

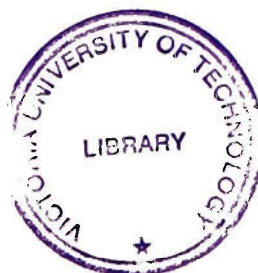
**OUTSOURCING  
OF  
TYPICAL ACCOUNTING FUNCTIONS :  
  
IMPACT ON THE  
ACCOUNTING SERVICES INDUSTRY**

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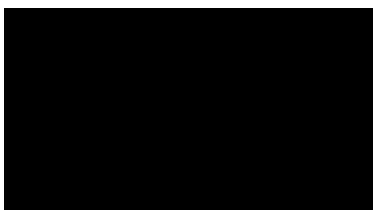


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## **DECLARATION**

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Nyuk Sien Hayes

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## ABSTRACT

Since the Australian recession which began in the 1990s, outsourcing has received considerable attention. Amongst the many benefits that outsourcing is believed to offer, a key benefit is that it allows organisations to focus on their competitive strengths while contracting out non-core activities.

While there is currently a considerable amount of studies and evidence on the costs and benefits of outsourcing, much of this is centred on Information Technology. There are predictions and some anecdotal evidence indicating that the outsourcing of *typical accounting functions* will increase as we approach the second millennium. The questions left unanswered are many:

- are the trends in the outsourcing of typical accounting functions really on the increase?
- what are the rationales and perceived benefits associated with the outsourcing of typical accounting functions?
- does the outsourcing of typical accounting functions raise any concerns?
- what impact will outsourcing have on the service providers in the accounting services industry?

This study has been designed to answer the above questions. The methodology undertaken necessitated two separate surveys which were conducted over a period of 6 months within 1997 and 1998. Both surveys were based on mailed questionnaires which were forwarded to 300 service-user organisations and 300 service-provider organisations.

Several key findings have emerged from this study:

- the increasing trend to outsource in between 1992 and the period beyond 1997 had only applied to two out of nine accounting functions.
- the outsourcing of typical accounting functions were not undertaken by at least 75% of responding firms in 1997.
- there were differences between service-buyers' and service-providers' perception of outsourcing benefits.
- the outstanding number of concerns associated with the management and control of outsourced functions as well as humans resource, technological and financial issues was a factor which appear to have deterred firms from outsourcing typical accounting functions.

The recommendations arising from this study are summarised, as follows:

First, in order to minimise undesired outcomes as a result of outsourcing, service-user firms need to consider several issues before the decision to outsource is made. These issues include the strategic importance of, and existing problems associated with their accounting functions, as well as the risks and benefits of outsourcing those functions.

Second, service providers' ability to deliver services at pre-determined levels are more likely to be successful if they are prepared to specialise in the types of client industries where risks can be measured.

Third, the identification of human resource problems warrants some research into how organisations can achieve a win-win situation with in-house staff whose positions are jeopardised as a result of outsourcing arrangements.

Fourth, service-provider firms need to be aware and perhaps become familiar with the capabilities of commercially available software for the processing of basic accounting functions.

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## **PART A**

### **1 INTRODUCTION**

As Australia slowly begins to emerge from the recession which began in the early 1990s, many organisations are becoming acutely aware of the need to re-examine ways of improving their competitive position. Indeed, looking at ways to reduce the time and costs associated with non-core activities has become an important ingredient in a company's recipe for success. This, in turn, has produced a growing trend throughout the corporate world of contracting non-core business functions out to third parties.

Although outsourcing has received significant attention in the 1990s, it is not a new phenomenon (IC, 1996; Rimmer, 1994; IBIS, 1994). Services such as mail delivery, prison management, road maintenance, and refuse collection dating back to the 18th and 19th century were outsourced (Rimmer, 1994).

#### **1.1 THE CONCEPT**

*"Although outsourcing changes the means of delivering services, it does not change an organisation's accountability for ensuring that the services are delivered. Under outsourcing, an organisation's focus shifts from managing the inputs of service provision to managing the outcomes. It becomes a contract manager rather than a resource manager..."*

Outsourcing and Contract Management Guidelines,  
Department of Treasury and Finance, 1996



Outsourcing refers to the contracting out of services which have previously been performed in-house. This practice involves obtaining goods and services from an external supplier as opposed to producing them internally. The focus of this practice is therefore on the services to be provided, not the assets to be employed. (ASCPA, 1996; Harris, 1995; Mayne, 1993; Noble, 1996).

Since the early 1980s, outsourcing has been discussed within the context of improving organisational efficiencies. The philosophy behind the practice of outsourcing can be found in both the earlier works of management experts (Handy, 1989; Drucker 1988; Peters and Waterman, 1982), as well as in more recent works (Harris, 1995a, IBIS, 1994).

The common theme emerging from the work of these experts is in association with organisational efficiency. This philosophy states that in order for organisations to remain competitive and effective, they must eliminate non-cost-efficient activities. It enables organisations to free themselves from less strategic tasks to focus on core competencies and strengths. These underlying principles have become the main reason for the adoption of outsourcing, and have resulted in the contracting out of non-core activities to external service providers.

## **1.2 ACCEPTANCE OF OUTSOURCING IN THE 1990s**

Highly reputable sources (Handy, 1989; EIU, 1995) have described the 1990s as a period wherein the development of “virtual” organisations will occur. These organisations will evolve from an intricate web of partnerships and alliances composed of specialists in their respective roles, all relying on one another for the provision of essential functions. A growing number of organisations has

taken their first steps towards this evolving virtual organisation, through the decision to contract out simple activities such as: building security and maintenance, distribution, logistics, manufacturing and even product design.

Reputable research organisations such as IBIS Australia, the Economist Intelligence Unit, and large chartered accounting firms in Australia have been promoting the outsourcing of professional services including Information Technology, Finance and Accounting, Superannuation, Legal Services, Taxation Consulting, etc.

In the finance area, outsourcing typically begins with the simplest functions such as payroll, accounts payable and accounts receivable. As top management in organisations are evaluating their core competencies and asking what it is that gives their organisation comparative advantage, these executives are also asking whether the provision of internal finance processes, such as accounting and payroll, is a core competence. Except in the case of organisations that specialise in the provision of such accounting services, these financial functions would not represent core competencies. This implies that these functions are likely candidates for outsourcing.

Nevertheless, there are assertions that the outsourcing of accounting is in its relative infancy due to technological, human resource and financial barriers (IBIS, 1994; EIU, 1995). The question of whether this view represents the perception of service-user and service-provider organisations within the accounting services industry in Australia has provided the impetus for this study.

## **2 TRENDS IN THE PRACTICE OF OUTSOURCING**

### **2.1 GENERAL TRENDS IN OUTSOURCING**

The 1990's recession in Australia is believed to have been a major driver in the growth of outsourcing (Mayne, 1993; James, 1995). The slow recovery of the Australian economy has resulted in organisations becoming more aware of the need to maintain competitive while reducing time and costs. The outsourcing of non-core activities has made it possible for organisations to meet these objectives.

Outsourcing has also been used to fill in gaps in the labour force created by organisational downsizing (Handy, 1989; Maiden, 1996b). The recent Australian trend in downsizing amongst large organisations has been accompanied by the hiring of external contractors to perform some of the jobs which were previously performed in-house (Maiden, 1996b). An Australian study by the National Institute of Labour Research indicated that between 1990 and 1993 when manager numbers decreased by 10 percent (38,640 positions), there was growth in the provision of contracted services using a total of 7200 external service providers from the legal, accounting and information technology industries (Maiden, 1996b).

In the United States, the trend of cost-cutting, downsizing and removal of hierarchical layers was observed at an earlier period during the 1980s amongst many organisations. While the Australian trend was described as a recessionary effect, the American trend was described by Handy (1989) as a deliberate strategy by organisations to reduce their labour force to achieve greater efficiencies.

In the United Kingdom, the growing popularity in outsourcing was due to the widespread acceptance of the philosophy that organisations should concentrate on their core competencies and outsource all other functions. One driving factor for this trend was the well-publicised economic disasters experienced by a number of key organisations, such as the London Stock Exchange and the London Ambulance Service, which were the result of their attempts to develop and maintain in-house processing systems (Sweet, 1994).

The increase in the levels of outsourcing in Australia is seen in the historical data associated with the use of competitive tendering and contracting (CTC) within the public sector in the 1990s. While there is minimal data on the use of CTC prior to the 1990s, the findings of two studies have indicated that the use of CTC had increased:

- the 1995 Industry Commission study (IC, 1996) indicated that at Commonwealth government level, the value of CTC expenditure in 1993-94 was 24 percent higher in real terms than nine years earlier (IC, 1996, p. 73). At state level between 1992/93 and 1993/94, the levels of CTC had increased by 98 percent in New South Wales and 29 percent in Western Australia (IC, 1996, p. 62).
- a separate 1995 study of contracting by public sector agencies in Victoria (IC, 1995) found that the number of service contracts increased from a total of 122 (totalling \$171.5 million as at 1 July 1992) to a total of 289 (totalling \$335.9 million as at 1 July 1994), reflecting a net increase of 167 contracts totalling \$164.4 million (increase of 96 percent) within two years.

The practice of CTC in the Australian public sector has seen the introduction of the policy of compulsory competitive tendering (CCT) in the Victorian local government sector in 1994. This policy requires local councils to have competitively tendered at least 20 percent of total expenditure by 1994-95, increasing to 30 percent by 1995-96 and 50 percent by 1996-97. Of the 78 Victorian councils, all but 5 reached the 1994-95 target, with many exceeding it (IC, 1996, p.80). While CCT does not necessarily result in the contracting out of the services being tendered, the policy has opened up the opportunity for local councils to have access to services which are expected to be rendered more competitively.

The increasing trend to outsource is also expected to continue within the private sector, according to the findings of the 1995 Australian study of 300 large and medium-sized organisations (Price Waterhouse Urwick, 1995). This study revealed that there is growing confidence (as revealed by 40 percent of respondents) in outsourcing information technology, accounting, financial services and internal audit beyond 1995, further supporting the outsourcing trend already set.

While the above-mentioned literature indicates growing confidence in and support for the practice of outsourcing, there are views which indicate potential difficulties in the practice:

- the view still exists that costs would be lower by choosing the in-house processing option (Smith, 1991);
- there is resistance towards the practice of outsourcing due to the potential difficulties of managing the working relationships between internal and external staff (James, 1992); and

- there are concerns that the contracting out of existing in-house functions would result in a reduction of staff morale and commitment, as revealed by a recent survey of 653 employers in Australia and New Zealand (Maiden, 1996a).

## **2.2 TRENDS IN THE OUTSOURCING OF TYPICAL ACCOUNTING FUNCTIONS**

The outsourcing of accounting activities appears to be less developed in comparison to information technology services (IT). In comparison to IT, there is considerably less literature on the outsourcing of accounting activity. There are also differences in the depth of literature between outsourcing of IT and outsourcing of accounting activity.

Literature on IT outsourcing is more detailed and specific. Literature released from the United Kingdom and the United States discuss various issues such as the evaluation of outsourcing decisions, the impact of outsourcing on IT cost structures and service performance, effective outsourcing techniques and the implications of organisational forms and management (Fitzgerald, 1994). In Australia, literature on IT outsourcing has covered diverse issues such as the evaluation of IT areas suitable for outsourcing, service buyers' selection criteria, the management of service providers and outsourcing contracts (Standen, 1994), cost benefit evaluation process (Rundell, 1994) and performance measurement techniques (Callaghan, 1994). There is also literature which has highlighted IT outsourcing deals carried out by well-known organisations in overseas countries. Examples of these are, in Europe, the London Stock Exchange, British Airways, the Westminster City Council (Sweet, 1994), the Bank of England, Hoover, ICI

(Callaghan, 1994) and in the United States, Kodak, Ford, BP, Continental Airlines and 7-Eleven (Callaghan, 1994). In Australia, examples of success in IT outsourcing have involved Epson, the Transport and Storage Group, CSIRO and Challenge Bank (Callaghan, 1994).

Literature on the outsourcing of accounting activity includes six studies (ABS, 1987/88; 1992/93; Price Waterhouse, 1995; IC, 1995; 1996; EIU, 1995) and one business publication (IBIS, 1994). The literature suggests that the level of outsourcing of typical accounting functions is expected to increase into the next century.

An increasing trend in the outsourcing of accounting activity was identified by the following:

- a comparison of 1987/88 and 1992/93 statistics on the accounting services industry in Australia (ABS, 1987/88; 1992/93) revealed that the contribution to total industry turnover from General Business Accounting had increased from 26.4 to 27.1 percent, as compared to Taxation which fell from 34.5 to 33.0 percent.
- the 1995 study on outsourcing within the Victorian public sector (IC, 1995) showed that the number of financial services contracts between the period 1992-94 had increased from 4 to 17, totalling \$5.661 million as at 1 July.<sup>1</sup>

While the 1994-95 report on CTC in Commonwealth budget-funded agencies (IC, 1996, p.504) did not indicate changes in the level of outsourcing, it ranked

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<sup>1</sup> The study, however, did not isolate typical accounting functions from other finance related functions within the 'financial services' category.

financial management in thirteenth position for the most number of contracts.<sup>2</sup> A more recent study conducted by the Victorian Office of Local Government in 1995 indicated that 'Administrative, Financial and Professional Services' took up approximately 5 percent of Local Government expenditure, ranking fourth after public works and services (IC, 1996).

An increasing trend towards the outsourcing of accounting activity in the future has also been forecast by other writers:

- the 1995 Price Waterhouse survey of 300 large and medium-sized organisations (Price Waterhouse Urwick, 1995) revealed that 16 percent of respondents had expressed the desire to increase the outsourcing of accounting functions.<sup>3</sup>
- though not representative of the Australian situation, the 1995 European study which surveyed 350 companies in Europe and North America (EIU, 1995) found substantial interest amongst respondents in the outsourcing of tax (57 percent of respondents), payroll (50 percent) and accounts receivable/payable (31 percent) in the period between 1995 and 1998.
- the observation made by IBIS (IBIS, 1994) that there is an increasing trend for large and medium-sized Australian organisations to outsource their basic accounting functions, led to its 1994 prediction that there will be growth in

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<sup>2</sup> As mentioned in Section 1.1, the 'financial management' category of services did not isolate accounting services from other financial services such as auditing, valuation services, funds management, advisory service, fraud control, etc.(p.512).

<sup>3</sup> The types of functions which were categorised as accounting activity in the survey were payroll, superannuation, accounts payable, accounts receivable, general ledger and financial management.



contract accounting,<sup>4</sup> which will be accompanied by growth in the provision of value-added management accounting information. According to IBIS, these organisations place greater importance in having high value-added information than in carrying out basic accounting tasks.

While an increasing trend in the outsourcing of accounting activity has been forecast, IBIS (1994) highlighted the existence of technological barriers to full contract accounting e.g., accountants not being fully computer-literate. Until these are removed and the attitudes of organisations towards contract accounting change, the advantages in contract accounting will not be fully realised.

In comparison to IT where the success of outsourcing has been widely tested (Fitzgerald, 1994; Cullen, 1994), there is a lack of evidence on the success of outsourcing accounting functions. The similarities between accounting and IT services are that both are professional administrative services, and for the accounting tasks that are computer-based, the responsibility for the maintenance and development of these functions involve IT resources (Kent, 1994). The rationale for outsourcing of IT which includes the improvement of cost control and service delivery, the ability to concentrate on core competencies and access to specialist skills as revealed by Cullen's study are also evident in the outsourcing of accounting functions (Kent, 1994). Based on the similarities between IT and accounting services, it would be appropriate for this study to use the outsourcing of IT as a benchmark for the purpose of identifying the benefits which have been enjoyed through the outsourcing of typical accounting functions.

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<sup>4</sup> The term "contract accounting" has been defined by IBIS as an accounting service which involves the full sub-contracting of the accounting function by a firm to an outside specialist. The types of functions include General Ledger, Accounts Payable/Receivable, Payroll, Budget Preparation, Management Accounting Information and Compliance Returns.

### **3 SERVICE-USER ISSUES**

#### **3.1 OUTSOURCING RATIONALE**

As discussed in Section 1.1, the underlying principle that organisational efficiency can be increased when an organisation focuses its efforts on core activities has become an important justification for outsourcing.

Cost reduction is another important reason for outsourcing and has been referred to in all the literature discussing outsourcing rationale (Price Waterhouse Urwick, 1995; Boreham, 1994; Sweet, 1994; Mayne, 1993; James, 1992). The Victorian Government Outsourcing Guidelines released in 1996 (Victorian Department of Treasury and Finance, 1996) included cost savings as a key assessment criterion in the evaluation of service providers. There is also substantial empirical literature estimating the effect of outsourcing on the costs of service provision within the public sector in Australia, as reported in a review by the Australian Industry Commission (IC, 1996, p. 528).

Other common reasons for outsourcing are improved manageability (Mayne, 1993; Harris, 1995a; Sweet, 1994), improved quality of service delivery, and access to special expertise and latest technology (Sweet, 1994; Price Waterhouse Urwick, 1995; Victorian Department of Treasury and Finance, 1996).

### **3.2 ORGANISATIONAL FACTORS WHICH INFLUENCE OUTSOURCING**

A number of earlier studies on the outsourcing of Information Technology (IT) performed by organisations (Cullen, 1994; Loh and Venkatraman, 1992) had attempted to identify factors which would influence the degree of outsourcing performed. The factors examined included general organisational characteristics such as industry classification of firms, size of firms, and the stability of firms. Also examined were IT infrastructure characteristics such as the strategic importance of IT functions and the size of the IT department.

In the above-mentioned studies, industry sector and firm size were not found to be significant determinants of outsourcing activity. In terms of firms' stability, Loh and Venkatraman found that the instability of firms had a positive relationship with outsourcing activity. Through fixed price contracts and guaranteed service levels, IT functions which were outsourced were not affected in periods when firms experienced instability. Cullen on the other hand was unable to draw any association between the stability of firms and the level of outsourcing performed.

With regard to the IT infrastructure characteristics, Loh and Venkatraman found that there was a negative relationship between the strategic importance of IT functions and the levels of outsourcing. The explanation for this is that organisations preferred to keep control of, and were less willing, to outsource strategic IT functions. On the other hand, Cullen was unable to find any significant relationship between this factor and the level of outsourcing activity. In terms of the size of the IT department, Loh and Venkatraman found that there was a negative relationship between the size of the IT department and the level of outsourcing. The explanation for this is that a smaller base of IT workers

would have less influence on the outsourcing decision toward retaining services in-house. Cullen's finding on the other hand failed to show any significant relationship between this factor and the level of outsourcing activity.

Given that the accounting functions included in this study are automated and run on IT systems, the approach taken by Loh, Venkatraman and Cullen in their outsourcing studies can be adopted in this current study. As useful as it is to identify the factors which influence organisations' decision to outsource IT, this procedure is also useful when applied to the accounting services industry. In this context, the factors which were included in this study were organisational and accounting infrastructure factors. The organisational factors included industry sector, firm size, annual revenue, period of service, and, experience with outsourcing of other administrative functions such as IT, legal and superannuation functions. The accounting infrastructure factors included the size of the accounting department, the strategic importance of the accounting functions and the risk levels associated with the accounting functions.

### **3.3 CRITERIA IN THE EVALUATION OF SERVICE PROVIDERS**

According to Boreham (1994) and IBIS (1994), accounting functions involve two types of task. The first type involves the preparation and production of accounting data. These tasks are repetitive and are easily computerised (e.g., bookkeeping), and can be performed by service providers who do not need to have professional accounting skills. The second type of task are value-adding tasks which require analysis and interpretation skills which practising accountants are trained to provide.

