, streamlining operations and increased efficiency as benefits,

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while others are still taking a multi-sourcing route based on particular provider expertise. Also, globalization of services opens up new opportunities for companies to outsource finance activities to service providers worldwide. Companies which choose to outsource one or more finance processes continue to benefit from global differences in wages, and they access new talent and expertise (such as in systems implementation and process improvement) to create further competitive advantages.
Organizations, these days, not only look for cost effective solutions to systematically run non-core activities like accounting and payroll services, but also expect to add value in order to achieve better control and understanding of cash flow and thereby make informed decisions. In spite of being considered as non-core, accounting services form an integral part of an organization's operational capabilities and systematic functioning. Therefore, outsourced accounting and payroll services definitely help streamline core business operations of an organization. (Kumaran 2013) further highlighted top 10 advantages of outsourcing accounting and payroll services as; achieving high level of accuracy, cost effective services, fraud check, direct deposit through efficient payroll processing, avoiding penalties during tax processing, reaping benefits with up-to-date technology, saving up on processing time, gaining from the assistance of experts, avoiding reconciliation worries related to financial institutions and staying informed with up-to-date accounting status. The above notwithstanding, other authors asserts that, the activities which are typically performed by outside accountants that can be grouped under accounting activities include those of financial reporting and tax processing.

6. Case study – Outsourcing financial and accounting services in Macedonia SME's

In this title, to give an individual contribution to the research on the outsourcing topic, a research was conducted between 50 micro companies that operates in various business sectors in town Shtip, Macedonia. Especially, the delivering of the function of finance and accounting to external suppliers was analized. The research was translated in practice with structured interview with the owners of the companies, which contained several questions, which aim to give an answer regarding the activities for hiring an external supplier for this essential function. Also, the financial statements of the companies in the research were analyzed, in order to get information about their costs when using an external supplier of accounting services, in relation to the costs of having own and entire accounting sector.
The answers of the respondents were complementary regarding the reasons for using an external provider of financial and accounting services. Almost all respondents answered that the main reason arethe lower expenditures for hiring an external finance and accounting supplier, in terms of having its own sector. No less important, the owners noted the expertiseand professionalism who receive it from the external accounting companies. Furthermore, the respondents examine the absence of a certain workforce and licensed staff on the market in the field of finance and accounting.
If we analyze the cost structure that circulates around the functions of finance and accounting, it is noticeable that companies save on the basis of gross salaries, investments in hardware and software for accounting, saving in infrastructure in terms of equipping offices, monthly costs for internet, telephone, heating, cooling, maintenance of space hygiene, etc..
The companies hiring external supplier of financial and accounting services, based on the previously concluded Accounting and Finance Services Contracts, which define the obligations of the providers and the users of the service. The cost of taking this type of service is determined as a monthly cost, with the amount that differs in relation to the volume and type of documents that are characteristic of the respective entity. From the overall structure of costs circulating in this sector, the gross salary compared to direct cost in the form of a monthly cost for external accounting services, is analized.

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The minimum gross salary in Macedonia for year 2021 isthe amount of 22.146,00 denars. Immediately, we must to note the fact that the licensed staff in the field of finance and accounting works for the amount of salary much higher than the minimum gross salary. For the example, if we take into consideration the minimum gross salary that company will spent in 12 months, it comes to the amount of 265.752,00 denars or approximately 4,300 EUR if you there is only one own employee in the finance sector.
The monthly cost to an external accounting bureau, assuming that the company has small and medium-sized financial documentation, is less than 6.000,00denars approximately 100 EUR monthly or EUR 1,200 per year. The decision for hiring an external supplier of financial and accounting services is more than clear. The costs in relation to the above amounts, if the companies have their own finance and accounting department, significantly highert. The companies concludes accounting service contracts with external accounting companies with several employees, which means that for the lower monthly amount, the companies users hire not one, but more experts in the field of finance and accounting.

Conclusion

A study made by the Economist Intelligence Unit (EIU) shows that the countries of Central and Eastern Europe, along with those of North Africa are becoming favorites for displaying the following destinations centered outsourcing, especially for companies based in Europe. According to EIU, India is becoming increasingly expensive, and European companies want countries that have a greater cultural affinity. In Eastern Europe, the process of outsourcing is a relatively new phenomenon, which is viewed with skepticism and considered by many to be one full of risks. In highly developed countries, things are better defined, and outsourcing, in some cases, is considered a natural and necessary process in improving the situation of the company.
According (Troaca and Bodislav 2012), in Romania, the market began to grow in 2005, once the multinational IT outsourced services to local subsidiaries. Companies hire sub-contractors when it needs additional staff and delegate them to undertake short-term activities. Outsourcing projects are made due to lack of resources and expertise of the company.
Outsourcing initially a preferred option for small businesses to support activities of their specialization, in recent years has become a solution for medium and large firms.
Therefore, the outsourcing have contributed greatly to accelerating the process of globalization, interconnecting developing economies with the already developed countries. In present time, we can talk about a global redistribution of the income, from developed economies to developing economies. In Macedonia according the outsourcing strategy used by the micro, small and medium sized companies, the situation replace the world trends. A number of companies, driven by the cost saving strategy, outsource various working practices. We can notice the fact that there are many multi-national companies that operates in Macedonia using off-shoring strategy for their services. They are off-shoring in IT services, transport and logistic functions, marketing and research function, etc. In form of case study, the usage of external suppliers of finance and accounting services by Macedonian SMEs was analyzed. The research shows the fact that there is strictly defined reason for outsourcing these services, viewed in practice with significantly cost cutting on costs that operates around these function.

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