IBIS warns that the trend towards the outsourcing of basic accounting functions could favour non-accounting firms, given that the tasks involved can be easily computerised. Boreham and IBIS both suggest that accountants have a greater role to play in the latter task, i.e., the analysis of accounting data and adding value to accounting data.

In the Victorian public sector, the evaluation of contractors who have tendered for outsourced services is based on the service user's selection criteria. Anecdotal evidence obtained from the Outsourcing Evaluation and Contract Management Unit<sup>5</sup> have highlighted a variety of factors which have been recommended for use by the public sector when evaluating service providers in outsourcing decisions. Also documented in the Victorian Outsourcing and Contract Management Guidelines (Victorian Department of Treasury and Finance, 1996), these factors include cost savings, service-provider capability and experience, quality of services provided, flexibility in contractual relationships and the impact of the outsourcing arrangement on staff.

Within the IT industry, expectations of outsourcing benefits go further than lowering IT costs. The success of outsourcing has been measured in terms of business results, not just IT performance. Service-provider firms which fail to deliver minimum service levels have had their contractual fees reduced. Having identified their exact evaluation criteria in relation to the selection of service providers, service buyers have built periodical payment adjustments into outsourcing contracts that are based on the evaluation criteria (Gerber, 1995).

An IT outsourcing study undertaken in the United Kingdom (Fitzgerald, 1994) involving a sample of 1,000 firms revealed the expectations from IT outsourcing were not all met. Against the general projections of a rising trend in

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<sup>5</sup> For summary of interview details, refer to Appendix J (Interview No. 2).

outsourcing, approximately a third of the 162 responding firms which have experienced outsourcing, had in the last five years cancelled contracts as opposed to straightforwardly renewing them. In half of these cases, the contract was subsequently re-negotiated, but a further 28% of cases involved a change of service provider, while the remaining 22% saw the IT brought back in-house. The study also suggested that the relationships between separate parties in the outsourcing arrangement were becoming increasingly contractually based. Recommendations made as a result of the study were centred on contractual issues.

It was suggested that at a minimum, contracts should include four elements:

- specified service level agreements;
- penalty clauses;
- specific arrangements for adapting to changing circumstances in the future;  
and
- early termination provisions.

Because the evaluation of service-providers is a necessary task before outsourcing of any service can occur, an objective of this study (Section 5.2, Table 5.1) was to identify the selection criteria used by service-user firms in the evaluation of service-providers of typical accounting functions. Under this objective, the degree by which service-users have had their expectations met by service-providers was also examined.

### **3.4 OUTSOURCING PROBLEMS OR CONCERNS**

Although outsourcing has been promoted as a practice which brings many benefits to service-user organisations, it had failed to avoid criticisms. Articles on outsourcing which have been published in the 1990s often highlight problems or concerns encountered by both service users and service providers. Although most of the articles were associated with IT (a function which has been heavily outsourced in the 1990s), many of the problems highlighted were general in nature. In addition to evidence drawn from the above-mentioned articles, anecdotal evidence obtained from the Outsourcing Evaluation and Contract Management Unit has revealed human resource concerns encountered during outsourcing arrangements within the public sector<sup>6</sup>.

The types of outsourcing problems highlighted in the literature can be classified as financial, technological, legal, human resource and management and control. The documented problems or concerns which have been experienced by firms involved in outsourcing are listed in the sections 3.4.1 to 3.4.5.

Given that the evaluation of outsourcing decisions for any type of function would involve financial, technological, legal, human resource and management and control considerations, an objective of this study (Section 5.2, Table 5.1) was to identify any concerns over the outsourcing of typical accounting functions.

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<sup>6</sup> For summary of interview details, refer to Appendix J (Interview No. 3).

### **3.4.1 Financial concerns**

- Extra-use charges and hidden costs (Bresnen and Fowler, 1994; Cullen, 1997; Ernst and Young, 1994)
- Cost of service changes (Cullen, 1997)
- Short-term savings offset by long-term costs (Ernst and Young, 1994)
- Loss of economies of scale for very large service-user firms which are subject to transaction-based charges (Chalos, 1995; Dobbie, 1991)
- Transitional personnel-related costs associated with remuneration payouts, placement costs and potential lawsuits and union difficulties (Cullen, 1997; Ernst and Young, 1994)
- Cost of conversion and implementation (Ernst and Young, 1994)
- Cost of management team to monitor and manage the outsourcing relationship (Ernst and Young, 1994)
- Exposure to vendor's financial strength and profit motive (Cullen, 1997; Ernst and Young, 1994)
- Potential litigation costs for contract breaches (Ernst and Young, 1994)

### **3.4.2 Technological**

- Loss of critical skills required to maintain competitive advantage (James, 1992; Quinn and Hilmer, 1994)
- Possibility of being tied to obsolete technology for the service provider to achieve economies of scale (Ernst and Young, 1994)
- Exposure to service providers' lack of commitment, resulting in technology or service degradation (Cullen, 1997; Ernst and Young, 1994)



- Potential loss of service levels as service provider may only meet the contract, not exceed it, without incentives (Cullen, 1997; Ernst and Young, 1994)
- Difficulties in transfer of data between customer and service-provider for functions which have been partially outsourced (Dobbie, 1991)

### **3.4.3 Legal**

- Defining service levels (Fitzgerald, 1994)
- Managing outsourcing contracts and its details (Fitzgerald, 1994)
- Lack of flexibility in contracts to accommodate major changing business circumstances of service-buyers (Rothery and Robertson, 1995)

### **3.4.4 Human Resource**

- Loss of customer focus (Cullen, 1997)
- Service-provider lacking thorough knowledge of customer's business (Cullen, 1997)
- Industrial relations problems (Cullen, 1997; Bresnen and Fowler, 1994; Bushell, 1996; James, 1992; Rothery and Robertson, 1995)
- Difficulty in managing relationships between external service-providers and operational management (Fitzgerald, 1994; Rothery and Robertson, 1995)
- Loss of morale amongst internal staff during the evaluation of outsourcing decisions (Maiden, 1996a; Bushell, 1996)<sup>7</sup>

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<sup>7</sup> In addition to information drawn from these articles, anecdotal evidence was gathered from the Outsourcing Evaluation and Contract Management Unit - refer to Appendix J (Interview No. 3).

### **3.4.5 Management and control**

- Loss of control over decision making, resource management and daily operations (Cullen, 1997; Bresnen and Fowler, 1994; Ernst and Young, 1994; Quinn and Hilmer, 1994)
- Service-provider inflexibility to meet changing requirements on a timely basis (Cullen, 1997; Ernst and Young, 1994; Fitzgerald, 1994)
- Service-providers' lack of responsiveness to unexpected situations (Fitzgerald, 1994)
- Monopolistic supplier actions (Cullen, 1997)
- Loss of in-house expertise (Cullen, 1997; Bresnen and Fowler, 1994; Ernst and Young, 1994)
- Loss of confidentiality (Cullen, 1997)
- Loss of competitiveness and innovation as service users rely on service providers' technology and operational procedures (James, 1992)

## **4 SERVICE-PROVIDER ISSUES**

In order to gain some preliminary understanding of the categories, and role, of service providers within the accounting services industry, interviews were conducted with the Australian Bureau of Statistics (ABS) and two accounting firms. The main focus of the interviews with the accounting firms were to identify important issues associated with the outsourcing of typical accounting functions, as perceived by accounting firms.

### **4.1 DISPOSITION OF SERVICE PROVIDERS**

According to evidence provided by the ABS, the three main categories of service-provider firms which are in the business of providing some or all of the accounting functions included in this study, are accounting firms, bookkeeping firms and payroll bureaux.<sup>8</sup> The accounting functions included in this study are basic accounting functions (e.g., general ledger, accounts receivable, accounts payable, payroll etc.) and value-added functions (e.g., management accounting etc.).

Information gathered from articles by Boreham (1993; 1994), and evidence gathered from interviews with two accounting firms<sup>9</sup>, indicate that accounting firms prefer to provide value-added services in preference to bookkeeping services. Even though accountants profess to be the most capable in the provision of bookkeeping services, many accounting firms lack interest in these services due to low financial returns and their inability to perform the services in a cost-effective way.

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<sup>8</sup> For brief details of interview conducted with the ABS, refer Appendix J (Interview No. 4).

<sup>9</sup> For summary of interview details, refer Appendix J (Interview No. 5 and 6).

The ability of basic accounting services, e.g., bookkeeping, payroll, accounts payable, etc., to be computerised has led to these activities being seized by non-accounting firms. This common attitude of accounting firms towards the provision of basic accounting services has led to a generally low level of commercialism and competitiveness necessary to confront and win the emerging battle of accounting and accounting-related services (Allen, 1993; IBIS, 1994).

Notwithstanding the common attitude of accounting firms towards the provision of basic accounting services, these services could be financially worthwhile if accounting firms can 'package' the services with other types of accounting services which generate greater returns. According to the accounting firms interviewed, the attractive types of services are generally consultative type services, e.g., Management Accounting, Taxation Consulting, etc. Alternatively, accounting firms can contract out the bookkeeping services of clients to specialised bookkeeping firms or provide referral services in conjunction with bookkeeping firms. With these alternatives, accounting firms can utilise the data processed to perform value-added services. This marketing strategy was also mentioned by Boreham (1993), who reinforced the importance of accounting firms' need to maintain an important relationship with their clients, and avoid losing their mantle as "natural" advisers to businesses.

The capacity of non-accounting firms to service basic accounting functions has been significantly affected by the computerisation of these functions (Boreham, 1993; 1994). The success of these firms is based on their ability to pass on to their clients the cost savings gained from the economies of scale in their computerised operations.

There are beliefs that the role of computers will become increasingly important over time, to the extent of necessitating accounting firms to be fully aware of the capabilities of new state-of-the-art computer technology and be able to capitalise on these technologies (Allen, 1993).

Apart from the information gathered from the interviews and the articles mentioned above, there is little empirical evidence to indicate whether accounting firms are interested in becoming service providers for typical accounting functions. There is also a lack of evidence indicating whether accounting firms have the capacity (i.e., technology and appropriate cost structure) to take advantage of business opportunities arising from the outsourcing of typical accounting functions. As such, two objectives of this study were to evaluate, within the accounting services industry, the interest in the provision of typical accounting services, and the impact of the provision of these services on the cost structure of service-provider firms (Section 5.2, Table 5.1).

## **PART B**

### **5 THE CURRENT STUDY**

#### **5.1 PRIOR RESEARCH ON OUTSOURCING OF ACCOUNTING SERVICES**

While the outsourcing of Information Technology is relatively advanced with numerous cases detailing their success and benefits (Adams, 1993; Cullen, 1997; Deloitte and Touche, 1997; Fitzgerald, 1994; James, 1992; Plunkett, 1991; Power, 1994; PW, 1995; Rundell, 1994; Rothery and Robertson 1995; Ryan, Hasler and Nadalin, 1996; Scott, 1995; Smith, 1991; Sweet, 1994; ), there has been considerably less literature or cited cases (both locally and overseas) on the success of outsourcing accounting activity.

The types of accounting services currently outsourced in Australia include general business accounting, management accounting, taxation, auditing and investment advice (ABS, 1992/93). A number of Australian studies (ABS, 1987/88; 1992/93; IBIS, 1994; Price Waterhouse Urwick, 1995) and a European study (EIU, 1995) have highlighted an increasing trend to outsource typical accounting functions. IBIS (1994) has claimed that the level of outsourcing of typical accounting functions in Australia will increase from 10 percent (\$5.5 billion) of accounting services turnover in 1994 (estimated at \$55 billion) to 30 percent (\$30 billion) of predicted turnover of \$90 billion in 2005.

While the above-mentioned studies (ABS 1992/93; IBIS, 1994; Price Waterhouse, 1995; EIU, 1995; IC, 1996) and a public sector study (IC, 1995) suggest that there are expectations of an increase in outsourcing of accounting activity, there are some limitations in this literature:

- the statistical data produced by the Australian Bureau of Statistics (ABS 1992/93) lacked currency, as the accounting services industry census is performed once every three years;
- IBIS' estimate of the increase in the dollar value of accounting activity outsourced between 1994 and 2005 (IBIS, 1994) was not supported by evidence of how such estimates were determined;
- the sample used in the Price Waterhouse study was based on existing and potential clients of the firm, in order to provide it with an insight into future business opportunities with the respondents. As such the findings of the study are biased towards the type of firms or industry that are meaningful to Price Waterhouse and are not necessarily representative of a random selection of firms or industries;
- data provided by the Victorian State Government (IC, 1995) which reflected the increase in the number and dollar value of contracts between 1991/92 and 1993/94 for financial services included a variety of service types and not accounting services alone.

## **5.2 STUDY RATIONALE AND OBJECTIVES**

Studies on outsourcing (Price Waterhouse, 1995; EIU, 1995) and a business publication on the accounting profession and its developments (IBIS, 1994) have predicted that the outsourcing of accounting services will increase into the next century. While these studies have identified the types of functions that will increasingly be outsourced in the future, there was a lack of information

describing the selection criteria that will be used by service-buyers (organisations) in the evaluation of service-providers. These claims have been used in this study as a basis for further research into the needs of service buyers, and to determine whether these needs could provide business opportunities for accounting firms as service providers. The outsourcing concerns associated with several aspects such as financial, technological, human resource etc. (Section 3.4) have also been examined.

In terms of the market of service-providers of typical accounting functions, there were assertions (IBIS, 1994) that the trend to outsource basic accounting functions could favour non-accounting rather than accounting firms. Functions which are capable of being computerised such as payroll, invoicing, share registries, etc., are increasingly being seized by non-accounting organisations with electronic data processing skills rather than accounting skills. Of the estimated \$5.5 billion of basic accounting functions outsourced, \$2 billion were lost to non-accounting firms, raising concern that this trend could develop further to the detriment of accounting firms. Evidence to support these figures was however, not provided. An increasing trend to outsource typical accounting functions could provide more business opportunities for practising accountants. However, there was little evidence to indicate whether accounting firms had the capacity and ability to fulfil the role as service providers of outsourced typical accounting functions. This aspect had not been investigated in the Price Waterhouse study or in any of the other studies mentioned above. The purpose of this study is therefore, to identify a number of aspects in relation to both service-user and service-provider organisations.



The major questions raised from the above discussion are, thus, as follows.

- Is there an increasing trend in Australia to outsource typical accounting functions?
- Is there any association between certain organisational and accounting infrastructure characteristics and the degree of outsourcing performed?
- What are the perceived benefits resulting from the outsourcing of typical accounting functions?
- What criteria are considered the most important by service-buyers when selecting service providers for typical accounting functions?
- Do service-user organisations have any concerns over the outsourcing of typical accounting functions?
- What is the level of interest amongst service-provider firms within the accounting services industry in the provision of typical accounting services?
- Does the provision of typical accounting services have an impact on the cost structure of service-provider firms within the accounting services industry?

This current study has been designed to answer these questions and to achieve the objectives shown in Table 5.1:

**Table 5.1**

No.	Objectives
1	To determine the trend in the outsourcing of typical accounting functions
2	To identify any association between organisational and accounting infrastructure characteristics and the degree of outsourcing performed
3	To identify the rationale and perceived benefits associated with outsourcing typical accounting functions
4	To identify the selection criteria used by organisations (service buyers) in the evaluation of service providers of typical accounting functions
5	To identify any concerns over the outsourcing of typical accounting functions
6	To evaluate the interest of service-provider firms in the provision of typical accounting services
7	To evaluate the impact of the provision of typical accounting services on the cost structure of service-provider firms within the accounting services industry
8	To identify service-provider firms’ perception of the benefits enjoyed by their clients in the outsourcing of typical accounting functions

In satisfying the above-mentioned objectives, a set of hypotheses was developed for testing (refer to Section 5.3).

For the purpose of this study, typical accounting functions will be defined to include both basic processing tasks and value-adding tasks.

Basic processing tasks are those which are capable of being computerised, and will include:

- General Ledger processing;
- Accounts Payable/Receivable functions;
- Payroll processing;
- Fixed Asset accounting;
- Inventory accounting.

Value-adding tasks require information analysis and interpretation skills, and will include:

- Budgeting;
- Costing;
- Management accounting.

There is a range of other functions which are performed by accountants, such as auditing, external reporting, taxation, treasury, insolvency/reconstructions and superannuation. As these functions are specialist fields and are not expected to be serviced by all public practices, they will not be included in this study.

### **5.3 HYPOTHESES**

Hypotheses were developed for study objectives 1,2 and 6. These hypotheses are shown in Table 5.2 and have been developed from prior research and anecdotal evidence (which was previously discussed in Chapters 1 to 4). Where prior research was used, studies on the outsourcing of Information Technology

were relied on as the main source due to the limited availability of research data on the outsourcing of TAFs.

Hypotheses were not developed for study objectives 3, 4, 5, 7 and 8 because of their descriptive nature.

Table 5.2

Hypotheses - Common Beliefs on Outsourcing

(P = Positive relationship to degree of outsourcing, # = Negative relationship to degree of outsourcing performed, H = no relationship to degree of outsourcing performed)

Study Objective 1: To determine the trend in the outsourcing of typical accounting functions			
No	Type	Variable	Hypotheses
1	P	Time	Over time in the 1990s, there is an increasing trend to outsource TAFs.
			Price Waterhouse (1995) indicated interest amongst large and medium-sized organisations to increase the outsourcing of a number of accounting functions. These functions are Payroll, Accounts Payable, Accounts Receivable, General Ledger and Financial Management.  IBIS (1994) asserted that there is an increasing trend for large and medium-sized organisations to outsource typical accounting functions such as General Ledger, Accounts Payable, Accounts Receivable, Payroll, Budgeting and Management Accounting.

**Table 5.2 (cont'd)**

<b>Study Objective 2: To identify any association between organisational and accounting infrastructure characteristics and the degree of outsourcing performed</b>			
<b>No</b>	<b>Type</b>	<b>Variable</b>	<b>Hypotheses</b>
<b>Organisational characteristics</b>			
2	H	Size (measured by the number of employees)	<p>There is no relationship between organisational size and the degree of outsourcing of TAFs performed by organisations.</p> <p>In her study on the outsourcing of Information Technology, Cullen (1994) found that firm size (measured by employee numbers) was not a determinant of IT outsourcing.</p> <p>As the processing of TAFs are computer-based, Cullen's finding was applied to identify any correlation between organisational size and the degree of outsourcing of TAFs.</p>
3	H	Stability (measured by the frequency of organisational restructuring)	<p>There is no relationship between outsourcing of TAFs and business stability.</p> <p>In her study on the outsourcing of Information Technology, Cullen (1994) found no association between the frequency with which organisational restructuring had occurred and the degree of IT outsourcing performed.</p> <p>As the processing of TAFs are computer-based, Cullen's finding was applied to identify any correlation between business stability and the degree of outsourcing of TAFs.</p>

Table 5.2 (cont'd)

Table 5.2 (Cont'd)			Accounting Infrastructure Characteristics		Basis
No	Type	Variable	Hypotheses		
4	H	Ratio of accounting to total number of staff	There is no relationship between accounting staff ratios and the degree of outsourcing performed.	<p>In her study on the outsourcing of Information Technology, Cullen (1994) found that the ratio of non-IT staff to total number of staff was not a strong determinant of the degree of outsourcing performed.</p> <p>As the processing of TAFs are computer-based, Cullen's finding was applied to identify any correlation between accounting staff ratios and the degree of outsourcing of TAFs.</p>	
5	H	Strategic importance	There is no relationship between the strategic importance of TAFs and the degree of outsourcing performed.	<p>In her study on the outsourcing of Information Technology, Cullen (1994) found that there was no significant relationship between the strategic importance of an IT function with the degree of outsourcing performed.</p> <p>As the processing of TAFs are computer-based, Cullen's finding was applied to identify any correlation between the strategic importance of TAFs and the degree of outsourcing TAFs.</p>	

Table 5.2 (cont'd)

No	Type	Variable	Hypotheses	Basis
6	N	Technology implemented in outsourcing arrangements	There is a negative relationship between the seriousness of problems encountered in technology implemented and the degree of outsourcing which can be undertaken by firms.	IBIS (1994) asserted that until technological barriers are removed, firms will not have the confidence to outsource their TAFs.
7	N	Risk levels	There is a negative relationship between the risk levels associated with the TAF and the degree of outsourcing performed.	Risk in this context refers to the likelihood of processing malfunction or error occurring. The higher the perceived risks, the greater the reluctance to outsource the functions.
<b>Study Objective 6: To evaluate the interest of accounting firms in becoming service providers of typical accounting functions</b>				
8	N/A	N/A	Accounting firms are more interested in the provision of value-added services compared to basic accounting services, due to the high returns generated from value-added services.	Boreham (1993; 1994) asserted that accounting firms lack interest in the provision of basic accounting services due to low financial returns and high cost requirements associated with these services. These accounting services do not require professional accounting skill and judgement and can be computerised. These include General Ledger, Accounts Receivable, Accounts Payable, Payroll, Inventory Accounting and Fixed Assets.



## 5.4 RESEARCH AND ANALYSIS GUIDELINES

Tables 5.3 and 5.4 (Research Guideline Tables) shown in the following pages have been designed to assist in the development of the survey instruments. Based on the study objectives (Section 5.2, Table 5.1), each table identifies the study objective and the specific questions for which information is sought. For each question, the key research variables and the means of measuring each variable, are identified.

Table 5.3 relates to study objectives 1 to 5 (Section 5.2, Table 5.1). The questionnaire addressing service users of typical accounting functions were based on this table. Table 5.3 relates to study objectives 6 to 8 and was used to aid in the preparation of the questionnaire addressing service providers within the accounting services industry.

The information sought in Tables 5.3 and 5.4 are shown below. 'RG' refers to Research Guidelines.

### Service-user Survey (Table 5.3)

- Profile of respondents (RG No.1)
- Trends in the outsourcing of typical accounting functions (RG No. 2)
- Association between organisational and accounting infrastructure characteristics and the degree of outsourcing performed (RG No. 3)
- Rationales/perceived benefits for outsourcing (RG No. 4)
- Selection criteria used in the evaluation of service providers (RG No. 5)
- Concerns in outsourcing typical accounting functions (RG No. 6)

#### Service-provider Survey (Table 5.4)

- Profile of respondents (RG No.7)
- Respondents' degree of involvement as providers of typical accounting services<sup>11</sup>  
(RG No. 8)
- Respondents' interest in the provision of typical accounting services (RG No. 9)
- Impact of the provision of typical accounting services on respondents' cost structure (RG No.10 and 11)
- Perceived benefits for outsourcing typical accounting functions<sup>12</sup> (RG No. 12)

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<sup>11</sup> The term *typical accounting services* refer to the nine accounting services associated with the nine accounting functions which are the subject of this outsourcing study. Refer Glossary for full explanation of the terms *typical accounting functions* and *typical accounting services*

<sup>12</sup> See footnote 11.

**Table 5.3      Research Guidelines: Service-User Survey**

The following table was used as a guide in the design of the survey instrument (questionnaire) and the analysis of the survey results. A copy of the Questionnaire is shown in Appendix A.

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
<b>STUDY OBJECTIVE - GENERAL PROFILE OF RESPONDENTS</b>		
<b><u>RG No. 1</u></b> To identify the profile of respondents  <b>A)</b> What is the profile of respondents?	1) Industry classification	<b>Refer Survey Instrument Q. 1</b> 17 Australian Bureau of Statistics industry classification were used: <ul style="list-style-type: none"><li>• Agriculture, Forestry and Fishing</li><li>• Mining</li><li>• Manufacturing</li><li>• Electricity, Gas and Water Supply</li><li>• Construction</li><li>• Wholesale Trade</li><li>• Retail Trade</li><li>• Accommodation, Cafes and Restaurants</li><li>• Transport and Storage</li><li>• Communication Services</li><li>• Finance and Insurance</li><li>• Property and Business Services</li><li>• Government Administration and Defence</li><li>• Education</li><li>• Health and Community Services</li></ul>

Table 5.3 (cont'd)      Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
		<ul style="list-style-type: none"><li>• Cultural and Recreational Services</li><li>• Personal and Other Services</li></ul> <p><u>Analysis:</u> <i>Frequency analysis - identify percentage of respondents in each industry classification.</i></p>
	2) Period (Years) of Operation	<p><b>Refer Survey Instrument Q. 2</b> Period of operation indicated by the following ranges:</p> <ul style="list-style-type: none"><li>• Less than 10 years</li><li>• 11 - 20 years</li><li>• 21 - 30 years</li><li>• 31 - 40 years</li><li>• 41 years and above</li></ul> <p><u>Analysis:</u> <i>Frequency analysis - identify percentage of respondents in each range.</i></p>

Table 5.3 (cont'd)      Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
	3) Annual Revenue	<p><b>Refer Survey Instrument Q. 3</b></p> <p>Annual revenue indicated by the following ranges:</p> <ul style="list-style-type: none"><li>• Under \$1 m</li><li>• \$1 m to &lt; \$10 m</li><li>• \$10 m to &lt; \$100 m</li><li>• \$100 m to &lt; \$500 m</li><li>• \$500 m and above</li></ul> <p><u>Analysis:</u> <i>Frequency analysis - identify percentage of respondents in each range.</i></p>
	4) Employment Size: - Organisation as a whole - Accounting department	<p><b>Refer Survey Instrument Q. 8</b></p> <p>Number of full time employees within the entire firm as indicated by the following ranges:</p> <ul style="list-style-type: none"><li>• 1-10 staff</li><li>• 11-100 staff</li><li>• 101 - 1 000 staff</li><li>• 1001 - 10 000 staff</li><li>• 10 001+ staff</li></ul> <p><u>Analysis:</u> <i>Frequency analysis - identify percentage of respondents in each range.</i></p>

Table 5.3 (cont'd)      Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
<b>STUDY OBJECTIVE 1: To determine the trend in the outsourcing of typical accounting functions (TAFs)</b>		
<b>RG No. 2</b> To identify the trends in outsourcing of typical Accounting Functions (TAFs)  <b>A)</b> What TAFs were outsourced in 1997?	TAFs outsourced in 1997	<b>Refer Survey Instrument Q. 9</b> Indicate whether outsourcing is performed on full or partial basis, or if TAF is run in-house  <i>Analysis:</i> <i>Frequency analysis - identify percentage of respondents who outsource and those who perform the function in-house.</i>
<b>B)</b> What TAFs will be outsourced beyond 1997?	TAFs outsourced beyond 1997	<b>Refer Survey Instrument Q. 9</b> Indicate whether TAF will be outsourced beyond 1997  <i>Analysis:</i> <i>Identify percentage of respondents who have considered outsourcing a TAF beyond 1997.</i>

Table 5.3 (cont'd)      Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
C) Were there any changes in levels of outsourcing between 1992 and 1997?	TAFs outsourced in 1992  vs  TAFs outsourced in 1997	<b>Refer Survey Instrument Q. 9</b>  <u>Analysis:</u> <i>Cross tabulation to identify % of firms which:</i>  - <i>did not outsource in 1992 and would be outsourcing in 1997</i>  - <i>did not outsource in 1992 and would not be outsourcing in 1997</i>  - <i>outsourced in 1992 and would be outsourcing in 1997</i>  - <i>outsourced in 1992 and would not outsource in 1997</i>

Table 5.3 (cont'd)      Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
D)  Are any changes projected on the levels of outsourcing between 1997 and the period beyond?	  TAFs outsourced in 1997  vs  TAFs outsourced in period beyond 1997	  <b>Refer Survey Instrument Q. 9</b>  <u>Analysis:</u> <i>Cross tabulation of to identify % of firms which:</i>  - <i>did not outsource in 1997 <u>and</u> would be outsourcing beyond 1997</i> - <i>did not outsource in 1997 <u>and</u> would not be outsourcing beyond 1997</i> - <i>outsourced in 1997 <u>and</u> would be outsourcing beyond 1997</i> - <i>outsourced in 1997 <u>and</u> would not outsourcing in 1997</i>



Table 5.3 (cont'd)      Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
<b>STUDY OBJECTIVE 2: To identify any association between organisational and accounting infrastructure characteristics and the degree of outsourcing performed</b>		
<b><u>RG No. 3</u></b> <b>A)</b> Is there any relationship between the general characteristics of firms and the degree of outsourcing performed by these firms?  What are the characteristics of firms which: - outsourced TAFs in 1997? - did not outsource any TAFs in 1997?	<u>Characteristics of firms</u> 1) Size by annual revenue 2) Industry classification 3) Length of Operation (Years) 4) Staffing Structure by number of full -time employees 5) Success measured by positive changes in Annual Revenue and EBIT for the last three financial years: xx/xx/95, xx/xx/96 and xx/xx/97 6) Involvement in outsourcing of other administrative functions 7) Frequency of organisational restructure	<u>Analysis:</u> <i>For each level of TAF outsourcing performed by firms, apply Cross-tabulation and Pearson's correlation test to determine whether there is a significant relationship between degree of outsourcing performed and the following characteristics:</i>  - annual revenue range (refer Survey Instrument Q.3) - industry classification (refer Survey Instrument Q.1) - range indicating period of operation (refer Survey Instrument Q.2) - number of full-time employees within organisation (refer Survey Instrument Q.8) - percentage and direction of changes in firms' annual revenue and EBIT for last three financial years (refer Survey Instrument Qs.4 & 5)

Table 5.3 (cont'd)      Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
	<u>Degree of outsourcing performed (measured in relative terms):</u> - High - Low - Nil	outsourcing of administrative type functions other than accounting, i.e., Information Technology, Legal and Superannuation (refer Survey Instrument Q.6) - frequency of organisational restructures which have occurred (refer Survey Instrument Q.7)
<b>B)</b> Is there any relationship between the accounting infrastructure within companies and the degree of outsourcing performed by these companies?	<u>Accounting Infrastructure factors:</u> - Staffing Structure by number of full-time employees within firms' accounting department - Strategic importance of TAFs - Risk levels associated with TAFs - Cost of TAFs as a ratio to total revenue	<u>Analysis:</u> <i>For each level of TAF outsourcing performed by firms, apply Cross-tabulation and Pearson's correlation test to determine whether there is a significant relationship between degree of outsourcing performed and the following factors:</i>  - staffing structure of firms' accounting department (refer Survey Instrument Q.8) - strategic importance of firms' TAFs (refer Survey Instrument Q. 9) - risk levels associated with firms' TAFs (refer Survey Instrument Q. 9) - cost of firms' TAFs as a ratio to total revenue (refer to Survey Instrument Q. 10)

Table 5.3 (cont'd)      Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
<b>RG No. 4</b> To identify the rationales for outsourcing TAFs  A) What are the reasons (objectives) for outsourcing TAFs?	<p><u>List of 8 reasons:</u></p> <ul style="list-style-type: none"><li>• Better focus on core business</li><li>• Better cost control</li><li>• Access to skilled staff</li><li>• Better service delivery</li><li>• Access to technology</li><li>• Improved accountability/control of accounting functions</li><li>• Meet Requirements of special projects</li><li>• Greater ability to cope with changes in staffing structure</li></ul>	<p><b>Refer Survey Instrument Q. 11</b></p> <p>Respondents to rank the 8 reasons.</p> <p><u>Analysis:</u></p> <p>1) Means test to obtain the mean of the rankings. The mean value for each reason was compared and ranked from lowest to highest. The lower the mean, the more significant the reason for outsourcing.</p> <p>2) For each reason, perform frequency analysis to obtain the percentage of '1', '2' and '3' rankings (top three reasons for outsourcing).</p>

Table 5.3 (cont'd)      Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
<b>B)</b> How well were the respondents' outsourcing objectives achieved?	Degree objectives were achieved.	<b>Refer Survey Instrument Q. 11</b> Respondents to rate how well their outsourcing objectives were achieved on the following scale: 4 = achieved well above expectations 3 = achieved as per expectations 2 = achieved below expectations 1 = objectives not achieved  <u>Analysis:</u> <i>Frequency analysis of the three most important outsourcing objectives</i>
<b>C)</b> Are respondents aware of the factors used to measure the success in running TAFs in their organisation?	Descriptive factors as listed by respondents for each TAF	<b>Refer Survey Instrument Q. 12</b> Respondents to provide description of critical success factors for each TAF.  <u>Analysis:</u> 1) <i>Frequency analysis of the percentage of respondents who could describe the critical success factors</i> 2) <i>Summary and description of data obtained.</i>

Table 5.3 (cont'd)      Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
<b>D)</b> Have respondents returned to inhouse processing after having outsourced TAFs?	Reasons for returning to inhouse processing of TAFs	<b>Refer Survey Instrument Q. 13</b> Respondents to provide reasons for returning to inhouse processing of TAFs.  <u>Analysis:</u> 1) <i>Frequency analysis of the percentage of respondents who have returned to in-house processing</i> 2) <i>Summary and description of data obtained</i>
<b>E)</b> Has any respondents evaluated and rejected the outsourcing option for any TAFs?	Reasons for rejecting outsourcing	<b>Refer Survey Instrument Q. 14</b> Respondents to provide reasons for rejecting the outsourcing option.  <u>Analysis:</u> <i>Summary and description of data obtained.</i>

Table 5.3 (cont'd) Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
<b>RG No. 5</b> To identify the selection criteria used by service buyers in the evaluation of service providers of TAFs  <b>A)</b> What criteria are considered the most important when selecting service providers for TAFs?	<p><u>List of 5 selection criteria:</u></p> <ul style="list-style-type: none"> <li>• Service provider capability refers to service provider's business strength, quality of staff, experience and flexibility in service provision)</li> <li>• Technical and service assessment (refers to service quality, efficiency of service migration plans and service provider's capacity to meet changes in work volumes)</li> <li>• Financial impact (refers to net financial benefits expected to be gained by the accounting department or the service user organisation)</li> </ul>	<p><b>Refer Survey Instrument Q. 15</b></p> <p>Respondents to rank the 5 criteria.</p> <p><u>Analysis:</u></p> <p>1) <i>Means Test to obtain the mean of the rankings. The mean value for each criteria is compared and ranked from lowest to highest. The lower the mean, the more important the criteria.</i></p> <p>2) <i>For each criteria, perform frequency analysis to obtain the percentage of '1', '2' and '3' rankings (three most important criteria).</i></p>

Table 5.3 (cont'd)      Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
	<ul style="list-style-type: none"><li>Contractual impact (refers to service provider's flexibility to manage change, their acceptance of risk and financial arrangements)</li><li>Staff impact (refers to ability of service-user organisation's ability to retain existing employees and their skills and avoiding unnecessary staff disruption /redundancies)</li></ul>	

Table 5.3 (cont'd)      Research Guidelines: Service-User Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
<b>RG No. 6</b> To identify any concerns regarding the outsourcing of TAFs  <b>A)</b> What are the concerns of organisations (service-users) regarding the outsourcing of TAFs?  <b>B)</b> Who has expressed these concerns? Respondents who had performed outsourcing or those who had not?	<p><u>Identification of 5 types of concerns:</u></p> <ul style="list-style-type: none"><li>• Technological</li><li>• Financial</li><li>• Human resource</li><li>• Legal</li><li>• Management and control</li></ul> <p>1) Identification of different levels of outsourcing High - outsourced 3 or 4 out of 9 TAFs Low - outsourced 1 or 2 out of 9 TAFs Nil - did not outsource any TAFs and Category of concerns expressed</p>	<p><b>Refer Survey Instrument Q. 16</b></p> <p><u>Analysis:</u></p> <p>1) For each criterion, obtain frequency distributions for each category of concern. Identify the three most common categories.</p> <p>2) Descriptive analysis of concerns expressed.</p> <p><u>Analysis:</u> Perform cross tabulations of degree of outsourcing performed and categories of concerns. Identify any link between the degree of outsourcing and concern types.</p>



**Table 5.4      Research Guidelines: Service-Provider Survey**

The following table was used as a guide in the design of the survey instrument (questionnaire) and the analysis of the survey results. A copy of the Questionnaire is shown in Appendix C.

The terminology *typical accounting services* (TAS) used in RG Nos. 8 to 11 relate to the nine typical accounting functions (TAFs) referred in Table 5.3 earlier. Refer to Glossary for full details of the nine accounting functions which have been collectively termed as *typical accounting functions*.

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
STUDY OBJECTIVE - GENERAL PROFILE OF RESPONDENTS		
<b><u>RG No. 7</u></b> To identify the profile of respondents  A) What is the profile of respondents?	1) Size of firms (measured by no of staff)	<b>Refer Survey Instrument Q. 4</b> Employment ranges: <ul style="list-style-type: none"><li>• 1-10 staff</li><li>• 11-20 staff</li><li>• 21-30 staff</li><li>• 31-40 staff</li><li>• Above 40 staff</li></ul> <u>Analysis:</u> <i>Frequency analysis - identify percentage of respondents maintaining each employment range.</i>

Table 5.4 (cont'd)      Research Guidelines: Service-Provider Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
STUDY OBJECTIVE - GENERAL PROFILE OF RESPONDENTS		
	2) Professional accreditation of principals within firms	<p><b>Refer Survey Instrument Q. 5</b> Responding firms to indicate membership of one or more of the following bodies:</p> <ul style="list-style-type: none"> <li>• Institute of Chartered Accountants</li> <li>• Australian Society of Certified Practising Accountants</li> <li>• National Institute of Accountants</li> <li>• Other: _____</li> </ul> <p><u>Analysis:</u> <i>Frequency analysis - identify percentage of responding firms where principals are members of relevant bodies.</i></p>
	3) Client base	<p><b>Refer Survey Instrument Q. 6</b> Responding firms to identify the size of the majority of clients in either or in both categories:</p> <ul style="list-style-type: none"> <li>• Government-owned enterprises</li> <li>• Private enterprises</li> </ul>

Table 5.4 (cont'd)      Research Guidelines: Service-Provider Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
		Client size ranges: <ul style="list-style-type: none"><li>• 1-10 staff</li><li>• 11-100 staff</li><li>• 101 - 1 000 staff</li><li>• 1001 - 10 000 staff</li><li>• 10 001+ staff</li></ul> <i>Analysis:</i> <i>Frequency analysis - identify percentage of respondents falling within each range.</i>
<b>STUDY OBJECTIVE 6: To evaluate the interest of different types of firms in the provision of typical accounting services (TAS)</b>		
<b><u>RG No. 8</u></b> What are the firms' degree of involvement as providers of typical accounting services	1) Contribution of TAS towards each firm's annual revenue (measured as % of total annual revenue)	<b>Refer Survey Instrument Q. 1</b> Firms to indicate percentage contribution from provision of TAS towards annual revenue. Percentage ranges: <ul style="list-style-type: none"><li>• up to 10%</li><li>• 11-25%</li><li>• 26-50%</li><li>• 51-75%</li><li>• 76-100%</li></ul>

Table 5.4 (cont'd)      Research Guidelines: Service-Provider Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
		<i>Analysis:</i> <i>For each TAS, perform a means test to identify the percentage of firms falling within each range.</i>
<b><u>RG No. 9</u></b> Are service -provider firms interested in the provision of typical accounting services?	1) TAS for which firms are interested in providing more of	<b>Refer Survey Instrument Q. 1</b> Firms to identify TAS for which they would like to provide more of. <i>Analysis:</i> <i>For each TAS, perform frequency analysis - identify percentage of firms which have indicated interest.</i>

Table 5.4 (cont'd)      Research Guidelines: Service-Provider Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
	2) Reason(s) for firms' interest	<p><b>Refer Survey Instrument Q. 1</b></p> <p>Firms to indicate reason(s) for their interest gaining more opportunities to provide TAS. Possible reasons:</p> <ul style="list-style-type: none"><li>• High returns</li><li>• High demand</li><li>• Match competition</li><li>• Availability of cost effective technology</li></ul> <p><u>Analysis:</u> <i>Frequency analysis - identify most popular reasons based on percentage indications.</i></p>

Table 5.4 (cont'd)      Research Guidelines: Service-Provider Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
	3) TAS for which firms are not interested in providing	<p><b>Refer Survey Instrument Q. 1</b> Firms to identify TAS for which they are not interested in providing.</p> <p><u>Analysis:</u> <i>For each TAS, perform frequency analysis - identify percentage of firms which have indicated negative interest</i></p>
	4) Reason(s) for firms' disinterest	<p><b>Refer Survey Instrument Q. 1</b> Firms to indicate reason(s) for their disinterest in becoming providers of TAS. Possible reasons:</p> <ul style="list-style-type: none"> <li>• Low returns</li> <li>• Low demand</li> <li>• Decreasing demand</li> <li>• Lack of cost effective technology</li> </ul> <p><u>Analysis:</u> <i>For each TAS perform frequency analysis to identify most popular reasons based on percentage indications.</i></p>

Table 5.4 (cont'd)      Research Guidelines: Service-Provider Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
<b>STUDY OBJECTIVE 7 - To evaluate the impact of the provision of TAS on the cost structure of different types of firms within the accounting services industry</b>		
<b><u>RG No. 10</u></b>  Do service-provider firms incur any additional costs by the increased provision of TAS?	1) Identification of additional cost types	<p><b>Refer Survey Instrument Q. 1</b> Firms to indicate additional costs in any of the following areas:</p> <ul style="list-style-type: none"> <li>• Recruitment of staff</li> <li>• Staff training</li> <li>• Acquisition/upgrade of hardware</li> <li>• Acquisition/upgrade of software</li> <li>• Occupancy costs</li> </ul> <p><u>Analysis:</u> <i>For each TAS, perform frequency analysis to identify percentage of firms which have indicated incremental costs for each of the above areas.</i></p>

Table 5.4 (cont'd)      Research Guidelines: Service-Provider Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
<p><b><u>RG No. 11</u></b></p> <p><b>A)</b> Over the previous three years, have service-provider firms experienced escalating costs in their provision of TAS?</p>	<p>1) Cost types which have escalated</p>	<p><b>Refer Survey Instrument Q. 1</b></p> <p>Responding firms to indicate whether, in the previous three years, they have experienced escalating costs in the provision of TAS. Cost types:</p> <ul style="list-style-type: none"><li>• Staff recruitment</li><li>• Staff training</li><li>• Acquisition/upgrade of hardware</li><li>• Acquisition/upgrade of software</li><li>• Occupancy costs</li></ul> <p><u>Analysis:</u> <i>Frequency analysis - identify percentage of firms which have experienced escalating costs for each of the above areas.</i></p>



**Table 5.4 (cont'd)      Research Guidelines: Service-Provider Survey**

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
<p><b>B)</b> Where relevant, has escalating costs affected service-provider firms ability to compete in the provision of TAS?</p>	<p>2) Ability to compete</p>	<p><b>Refer Survey Instrument Q. 1</b> Responding firms to indicate whether, in the previous three years, they have been affected by escalating costs in the provision of TAS. Cost types:</p> <ul style="list-style-type: none"> <li>• Staff recruitment</li> <li>• Staff training</li> <li>• Acquisition/upgrade of hardware</li> <li>• Acquisition/upgrade of software</li> <li>• Occupancy costs</li> </ul> <p><u>Analysis:</u> <i>Frequency analysis - identify percentage of firms for which their ability to compete in the provision of basic accounting services have been affected by escalating costs in any of the above areas.</i></p>

Table 5.4 (cont'd)      Research Guidelines: Service-Provider Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
<b>STUDY OBJECTIVE 8 - To identify service provider firms' perception of the benefits enjoyed by their clients which outsource typical accounting functions (TAFs)</b>		
<b><u>RG No. 12</u></b> What are service providers' perception of the benefits which are enjoyed by their clients in the outsourcing of TAFs?	<p>1) <u>List of 8 reasons:</u></p> <ul style="list-style-type: none"><li>• Better focus on core business</li><li>• Better cost control</li><li>• Access to skilled staff</li><li>• Better service delivery</li><li>• Access to technology</li><li>• Improved accountability/control of accounting functions</li><li>• Meet requirements of special projects</li><li>• Greater ability to cope with changes in staffing structure</li></ul>	<p><b>Refer Survey Instrument Q. 2</b></p> <p>Respondents to rank the 8 reasons.</p> <p><u>Analysis:</u></p> <p>1) <i>Means Test to obtain the mean of the rankings. The mean value for each reasons compared and ranked from lowest to highest. The lower the mean, the more significant the reason for outsourcing.</i></p> <p>2) <i>For each reason, perform frequency analysis to obtain the percentage of '1', '2' and '3' rankings (top three reasons for outsourcing).</i></p>

Table 5.4 (cont'd)      Research Guidelines: Service-Provider Survey

STUDY OBJECTIVE/ RESEARCH GUIDELINE No.	KEY RESEARCH VARIABLE	MEANS OF MEASURE
	2) Cost savings	<p><b>Refer Survey Instrument Q. 3</b> Responding firms to identify the magnitude of cost savings enjoyed by their clients by outsourcing TAFs. Cost savings range:</p> <ul style="list-style-type: none"><li>• 0 - 10 %</li><li>• 11 - 20%</li><li>• 21 - 30%</li><li>• Above 30%</li><li>• No idea</li></ul> <p><u>Analysis:</u></p> <p><i>Frequency analysis - identify percentage of firms falling within each range.</i></p>

## **6 RESEARCH METHODOLOGY**

### **6.1 DATA COLLECTION**

The common methods of data collection in research studies include face-to-face interviews; telephone interviews; questionnaires that have different ways of administration; observations of organisations or events, etc. The appropriateness of each data collection technique would depend on the environmental setting from which data are collected and the type of data sources. In the case of this study, the environmental setting was the workplace within organisations where accounting functions were performed. This was regardless of whether the functions were performed in-house i.e., within the service-users' premises, or performed externally within the vendor's premises. Data sources were primary: to satisfy objectives 1 to 5 (Section 5.2, Table 5.1) data were collected from top management of service-user organisations; to satisfy objectives 6 to 8, data were collected from principals of service-provider organisations. The collection of data from top level management was, in both cases, to avoid any bias in the answers, especially since outsourcing has been perceived to be a sensitive issue.

Two groups of data sources were required for this study. The first group was a random sample of 300 service-user organisations which was randomly selected from a listing obtained from the Australian Stock Exchange (Section 6.2.2). The second group was a sample of 300 service-provider firms which was carefully selected from the Australian Yellow Pages (Section 6.3.2). The organisations or firms selected were geographically based all over Australia. The data which were required for this study varied in detail; while most of the data could be supplied with very little effort and time, some could not be accurately supplied without investigation. Given these considerations and the

fact that top level management have time constraints while carrying out their professional responsibilities, the most practical method of data collection would be the use of questionnaires which were administered through the public mail.

With the necessity to collect data from two separate groups, two separate surveys were performed. The first survey was conducted in October 1997 and was designed to meet objectives 1 to 5 of the study (Section 5.2, Table 5.1). The findings of the first survey were used to develop the questionnaire for the second survey, which was aimed to satisfy objectives 6 to 8 of this study. The second survey was conducted in April 1998. Details of the first and second surveys are discussed in Sections 6.2 and 6.3 respectively.

## **6.2 SURVEY 1 (SERVICE-USER ORGANISATIONS)**

This survey was designed to obtain information from organisations which had accounting operations in Australia. A number of factors had been considered in the selection of organisations to be included in the sample. The first factor was the organisation's familiarity with the topic of outsourcing. According to the findings of prior research and anecdotal evidence, the organisations which outsourced administrative functions tended to be successful and large. The second factor was the desirability of obtaining findings which were representative of organisations throughout Australia. Taking into account these two factors, the sample of organisations for this survey was taken from a Profitability Study conducted by the Australian Stock Exchange (discussed in Section 6.2.2).

### **6.2.1 Development of the Survey Instrument**

The questionnaire was formulated around the information specified in the Research Guidelines for service-user organisations (Section 5.4, Table 5.3).

A brief description of the survey was provided at the start of the questionnaire to inform the recipient of the document as to the purpose of the survey, the preferred individual who should complete the questionnaire and a glossary of terms used in the document in order to avoid any misinterpretation by the reader. The content of the questionnaire was divided into four parts. The sequence of each part and the questions contained within each part were such that the respondents were led from questions that were generally easy to answer, to those that were progressively more difficult. The first part of the questionnaire contained general questions about the organisation itself, while the next three parts contained questions which were specifically related to the accounting functions and outsourcing itself. Respondents were required to complete only the relevant sections, and this depended on whether the respondent organisation had performed outsourcing or not.

Of the sixteen questions contained in the questionnaire, twelve were in the form of check boxes or scale ratings. These formats were used only where the choices of answers were mutually exclusive and collectively exhaustive. While these questions were simple to understand and quick to complete, there were other types of information which warranted open-ended questions. For instance, the identification of outsourcing concerns by service-user organisations was not confined by questions framed in a closed format, as respondents were encouraged to describe their concerns or problems freely. Four questions in the questionnaire took this open-ended format.

A pilot survey was conducted prior to performing the main survey. This survey involved two companies and two accounting firms which were based in Victoria, for the convenience of follow-up.<sup>13</sup> Feedback was required from these participants to ensure that the questionnaire was comprehensible and easy to complete within the expected time frame. The feedback and suggestions which were received during this survey were considered in the development of the final questionnaire.

### **6.2.2 Sample Selection**

In order to obtain reasonable findings for this survey, public listed companies identified from the listing of participants of the 1995 Australian Stock Exchange Profitability Study (SSERD, 1995) were included in the sample. There is a number of merits in having taken this approach. First, these companies were expected to have familiarity with the accounting functions specified in the study, due to their requirement to maintain proper accounting records according to the legislative reporting standards imposed on them by the Australian Securities and Investment Commission (ASIC) and the Australian Stock Exchange (ASX). Second, the expectation that most of these companies are large due to their reliance on public raising of equity capital, would increase the likelihood of their familiarity or experience in outsourcing. Third, the distribution of these companies in all states could provide an even representation of outsourcing experiences and trends obtained throughout Australia.

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<sup>13</sup> For details of the firms or organisations which assisted in the pilot survey, refer Appendix J.

The sample of organisations was identified from the list of 433 companies which had participated in the Stock Exchange Profitability Study (SSERD, 1995). The participants of the Profitability Study have had at least four years of reasonable performance and are associated with all 24 industry groups.

Of the 433 companies involved in the 1995 Profitability Study, 300 companies were randomly selected for this outsourcing study. To ensure that sensible answers could be obtained for this study, the researcher had to ensure that companies which did not meet the following criteria were not selected for the survey:

- i) Location of each company's head office to be based in Australia.

This was to ensure that the findings were comparable in the following aspects:

- Being Australian based, the accounting reporting standards would be in compliance with the Australian Corporations Law and the Australian Stock Exchange.
- These companies would have access to Australian-based service providers of typical accounting functions. This factor is important when comparing the findings of this survey to the findings of the second survey, which is based on responses from Australian service providers of accounting functions.



ii) Employment of staff.

This factor was mandatory because the study may be able to determine if there is any relationship between employment numbers and the aggressiveness with which an organisation pursues outsourcing.

Of the 24 industry groups, two groups, i.e., Investment & Financial Services and Property Trusts, were omitted from the survey sample, as most of the companies within these industries were owned by other companies and did not employ any staff.

iii) Existence of a reported turnover figure in the last year covered by the Stock Exchange's Profitability Study, i.e., 1994/95.

An area of investigation in this study was the direction of changes in the turnover of both respondents which outsourced and those that did not outsource, over a period of three financial years between financial years 1994/95 and 1996/97. A number of companies in the Stock Exchange Profitability Study, especially those within the mining industries, failed to report a turnover figure for the financial year 1994/95.

Appendix A, Table A-1 shows the 24 classification of industries involved in the 1995 ASX Profitability Study. Out of the total 433 companies, 300 companies were randomly selected for this outsourcing study. As shown in the last column of Table A-1, companies have been selected from all classifications except for Investment & Financial Services and Property Trusts. The proportion of companies selected under each classification for this outsourcing study was not similar to the proportion of companies which existed under each classification in the ASX study; maintaining the same proportion

was not possible due to the process of elimination mentioned above (i.e., the companies had to meet three criteria).

### **6.2.3 Limitations of the methodology employed**

In collecting data, any researcher is concerned with the objectives of validity (the research measures what it intends to measure) and reliability (response consistency) in their selection of the research tools. There are four issues which represent limitations in this context. While these limitations have been acknowledged, deliberate measures have been taken, where possible, to overcome the limitations as far as possible.

#### **(i) Reliance on the ASX company listing.**

While recognising the merits in using the company listing of the Stock Exchange Profitability Study (Section 6.2.2), there was unequal representation of companies from each type of industry. As such, the responses obtained may not be representative of the entire population of organisations listed on the stock exchange. Taking this into consideration, the information requested in the survey included the organisational characteristics of the respondent such as industry type, operational size in terms of revenue and employees, etc. The objective of this was to allow a profile to be built for organisations which outsourced and those that did not.

(ii) Impact of decentralised organisations.

Due to the possibility that the head office and other operational areas of the companies may be decentralised, the extent of outsourcing of accounting functions in one area may differ from that of another area. In such a case, information may not have been readily obtainable that represents the organisation as a whole. In order to obtain the best centralised source of total organisational information and activities, the Head of the Accounting or Finance Department in each company was requested to complete the questionnaire.

(iii) Risk of completion of questionnaire by individual other than the preferred individual.

While the Head of the Accounting or Finance Department of each company was requested to complete the questionnaire, there is the risk that an individual other than the Head of Department (e.g., the department secretary, financial accountant, etc.) would complete the questionnaire. This risk is conceivable due to the fact that very senior personnel are often restricted by time constraints while carrying out their varied high level duties. In such a situation, the answers supplied in the questionnaire may be biased towards the collective experiences of an individual who may not be as informed as the Head of Department.

(iv) Financial constraints.

Because of the costs associated with performing two surveys, the number of companies included in the sample for this service-user survey was limited to 300. Based on an expected response rate of between 20 -25%

(i.e., 60-70 responses), the data received may not be representative of the entire population of organisations listed on the stock exchange, which was above 1,000 at the time of the survey. Taking this into consideration, respondents were asked permission to enable the researcher to conduct follow-up interviews where required. This would enable the quality of research information to be enhanced.

#### **6.2.4 Conduct of the Survey**

The documents mailed in this survey included a questionnaire and a cover letter which outlined the objectives of this study. Both of these documents are shown in Appendix B. The Head of the Accounting or Finance Department of each company was requested to complete and return the questionnaire by a specified date, which was approximately three weeks from the date the questionnaires were mailed to them.

Where questionnaires were returned by Australia Post due to the inability to locate the addressees, direct enquiries or references were made of the Australian Stock Exchange, Telstra Directory Assistance and White Pages to obtain current contact details.

Of the 300 questionnaires sent, a total of 19 questionnaires were removed from the sample. These comprised:

- 18 companies which were unable to be located;
- one company which had been taken over by another company which was already included in the sample.

The survey had a response rate of 21.7%. Of the 281 questionnaires which were presumed to have been received, 61 responses were received over a period of seven weeks.

Although the respondents were not required to identify themselves, a relatively small proportion had volunteered to provide follow-up consultation. The opportunity was taken to follow up the responses from these respondents in order to obtain more detailed information where appropriate.

### **6.3 SURVEY 2 (SERVICE-PROVIDER FIRMS)**

This survey was designed to obtain information from service providers in the accounting services industry. The majority of service providers comprise accounting firms which were run by qualified accountants as well as bookkeeping and payroll bureaux which were run by non-accountants. As such, questionnaires were sent to accounting firms, bookkeeping firms and payroll bureaux. The number of questionnaires sent to each group was stratified by the proportion of the population of each group, against the total population of three groups, as indicated by the contents of the Telstra Yellow Pages. The stratification process is illustrated in Tables 6.1 and 6.2 (Sections 6.3.2 and 6.3.3 respectively).

#### **6.3.1 Development of the Survey Instrument**

The questionnaire for this survey was formulated around the information specified in the Research Guidelines for service-provider firms (Section 5.4,

Table 5.4). All six questions contained in the questionnaire were in the form of check boxes or scale ratings.

Similar to the service-user survey, a pilot survey was conducted to ensure that the questionnaire was comprehensible and easy to complete within the expected time frame. The pilot survey involved three accounting firms which were based in Victoria for the convenience of follow-up. The feedback and suggestions received from these firms were considered in the development of the final questionnaire.

### **6.3.2 Sample Selection**

In order to obtain valid evidence from this survey, a number of factors had been considered in the selection of service-provider firms for the sample. The following factors were the preferred criteria and have been taken into account in the selection of service-provider firms for the survey.

The first factor was the type of services which were provided by the firms. As the focus of the study was on the nine types of accounting service specified in Section 5.2, there was a need to survey accounting firms which could provide informed responses in relation to questions on these service types. In order to avoid the reliance on responses from firms that are mainly involved in providing tax compliance services (believed to be the main service provided by the majority of small practices, i.e., one or two person practices), there was a preference for the accounting firms to be of substantial size, i.e., having at least 5 persons providing accounting services.

The second factor was the geographical location of these firms. As the potential respondents of the service-user survey were based throughout Australia, there was a need for the geographical location of the service-provider firms to be taken from as many states as possible. This would enable an even representation from states throughout Australia, consistent with the approach taken in the service-user survey.

The Australian Society of Certified Practising Accountants was approached to assist by providing a mailing list which would satisfy both of the above-mentioned criteria. However, due to technical difficulties this could not be obtained. In order to satisfy the above-mentioned factors as closely as possible, the Telstra Yellow Pages of five major Australian cities were used. Accounting firms were selected by the details of the services they provided, as advertised.

A total of 300 accounting firms was selected from five Australian states as follows:

**Table 6.1      Stratification of accounting firms in sample**

State	Ratio of advertisements (approximation)	No of firms included in sample	Ratio of firms included in sample
Victoria	26.0%	80	26.5%
New South Wales	27.0%	80	26.5%
Queensland	17.0%	50	17.0%
Western Australia	19.0%	60	20.0%
South Australia	11.0%	30	10.0%
Total	100.0%	300	100.0%

### 6.3.3    Additional samples

Although the above-mentioned survey objectives involve the study of accounting firms, two small and separate samples of other types of firm

operating within the accounting services industry were included. These other firms were categorised as bookkeeping firms and payroll bureaux. The volume of Yellow Pages advertisements placed by both categories aggregated to approximately 10% of the total volume of advertisements placed by accounting firms. Altogether, twenty bookkeeping and twenty payroll firms were selected for the service-provider survey as shown in Table 6.2.

According to the findings of the service-user survey which was conducted in October 1997, payroll services was the most popular service outsourced amongst all the accounting services included in this study. As such, a higher proportion of payroll firms (i.e., 7% instead of 3%) was surveyed in order to obtain findings which can be analysed together with the findings from the service-user survey.

**Table 6.2      Stratification of bookkeeping firms and payroll bureaux based on number of accounting firms**

	Proportion of Accounting firm advertisements	Proportion of Bookkeeping firm advertisements (against accounting firms)	Proportion of Payroll firm advertisements (against accounting firms)
	100%	7%	3%
No of firms included in sample	300	20	20
Sample proportion of non-accounting firms (against accounting firms)		7%	7%



#### **6.3.4 Limitations of the methodology employed**

Given the resources available for the selection of service-provider firms to be included in the sample, there were two limitations to the methodology employed. In order to obtain valid and reliable answers from the survey, deliberate measures have been taken to overcome these limitations as far as possible. These limitations were as follows:

(i) Difficulty in identifying appropriate service firms for survey sample.

With the varied styles of advertising placed by service-providers in the Yellow Pages, there were difficulties in identifying service-provider firms which could provide meaningful answers to the questionnaire used. Firms which advertised under the “Accountants” section were not necessarily operated by qualified accountants. Similarly, firms which advertised under the “Bookkeeping” and “Payroll” sections were operated by accountants as well as non-accountants. In order to be able to judge the credibility of the answers received, survey respondents were requested to indicate their firm’s professional membership, size and portfolio of services provided.

(ii) Financial constraints.

Because of the costs associated with performing two surveys, the number of firms included in the sample for this survey was limited to 340. Based on an expected response rate between 20-25% (i.e., 68-85 responses), the data received may not be representative of the entire population of service-provider firms in the accounting services industry. Taking this into consideration, respondents were asked permission to enable the

researcher to conduct follow-up interviews where required. This would enable the quality of research information to be enhanced.

### **6.3.5 Conduct of the Survey**

The documents mailed in this second survey included a questionnaire and a covering letter which outlined the objectives of this study. Both of these documents are shown in Appendix C. The Principal or Managing Executive of each firm was requested to complete and return the questionnaire by a specified date, which was approximately three weeks from the date the documents were mailed to them.

Where questionnaires were returned by Australia Post due to the inability to locate the addressees, direct enquiries or references were made with Telstra Directory Assistance to obtain current contact details.

Of the 340 questionnaires sent, a total of 16 questionnaires was removed from the sample. These comprised:

- 14 firms which were unable to be located; and
- 2 firms which had preferred not to participate in the survey

The survey had a response rate of 25.6%. Of the 324 questionnaires which were presumed to have been received, 83 responses were received over a period of seven weeks.

Although the respondents were not required to identify themselves, a substantial proportion had volunteered to provide follow-up consultation. The opportunity

## **PART C**

### **SURVEY FINDINGS**

The responses of both the Service-User and Service-Provider Surveys were analysed in accordance with the Research Guidelines (see Tables 5.3 and 5.4). These are discussed in Sections 7 and 8 respectively.

The findings in Section 7 relate to the first five study objectives shown in Table 5.1. These include the identification of various aspects such as outsourcing trends, any association between outsourcing and organisational characteristics, the rationales and benefits of outsourcing, the selection criteria used by service-buyer firms and any concerns about the practice of outsourcing.

In Section 8, the findings relate to the last three study objectives shown in Table 5.1. These include the evaluation of service-provider firms' interest in providing typical accounting services (TAS), the impact of the provision of these services on the cost structure of the firms and the perception of service-providers on the benefits enjoyed by their clients through outsourcing.

#### **7 FINDINGS: SERVICE-USER SURVEY (SURVEY 1)**

The questionnaire was designed to identify a number of aspects, in accordance with the Research Guidelines shown in Table 5.3. A response rate of 21.7% was achieved, based on 61 returned questionnaires. The responses for individual questions were not all usable due to failure to answer certain sections

of the questions. The response rates for each question in the order of the discussion in this chapter are shown in Appendix C-1, Table C-1.

**7.1 PROFILE OF RESPONDENTS (RG No. 1)**

**7.1.1 Geographical Location**

The survey covered all Australian States. Response rates varied as shown in Table 7.1 with responses from New South Wales and Victoria being substantially higher than those from other States.

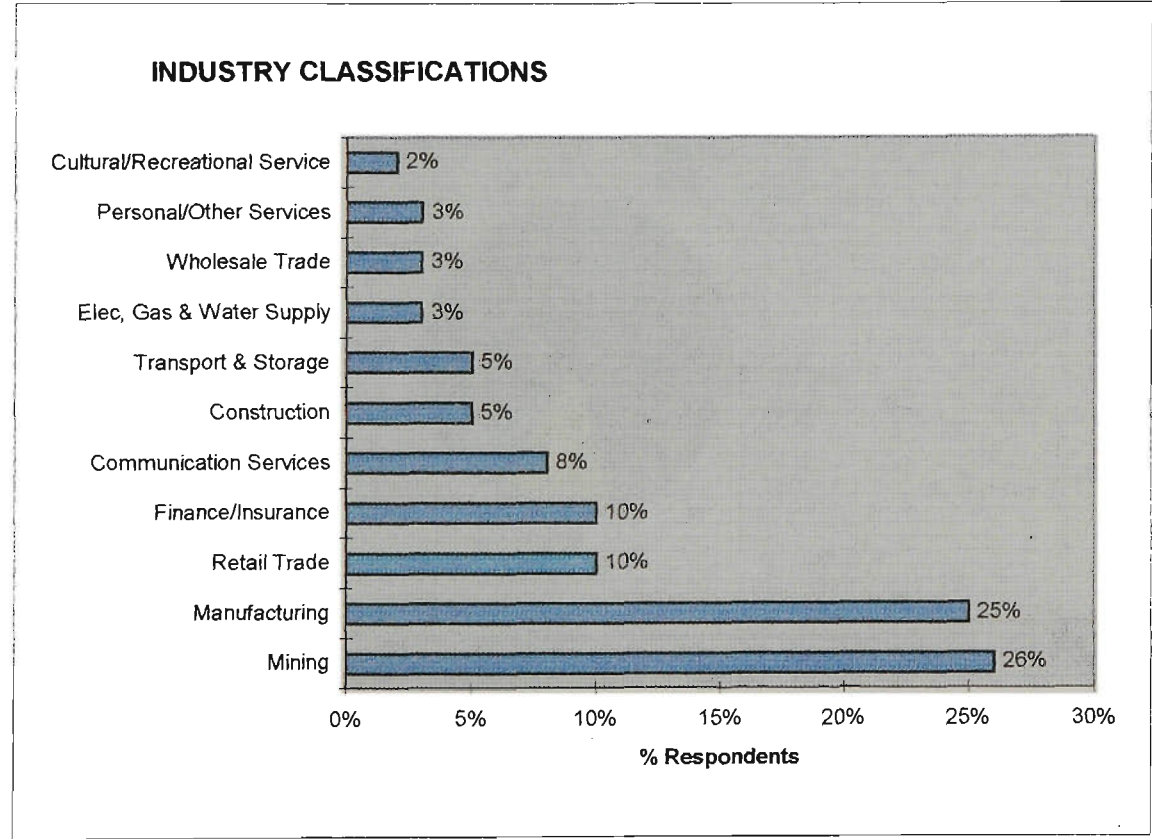
**Table 7.1 Service-User Survey: Distribution of Responding Firms**

<b>Australian State</b>	<b>Number</b>	<b>Percentage</b>
New South Wales	19	31
Victoria	17	28
Queensland	7	11
Western Australia	5	8
South Australia	3	5
Tasmania	1	2
Unidentified	9	15
Total	61	100

**7.1.2 Industry Classification**

As shown in Figure 7.1, the majority of responding firms was from the Mining and Manufacturing sectors (representing 26 and 25% respectively). Other firms were from Retail Trade (10%), Finance and Insurance (10%), Communication Services (8%), Construction (5%), Transport and Storage (5%), Electricity, Gas and Water Supply (3%), Wholesale Trade (3%), Personal and Other Services (3%) and Cultural and Recreational Services (2%).

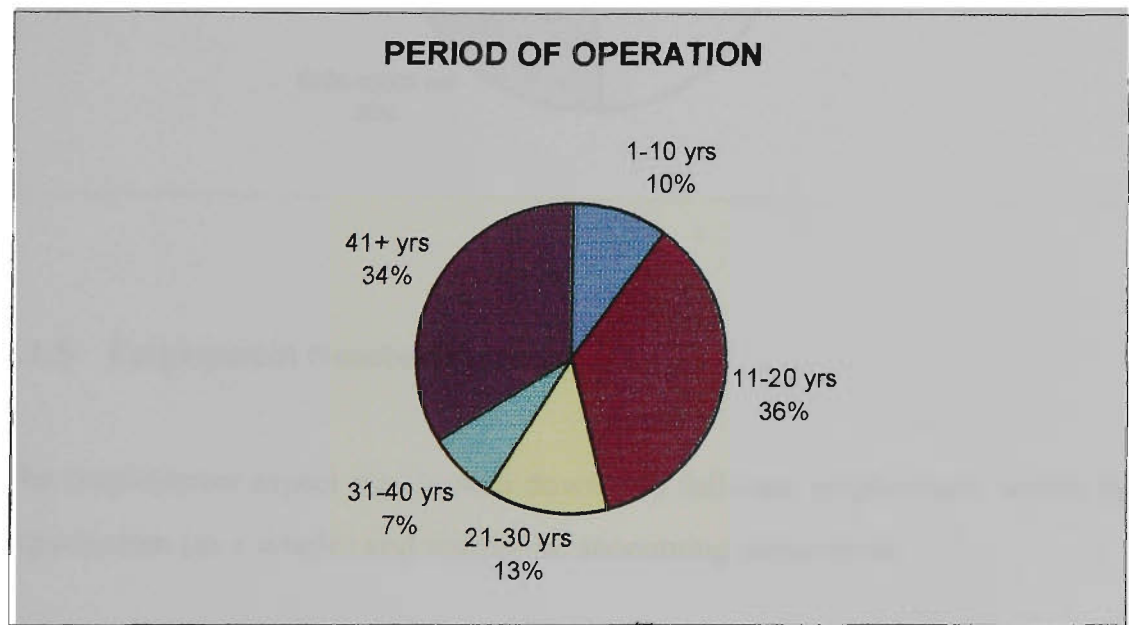
**Figure 7.1 Respondents' Industry Classification**



**7.1.3 Period of Operation**

The experience of responding firms measured by the period of their operations was varied. Approximately 90% of firms were quite experienced having operated for at least 10 years. As shown in Figure 7.2, the majority of these comprised 36% who have operated for between 11 to 20 years, followed by 34% who have operated for 41 years or more. The other 13% have had 21 to 30 years while 7% in between 31 to 40 years of operations. Firms who have operated for less than 10 years represented only 10% of total respondents.

**Figure 7.2 Respondents’ period of operation**

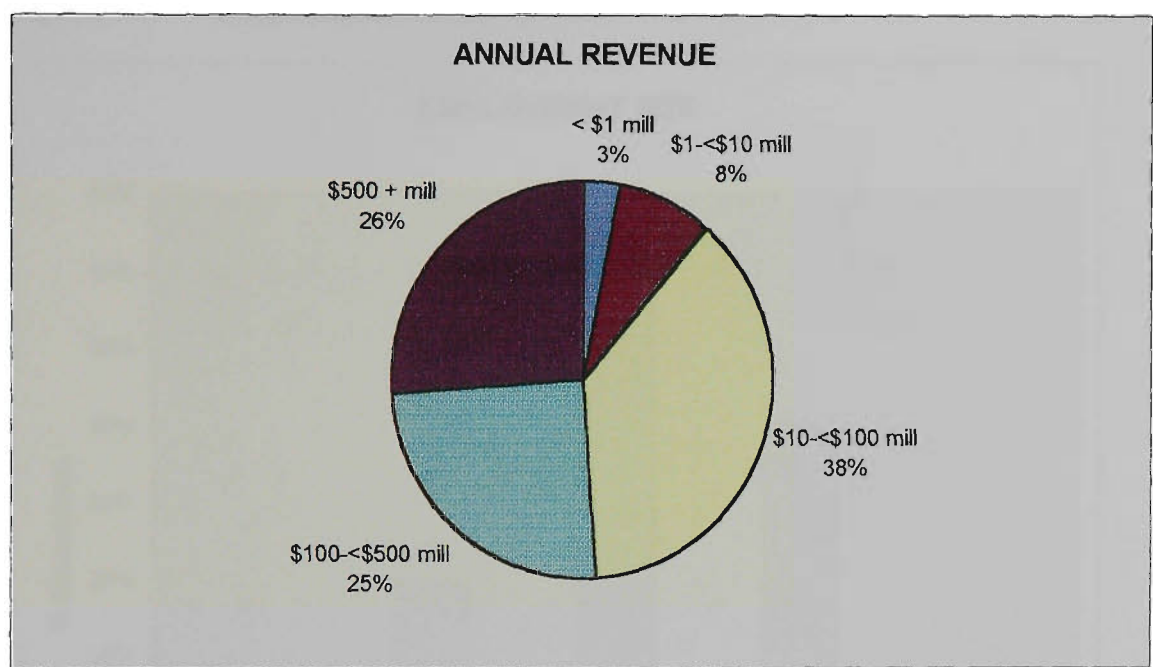


**7.1.4 Annual Revenue**

Most responding firms were quite large, with 38% reporting revenue between \$10 and \$100 million per annum, followed by 26% reporting revenue of \$500 million or more per annum. The rest of the responding firms had annual revenue in the range of \$100 to less than \$500 million (25%), \$1 to less than

\$10 million (8%) and under \$1 million (3%). Figure 7.3 illustrates the proportion of firms with various revenue earning capacity.

**Figure 7.3     Respondents' annual revenue**



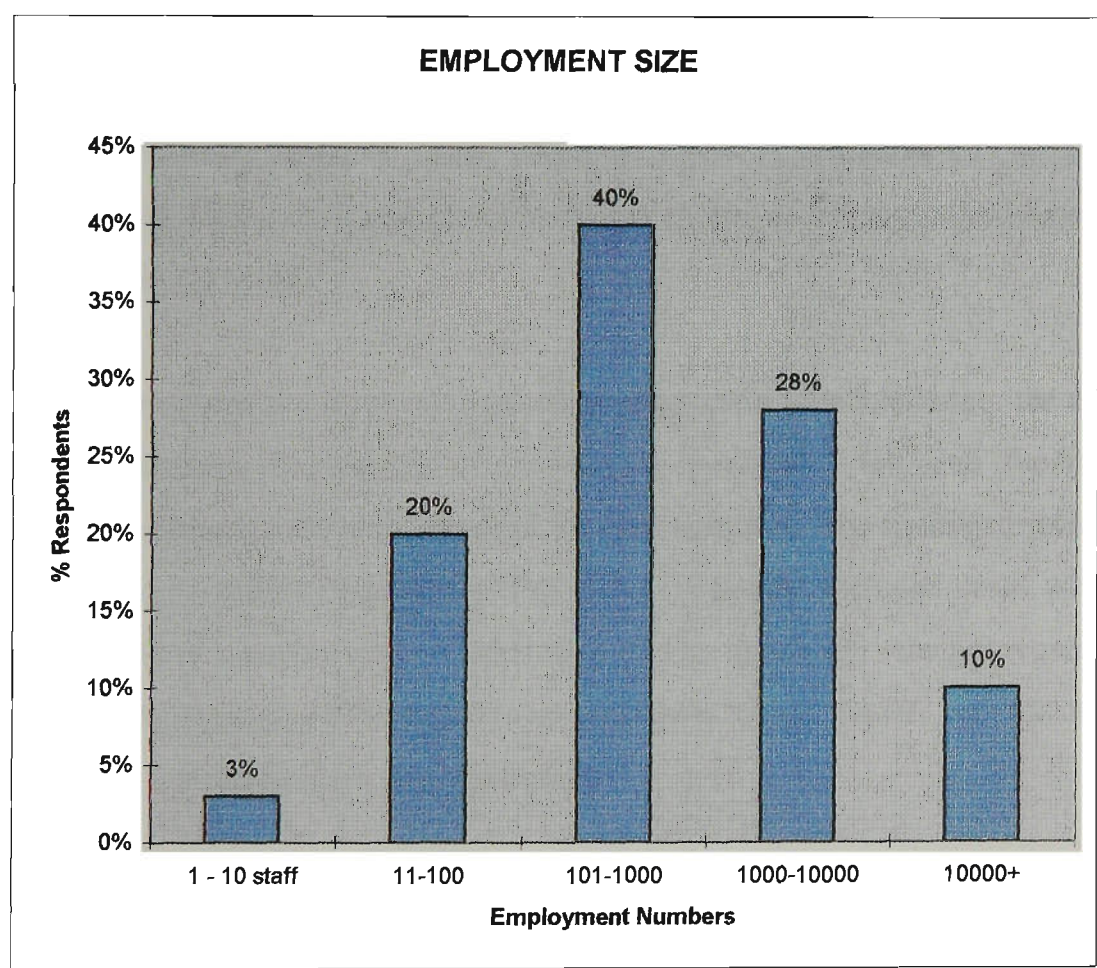
**7.1.5     Employment Numbers**

The employment aspect was broken down into full-time employment within the organisation (as a whole) and within the accounting department.

In terms of full-time organisational employment, most responding firms were reasonably large, with 40% having maintained employment in the range of 101 to 1,000 staff, followed by 28% which had employment in the range of 1,001 to 10,000 staff. The remaining firms had employment in the range of 11 to 100 staff (20%), 10,000 or more staff (10%) and 1 to 10 staff (3%).

Figure 7.4 illustrates the distribution of employment numbers amongst the responding firms.

**Figure 7.4      Respondents' Employment Numbers**



All firms had maintained full-time employment within the accounting department. More than half (54%) had employed between 1 to 10 accounting staff, followed by 31% which employed between 11 to 100 accounting staff. The rest of the firms employed between 101 to 1,000 (9%), 1,001 to 10, 000 (5%) and in excess of 10,000 (1%) accounting staff.



## **7.2 TRENDS IN THE OUTSOURCING OF TYPICAL ACCOUNTING FUNCTIONS**

### **(RG No.2)**

In this section, the outsourcing levels for typical accounting functions (TAFs) at three points in time were compared. Outsourcing levels in 1992 and 1997 were based on responding firms' actual experiences, whereas the outsourcing levels beyond 1997 were based on firms' projected levels. A comparison is made of the levels in 1992, 1997 and that which was projected for the period beyond 1997 to obtain a trend.

During the survey, the firms were asked to complete a schedule listing the nine TAFs to indicate the degree of outsourcing performed for each function. Different response rates were received for each function. The findings provided were based on usable responses. Non-usable responses included cases where the accounting function was not applicable and so an answer was not required, or where the respondent had failed to respond even though, earlier, an indication was given that the function was applicable.

#### **7.2.1 Level of outsourcing performed**

The outsourcing levels measured by the percentage of total respondents outsourcing each type of TAF are contained in Table E-1 (see Appendix E).

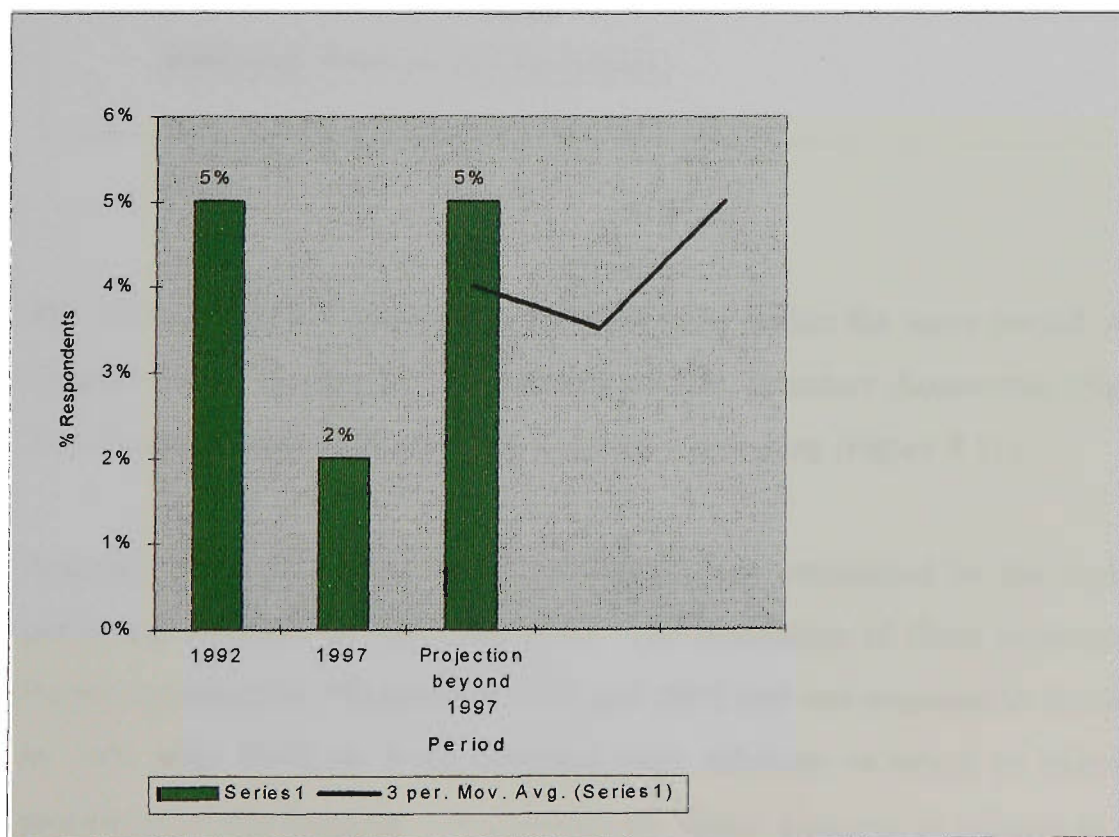
The results indicate that in 1992 and in 1997, TAFs were not outsourced by more than three quarters of responding firms. The same proportion of respondents had also indicated that TAFs were not considered for outsourcing beyond 1997. The TAF outsourced by the highest percentage of respondents in

1992, 1997 and the period beyond 1997 was Payroll (18%, 27% and 13%, respectively).

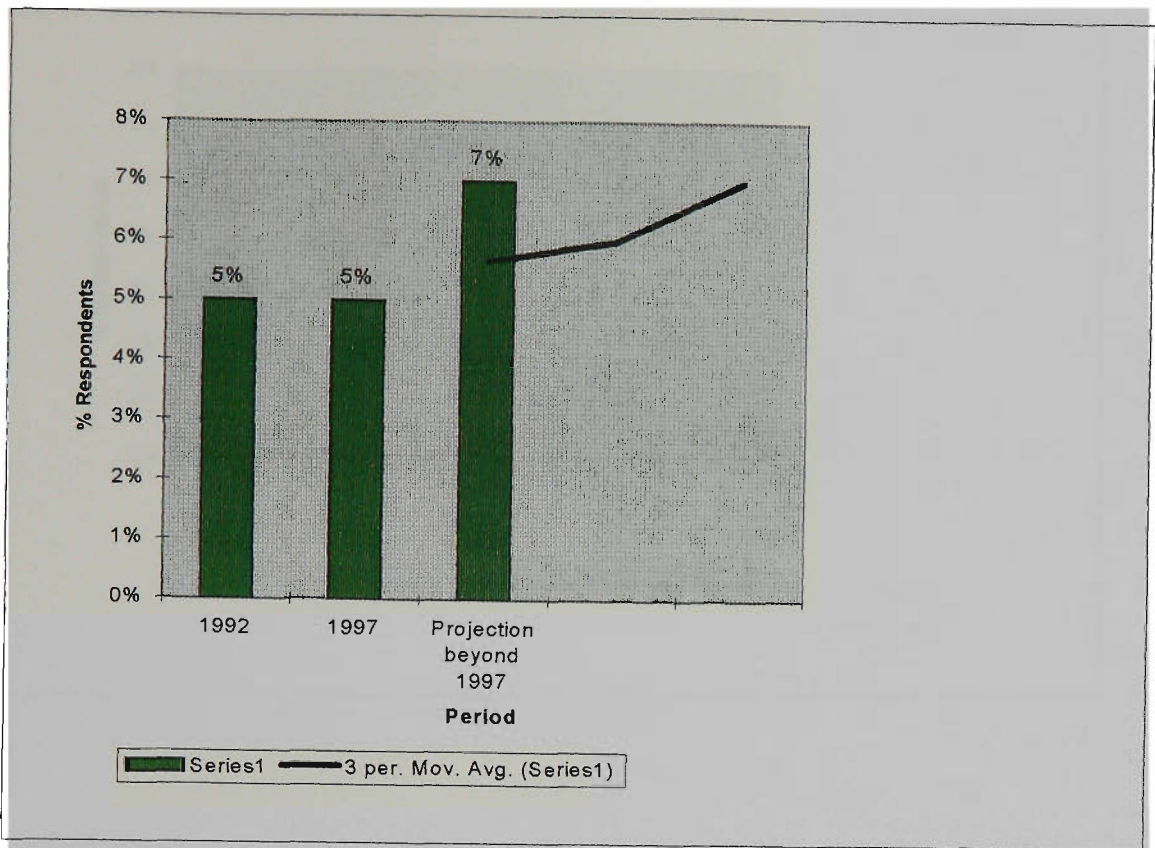
### 7.2.2 Outsourcing trends

A trend was derived from responding firms' actual outsourcing levels in 1992, 1997 and firms' projected outsourcing levels beyond 1997. The TAFs for which outsourcing had increased between 1992 and the period beyond 1997 were Accounts Receivable (Figure 7.5) and Accounts Payable (Figure 7.6).

**Figure 7.5      Outsourcing of Accounts Receivable**



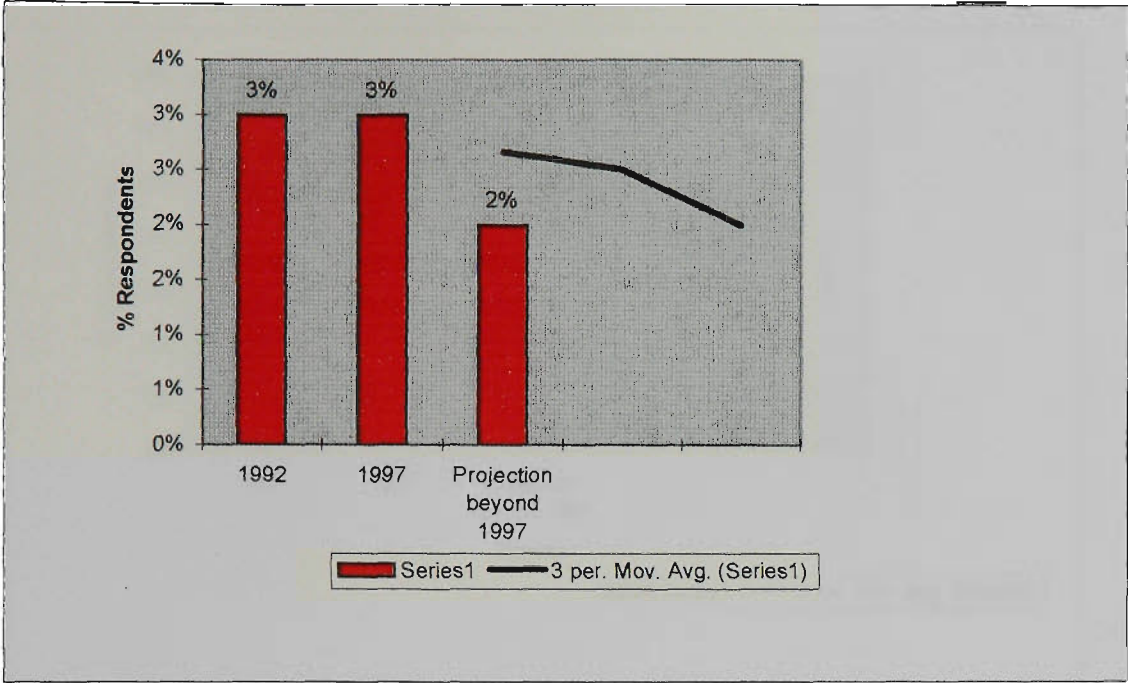
**Figure 7.6      Outsourcing of Accounts Payable**



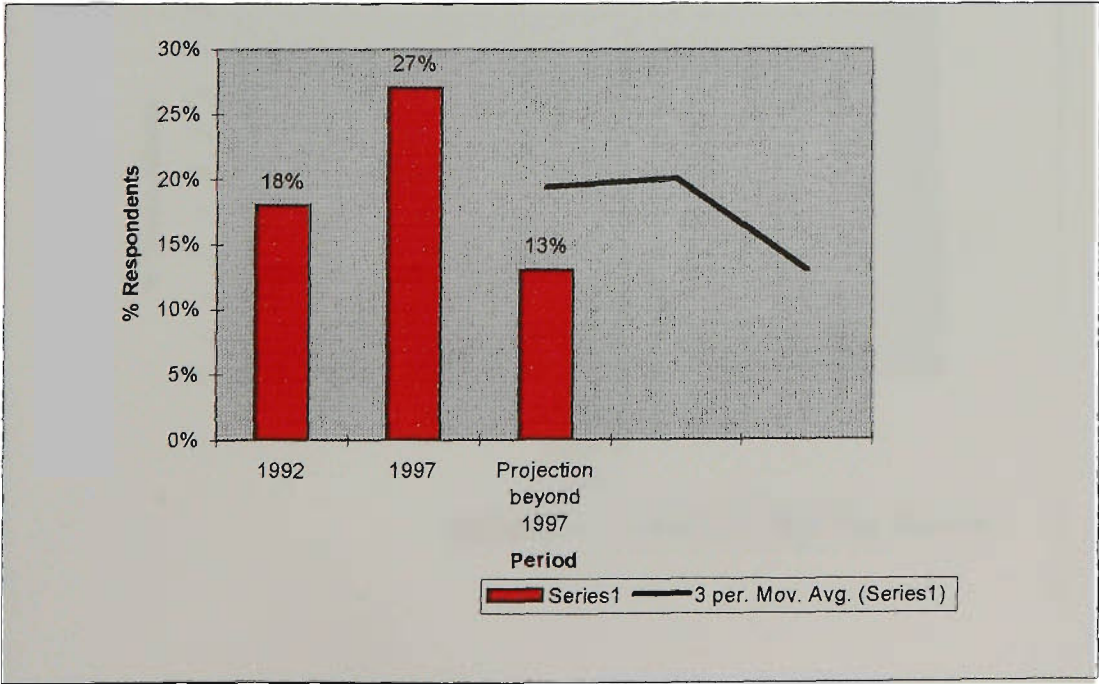
The TAFs for which outsourcing had decreased within the same period were General Ledger (Figure 7.7), Payroll (Figure 7.8), Inventory Accounting (Figure 7.9), Costing (Figure 7.10) and Management Accounting (Figure 7.11).

Amongst these accounting functions, Payroll was outsourced by the highest percentage of firms in 1992 and 1997. The percentage of firms outsourcing Payroll increased by 9% between 1992 and 1997, and was projected to decrease by 14% after 1997, as firms indicated their intention to return to in-house processing of this function. A summary of firms' concerns in relation to the outsourcing of Payroll is highlighted in Section 7.11.3 of this report.

**Figure 7.7     Outsourcing of General Ledger**

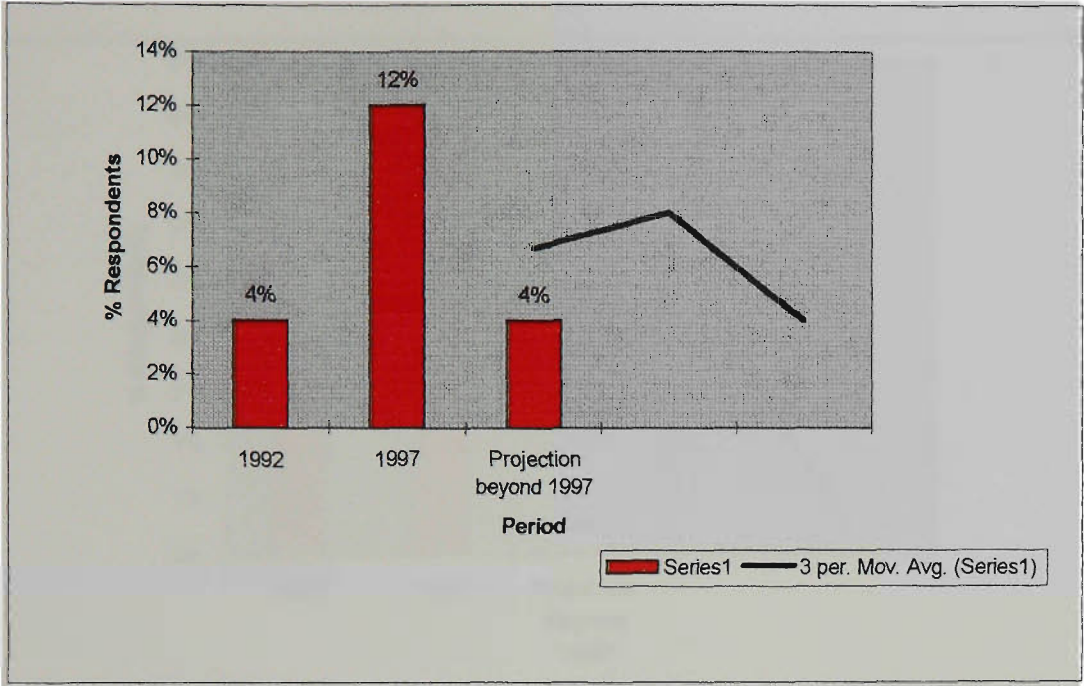


**Figure 7.8     Outsourcing of Payroll**

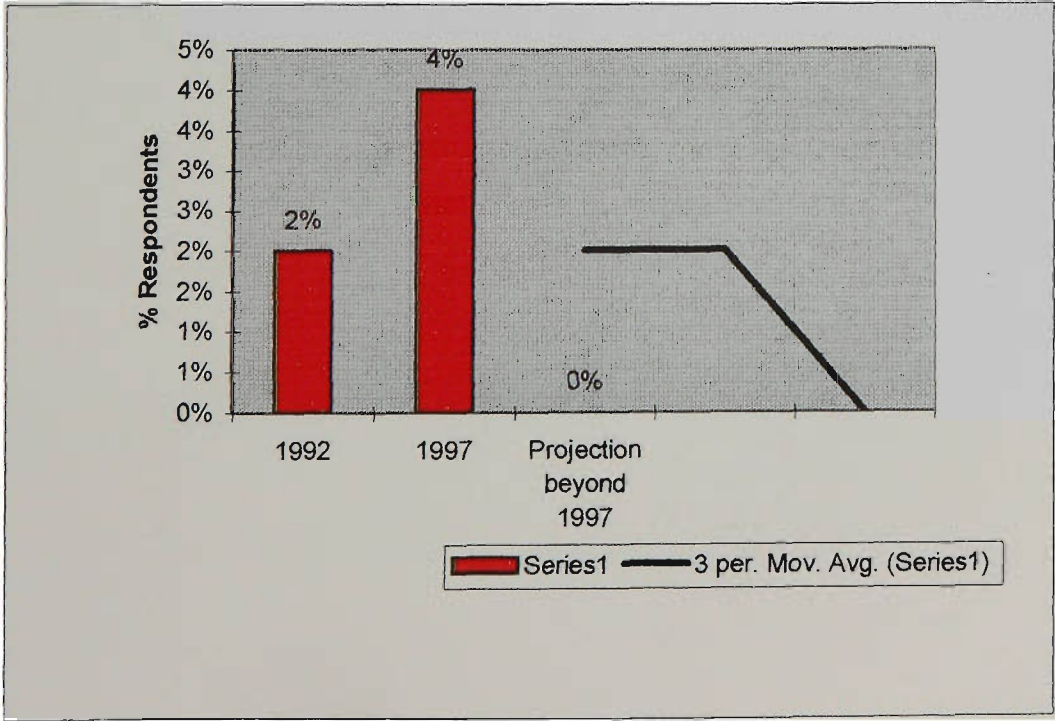




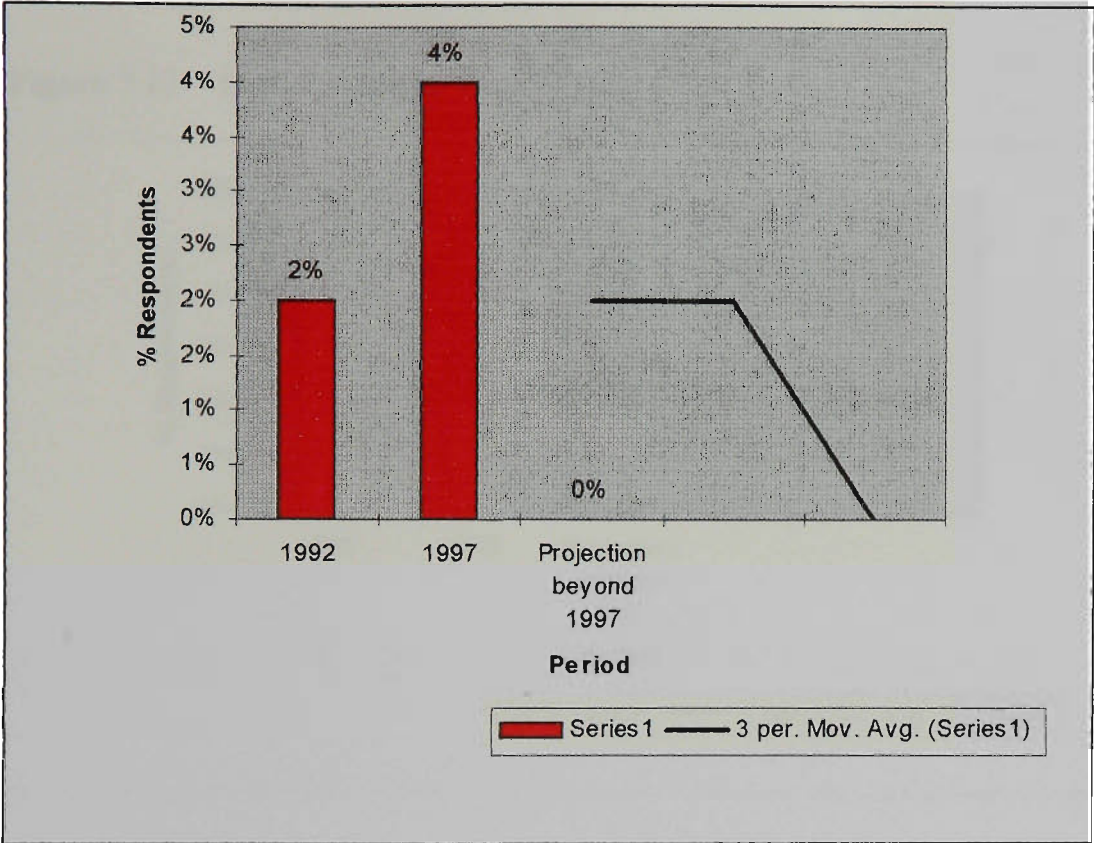
**Figure 7.9     Outsourcing of Inventory Accounting**



**Figure 7.10     Outsourcing of Costing**

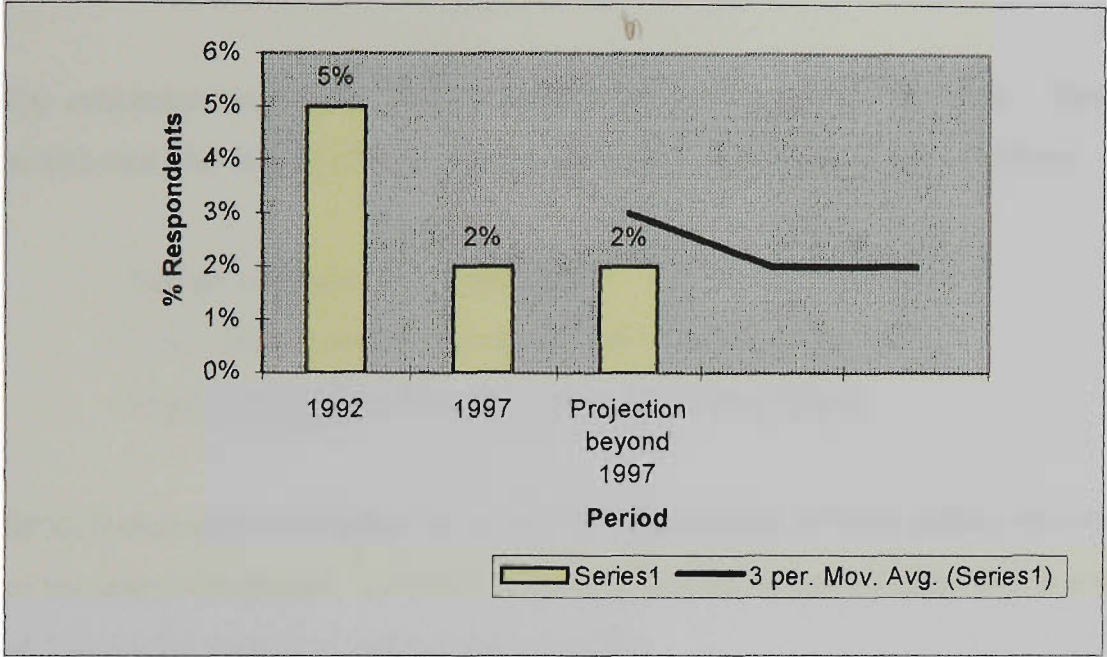


**Figure 7.11   Outsourcing of Management Accounting**

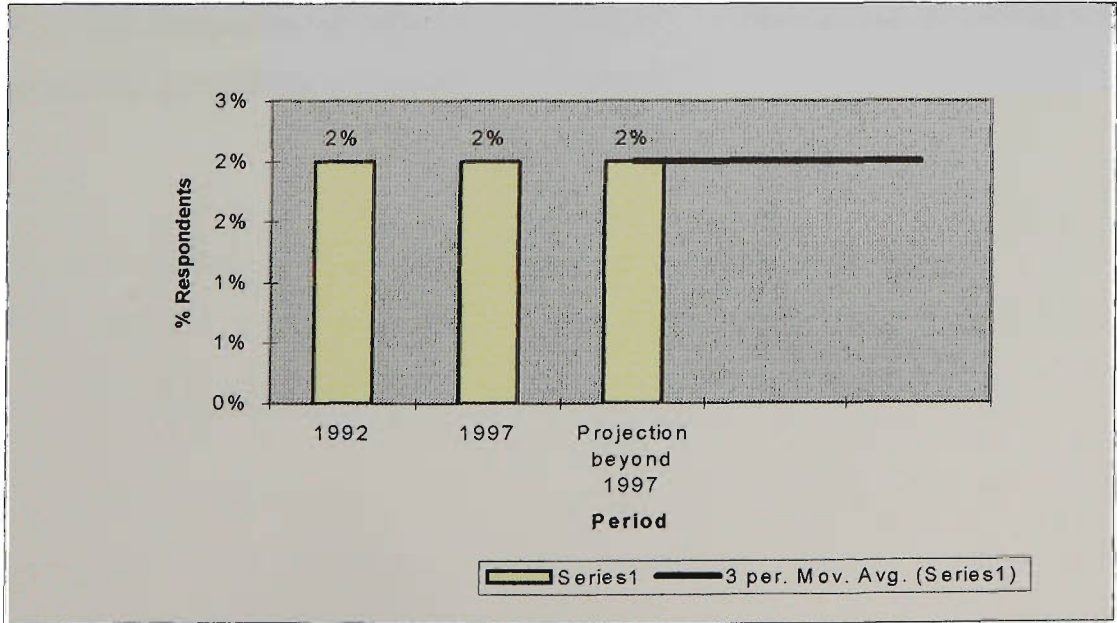


The TAFs for which outsourcing had remained unchanged were Fixed Assets (Figure 7.12) and Budgeting (Figure 7.13).

**Figure 7.12   Outsourcing of Fixed Assets**



**Figure 7.13**



### **7.3 PROFILE OF FIRMS AND THEIR TAF OUTSOURCING LEVELS (RG No. 3A)**

In accordance with Study Objective 2 (Table 5.1), the level of outsourcing undertaken by responding firms in 1997 is summarised.

The maximum number of TAFs outsourced by firms in 1997 was four. Based on this rate, the degree of outsourcing undertaken was categorised as follows:

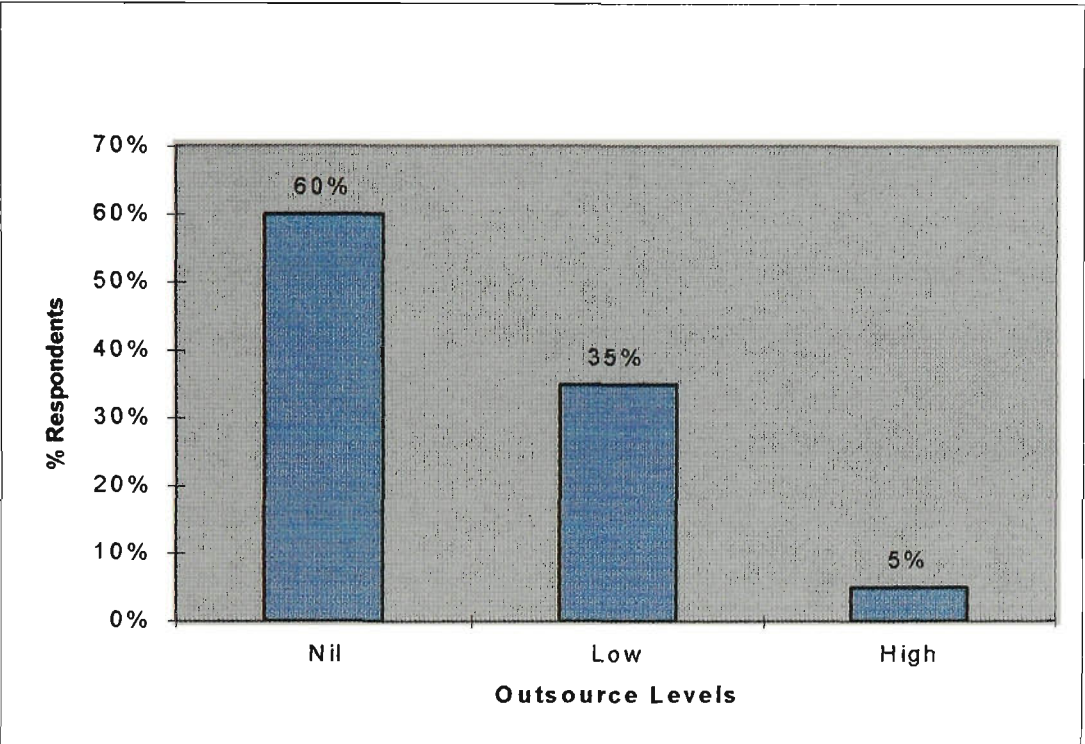
- Nil (no outsourcing undertaken);
- Low (outsourcing of one or two out of nine TAFs); and
- High (outsourcing of three or four out of nine TAFs).

SPSS frequencies were taken to identify the percentage of firms falling into each of the above categories. A score of 0 was given for no outsourcing, and a score of 1 given for each TAF outsourced by a firm.

In 1997, over half of the respondents (62%) had not outsourced any TAF while approximately a third (35%) had outsourced at low levels. Only a minority (3%) had outsourced at relatively high levels. The degree of outsourcing performed by 61 firms is illustrated in Figure 7.14.



**Figure 7.14 Degree of outsourcing performed for TAFs (1997)**



**7.4 ASSOCIATION BETWEEN GENERAL CHARACTERISTICS OF FIRMS AND OUTSOURCING BEHAVIOUR (RG No. 3A)**

The degree of outsourcing TAFs undertaken by respondents in 1997 (as discussed in Section 7.3) was analysed against the firms’ organisational characteristics. These include annual revenue, industry classification, experience (measured by period of operation), size (measured by employment numbers), previous involvement in outsourcing of administrative functions (other than accounting) and organisational stability (measured by the number of organisational restructure experienced).

The analyses performed included cross-tabulations, supported by Pearson correlation tests. The results from cross-tabulations are shown in Tables incorporated, either in the subsections under Section 7.4, or, in Appendix F-2. Where significant conclusions are able to be drawn from the results, the tables

are incorporated in the subsections in 7.4. The results of each correlation test are shown in Appendix F-1, Table F-1.

### 7.4.1 Annual revenue

The distribution of annual revenues for firms which had outsourced at various levels are shown in Table 7.2. While analytical tests indicated **no correlation** between annual revenues and the degree of outsourcing performed, the 3% of firms which had outsourced at relatively high levels had annual revenues between \$10 million and \$500 million. Outsourcing of TAFs was also most popular amongst firms which have annual revenues of more than \$10 but less than \$100 million.

It is possible for these results to suggest that there is an optimal firm size (measured by annual revenue) associated with the outsourcing of TAFs. That is, the economies of scale from outsourcing TAFs is maximised for large firms earning annual revenues of up to \$500 million, but will start to decrease for firms which are larger, with annual revenues in excess of \$500 million.

**Table 7.2      Annual revenue range of firms which outsource at various degrees**

Degree of Outsourcing Performed ( TAFs)	Firms' Annual Revenue Range (\$ million)					
	< 1	1-<10	10-<100	100-< 500	500 m +	Total (%)
High			1.6	3.3		4.9
Low		3.3	11.4	9.9	9.8	34.4
SUBTOTAL		3.3	27.4	13.2	9.8	39.3
Nil	3.3	4.9	24.6	11.5	16.4	60.7
TOTAL	3.3	8.2	37.6	24.7	26.2	100.0

#### 7.4.2 Industry Classification

The distribution of firms which have outsourced at various degrees and their industry classifications are shown in Appendix F-2, Table F-3. Except for firms in Wholesale Trade, Cultural and Recreational Services and Personal/Other Services which had not outsourced TAFs, firms which performed outsourcing in 1997 were widely spread across all industries. Although it is difficult to determine a strong correlation between industry type and the degree of outsourcing performed, outsourcing was more obvious within the manufacturing, mining, communication services and finance/insurance industries.

#### 7.4.3 Experience (measured by period of service)

The distribution of firms' period of service and their degree of outsourcing performed are shown in Table 7.3. While analytical tests indicated **no correlation** between period of service and the degree of outsourcing performed, the 3% of firms which had outsourced at relatively high levels have been in existence between 11 and 40 years. The results also indicate that outsourcing of TAFs was most popular amongst firms which have between 11 to 20 years of experience. It is also possible for the results to imply that outsourcing of an administrative type function such as accounting, was more apparent over the last 20 years.

**Table 7-3      Length of service of firms which outsource TAFs at various degrees**

Degree of Outsourcing Performed ( TAFs)	Firms' Experience (Period of Operation)					Total (%)
	1-10	11-20	21-30	31-40	41+	
High		1.6	1.6	1.6		4.9
Low	1.6	13.1	4.9	1.6	13.1	34.4
<b>SUBTOTAL</b>	<b>1.6</b>	<b>14.7</b>	<b>6.5</b>	<b>3.2</b>	<b>13.1</b>	<b>39.3</b>
Nil	8.2	21.3	6.6	3.3	21.3	60.7
<b>TOTAL</b>	<b>9.8</b>	<b>36.1</b>	<b>13.1</b>	<b>6.5</b>	<b>34.5</b>	<b>100.0</b>

#### 7.4.4    Size ( measured by full-time employment)

The distribution of firms' size (measured by full-time employment numbers) and the firms' degree of outsourcing performed are shown in Table 7.4. While analytical tests indicated **no correlation** between firm size and the degree of outsourcing performed, outsourcing was most popular amongst firms which have maintained staff employment in the range of 101 to 1000 staff.

**Table 7.4      Size of firms which outsource TAFs at various degrees**

Degree of Outsourcing Performed ( TAFs)	Firm Size (Full-Time Employment Numbers)					Total (%)
	1-10	11-100	101-1000	1001-10000	1001 +	
High		1.7	1.7		1.7	5.0
Low		8.4	15.0	8.4	3.4	35.0
<b>SUBTOTAL</b>		<b>10.1</b>	<b>16.7</b>	<b>8.4</b>	<b>5.1</b>	<b>40</b>
Nil	3.3	10.0	23.3	18.3	5.0	60.0
<b>TOTAL</b>	<b>3.3</b>	<b>20.0</b>	<b>40.0</b>	<b>26.6</b>	<b>10.1</b>	<b>100.0</b>

**7.4.5 Outsourcing of administrative functions other than accounting:  
(Legal, Superannuation and Information Technology (IT))**

Analytical tests indicated **no correlation** between outsourcing TAFs and the outsourcing of these non-accounting type functions (refer Appendix F-1, Table F-1).

The distribution of firms which have or have not outsourced TAFs, and their outsourcing behaviour with respect to Legal and Superannuation functions are shown in Appendix F-2, Tables F-4 and F-5. The results indicate that outsourcing of both the Legal and Superannuation functions was undertaken by more than two-thirds of firms regardless of whether they had outsourced TAFs or not.

Outsourcing behaviour of firms with respect to IT varied in comparison to that in relation to their Legal and Superannuation functions. As shown in Table 7.5, the majority of firms which had outsourced TAFs, did not outsource IT.

**Table 7.5 Degree of IT outsourcing undertaken by firms which outsource TAFs at various degrees**

	Outsource level - IT		
Degree of Outsourcing Performed ( TAFs)	Nil	Outsourced Fully/Partially	Total (%)
High	3.6	1.8	5.4
Low	27.4	7.2	34.6
<b>SUBTOTAL</b>	<b>31.0</b>	<b>9.0</b>	<b>40.0</b>
Nil	52.8	7.2	60.0
<b>TOTAL</b>	<b>83.8</b>	<b>16.2</b>	<b>100.0</b>

#### **7.4.6 Organisational change (measured by number of organisational restructures)**

The distribution of the firms' frequency of organisational restructure and their outsourcing levels are shown in Appendix F-2, Table F-6. Although the 3% of firms which have outsourced TAFs at relatively high levels had experienced organisational restructure at least once, the 35% of firms which have outsourced at low levels had varied experiences with organisational restructure. These results, supported by correlation tests (refer Appendix F-1, Table F-1) indicated **no correlation** between frequency of organisational restructuring and the degree of outsourcing performed.

### **7.5 ASSOCIATION BETWEEN ACCOUNTING INFRASTRUCTURE AND DEGREE OF OUTSOURCING PERFORMED (RG No. 3B)**

The association between firms' accounting infrastructure and the degree of outsourcing TAFs is discussed in this section. Accounting infrastructure comprises the following aspects:

- firms' accounting department size (measured by the ratio of accounting to total organisational staff);
- firms' perception of the strategic importance of TAFs;
- firms' perception of risk associated with TAFs; and
- firms' cost of TAFs as a ratio to their total revenue.

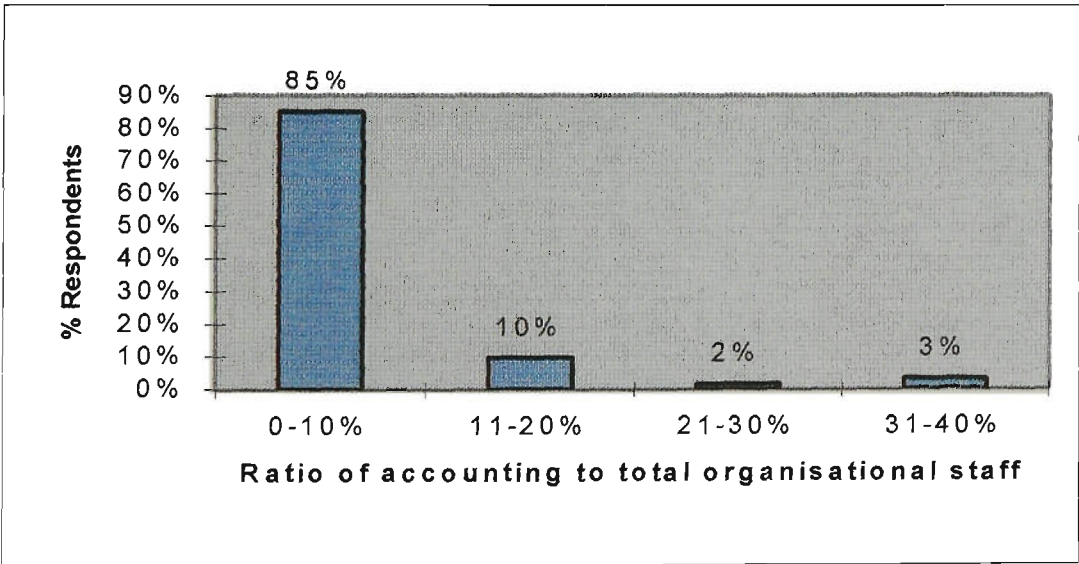
The analyses performed included cross-tabulations and Pearson correlation tests to identify any correlation between the above-mentioned factors and the degree of outsourcing performed.

**7.5.1 Size of Accounting Department ( measured by ratio of accounting staff to total staff)**

The proportional size of each firm’s accounting department relative to the size of the entire firm is measured by the ratio of total number of full-time accounting staff to the total number of full-time staff within the organisation.

The distribution of each firm’s accounting department size is illustrated in Figure 7.15. As shown, more than three quarters (85%) of the respondents had accounting staff ratios of not more than 10%.

**Figure 7.15 Firms' accounting staff ratios**



Pearson’s correlation tests indicated **no correlation** between accounting employment ratios and the degree of outsourcing (refer Appendix F-1, Table F-2). The distribution of firms’ accounting staff ratios and their degree of outsourcing is shown in Table 7.6. Although firms which have outsourced at relatively high levels had maintained accounting staff employment ratios of not more than 10%, this employment characteristic was also evident amongst the majority of all other firms.

**Table 7.6      Accounting department sizes of firms outsourcing at various degrees**

	Size of firms' accounting departments (measured by ratio of full-time accounting to full-time organisational staff nos.)				
Degree of Outsourcing Performed (TAFs)	0-10%	11-20%	21-30%	31-40%	Total
High	4.9				4.9
Low	27.8	6.5			34.3
Nil	52.4	3.2	1.6	3.2	60.4
Total (%)	85.1	9.7	1.6	3.2	100.0

**7.5.2    Strategic importance of typical accounting functions**

Firms were asked to rate each TAF on its importance in achieving organisational strategic goals. Response types were as follows:

- high            (rating of 4 or 5);
- moderate      (rating of 3); and
- low             (rating of 2 or 1).

The ratings made by firms and their outsourcing behaviour in relation to each TAF are summarised in Table 7.7.

Column A indicates the **majority ratings** of the strategic importance of each TAF. The majority of firms have rated the General Ledger, Accounts Receivable, Inventory Accounting, Budgeting, Costing and Management Accounting functions as highly important to strategic operations. Meanwhile, the Accounts Payable, Payroll and Fixed Assets functions were rated as only moderately important.



The **outsourcing behaviour** of firms which have contributed to the majority responses summarised in Column A is summarised in Column B. Except for the Payroll function, more than 90% of the firms have not outsourced the accounting functions regardless of the perceived importance of these functions.

**Table 7.7      Firms’ perception of the strategic importance of each TAF and their outsourcing practice (1997)**

TAFs	Column A			Column B	
	Majority ratings of strategic importance of TAFs (% firms )			Outsourcing practice of firms associated with Column A (% firms)	
	High	Mod	Low	Outsourced	Not Outsourced
General Ledger	54				94
Accounts Receivable	42				95
Accounts Payable		42			96
Payroll		39			70
Fixed Assets		47			100
Inventory Accounting	56				93
Budgeting	79				98
Costing	60				97
Management Accounting	91				94

The results of further analytical tests (Appendix F-1, Table F-2) indicate that there is **no correlation** between the perceived strategic importance of TAFs and the degree of outsourcing performed.

### 7.5.3 Risk levels associated with TAFs

For the purpose of this study, risk is defined as the possibility of errors or problems associated with the carrying out the accounting function (see Glossary). Firms were asked to rate the level of risk associated with each TAF. Response types were as follows:

- high (rating of 4 or 5);
- moderate (rating of 3); and
- low (rating of 2 or 1).

The ratings made by firms and their outsourcing behaviour in relation to each TAF are summarised in Table 7.8.

Column A indicates the **majority ratings** of risks associated with each TAF. The majority of firms have associated low risk with all functions except for Budgeting and Management Accounting.

The **outsourcing behaviour** of firms which have contributed to the majority responses summarised in Column A is summarised in Column B. Except for the Payroll function, more than 80% of the firms have not outsourced the accounting functions regardless of the level of risk the firms have associated with TAFs.

**Table 7.8      Firms perceived risk of each TAF and their outsourcing practice (1997)**

TAFs	Column A			Column B	
	Risk ratings associated with TAFs (% firms)			Outsourcing practice undertaken by firms associated with Column A (% firms)	
	High	Mod	Low	Outsourced	Not Outsourced
General Ledger			40		100
Accounts Receivable			43		100
Accounts Payable			53		90
Payroll			40		74
Fixed Assets			54		86
Inventory Accounting			43		83
Budgeting	39				95
Costing			38		100
Management Accounting		44			84

The results of further analytical tests (refer Appendix F-1, Table F-2) indicate that there is **no correlation** between the perceived risks associated with TAFs and the degree of outsourcing performed.

#### **7.5.4    Cost of typical accounting functions (as a ratio to total revenue)**

The cost of running TAFs which is measured by the ratio of total cost to the firm's total revenue in Australia, was used as an indication of the importance of TAFs to each firm. The higher the value of this ratio, the greater the importance of TAFs to firms.

As shown in Appendix F-2, Table F-7, approximately 85% of firms incurred cost ratios which did not exceed 10%. This ratio was also evident amongst firms which had outsourced TAFs. Regardless of any cost ratios incurred,

outsourcing was not performed by the majority (62%) of firms. Pearson’s correlation tests (refer Appendix F-1, Table F-2) indicated **no correlation** between firms’ cost of TAFs and the degree of outsourcing performed.

**7.6     RATIONALES FOR OUTSOURCING (RG No. 4)**

As shown in Table 5.1 the third objective of this study is to identify the rationales and the perceived benefits associated with the outsourcing of TAFs. Respondent firms were asked to rank eight listed rationales for outsourcing and to indicate how well these were achieved.

Firms which have responded to these aspects have either previously outsourced TAFs or have intentions to outsource TAFs after 1997. The firms’ rankings of the eight rationales and the degree to which each rationale was achieved are discussed in Sections 7.6.1 and 7.6.2, respectively.

**7.6.1   Most significant outsourcing rationales (RG No. 4A)**

Two types of test were used to identify the most significant rationales for outsourcing TAFs. These include the means test and the frequency test.

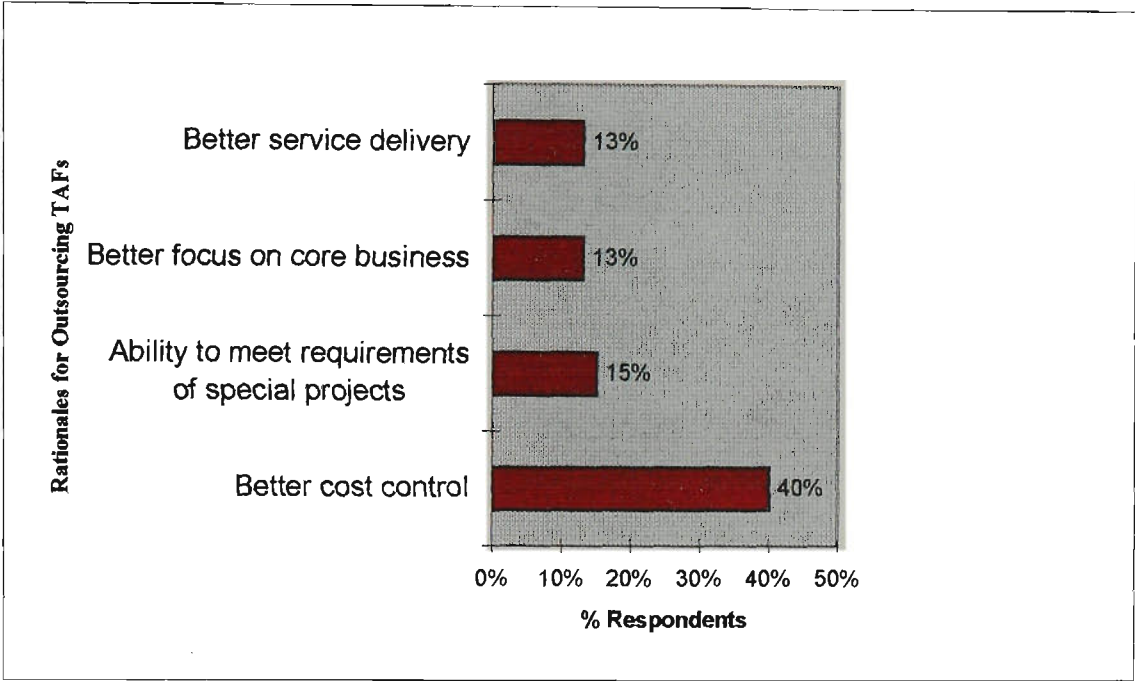
Table 7.9 summarises the results of the means test applied to the firms’ rankings of each of the eight outsourcing rationales listed in Question 11 in the survey instrument. The rationales are shown in the order of importance from the lowest to the highest mean. As shown in the Table, the three strongest rationales for outsourcing TAFs were better cost control, better focus on core business and better service delivery.

**Table 7.9      Results of Means Test**

<b>Outsourcing Rationales for TAFs</b>	<b>Rank values received</b>	<b>Mean</b>
Better cost control	1,2,3,4 and 6	2.1333
Better focus on core business	1,2,3,4,5 and 6	3.3333
Better service delivery	1,2,3,4,6 and 7	3.4666
Access to skilled staff	1,2,3,4,5 and 6	3.7143
Improved accountability/control of accounting functions	1,2,3,4,5,6 and 7	4.3077
Access to technology	1,2,3,4,5,6,7 and 8	4.8571
Meet requirements of special projects	1,3,5,7 and 8	5.6154
Greater ability to cope with changes in staffing structure	3,4,5,6,7 and 8	6.6923

The results of the frequency test to identify rationales which had the highest percentage of No. 1 and No. 2 rankings are illustrated in Figures 7.16 and 7.17, respectively.

**Figure 7.16    Rationales with ranking of '1'**



As shown in Figure 7.16, the top three rationales previously identified from the means test, i.e., better cost control, better focus on core business and better service delivery, were amongst those ranked as No. 1.

**Figure 7.17   Rationales with ranking of '2'**

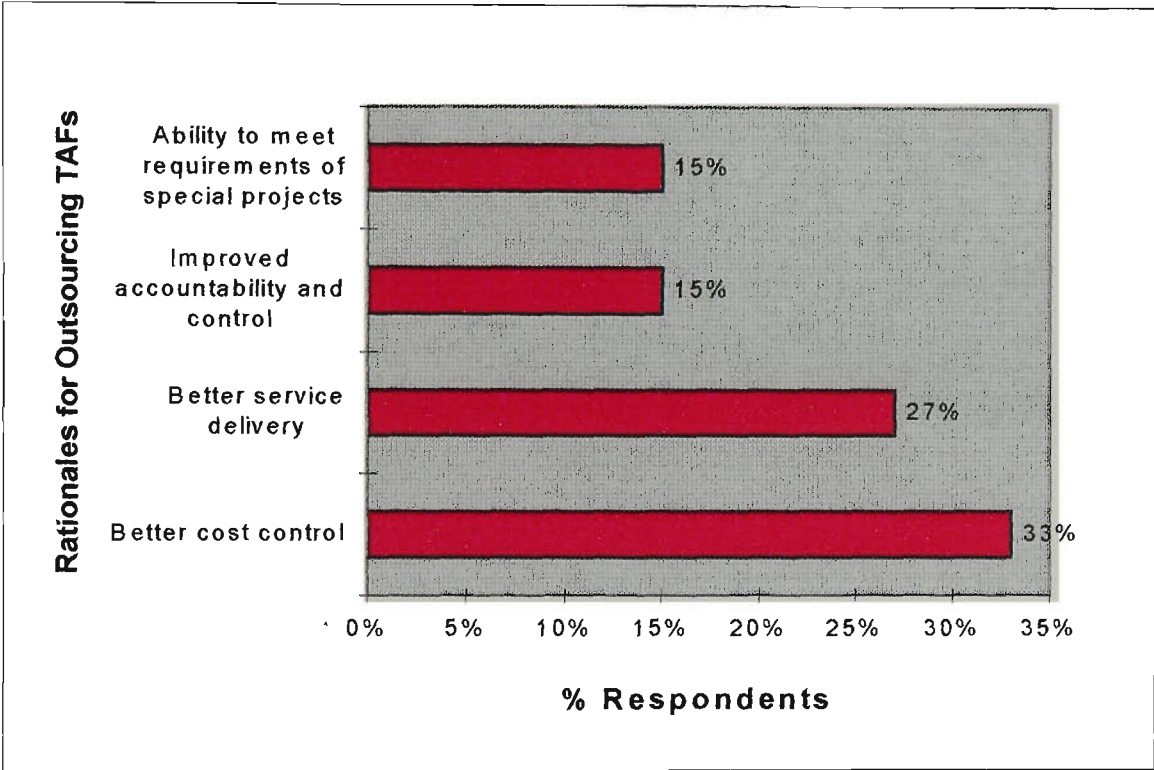


Figure 7.17 indicates that the rationales of better cost control and better service delivery were amongst those receiving No. 2 rankings. The rationale, ability to meet special projects, is also significant in that it received No. 1 and No. 2 rankings.

Based on the results of the frequency test discussed above, the four most significant rationales were:

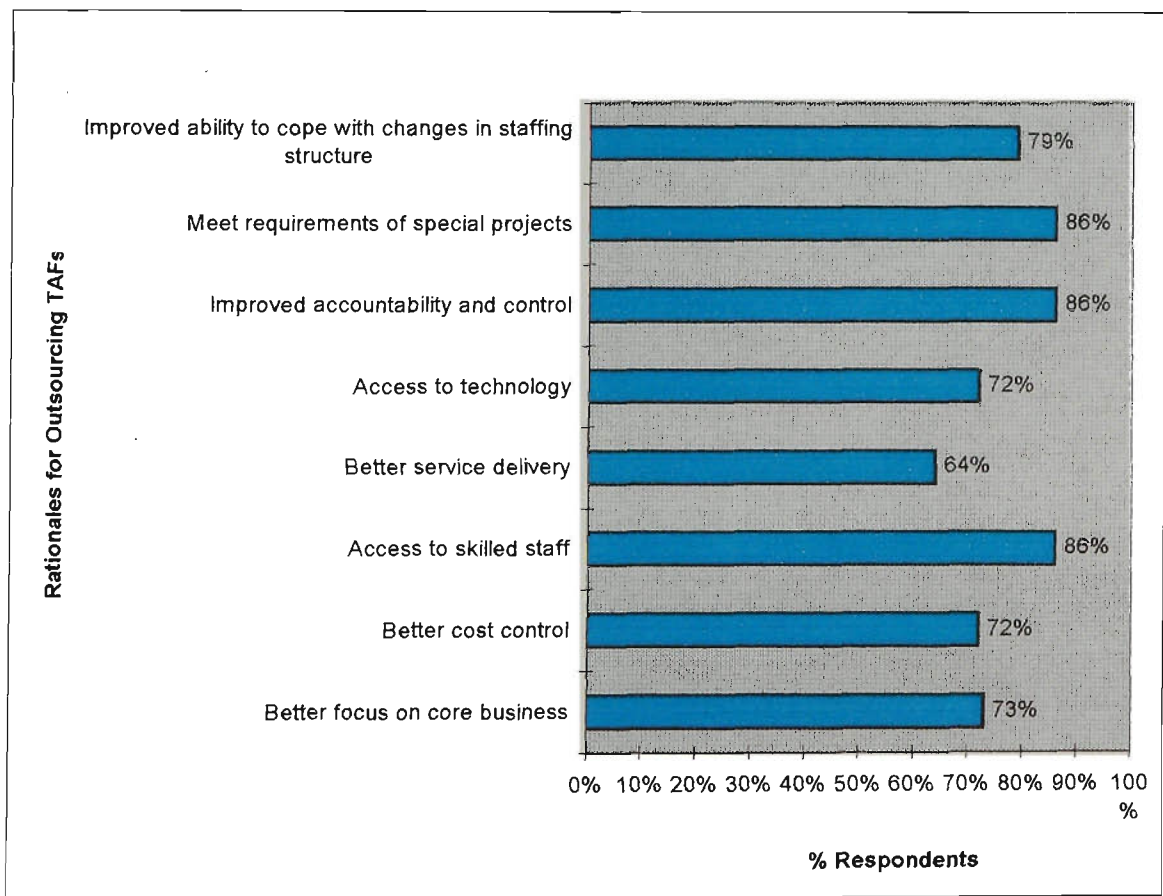
- Better cost control;
- Better focus on core business;
- Better service delivery; and
- Ability to meet the requirements of special projects.

**7.6.2 Degree to which outsourcing rationales were achieved (RG No. 4B)**

Frequency analysis was performed on firms' rankings of each of the eight listed rationales to identify how well the rationales were satisfied. The results of this analysis are shown in Appendix G, Table G-1.

All eight rationales including the four most significant rationales (indicated in sub-section 7.6.1) were, at minimum, met as per expectations, for more than two thirds of firms. A small percentage of firms, i.e., 10-20%, did not have their expectations met through outsourcing.

**Figure 7.18 Rationales satisfied as per expectations**

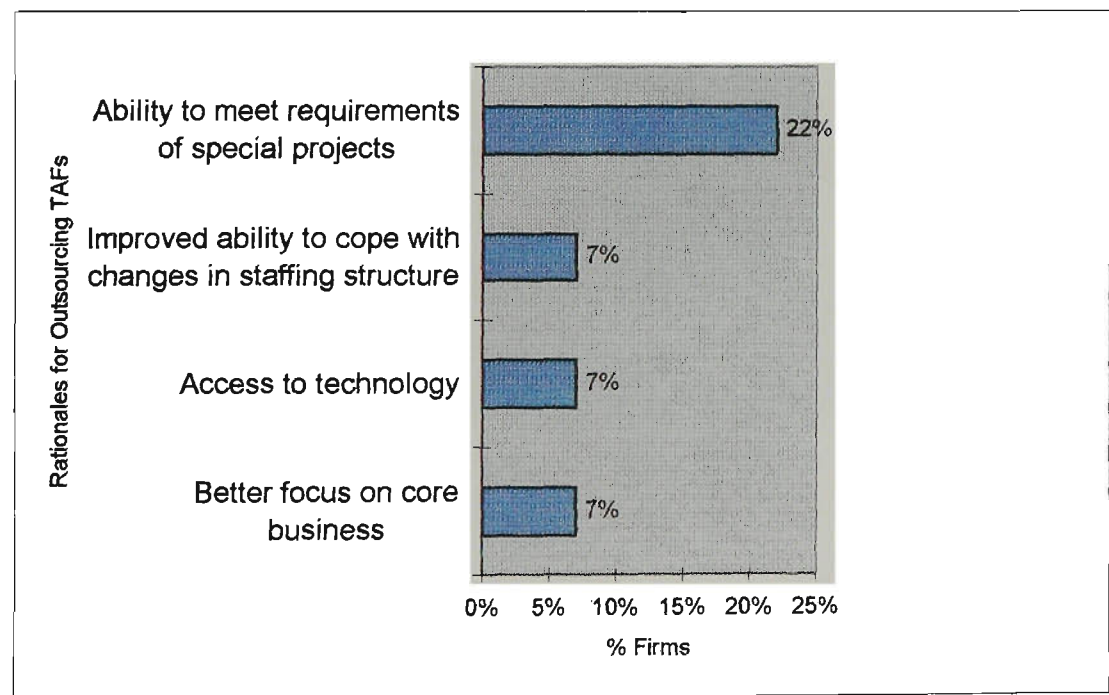




As shown in Figure 7.18, all eight outsourcing rationales were met as per expectations.

There were four rationales which were met above expectations. As shown in Figure 7.19, these were ability to meet requirements of special projects, improved ability to cope with changes in staffing structure, access to technology and better focus on core business.

**Figure 7.19    Rationales satisfied above expectations**



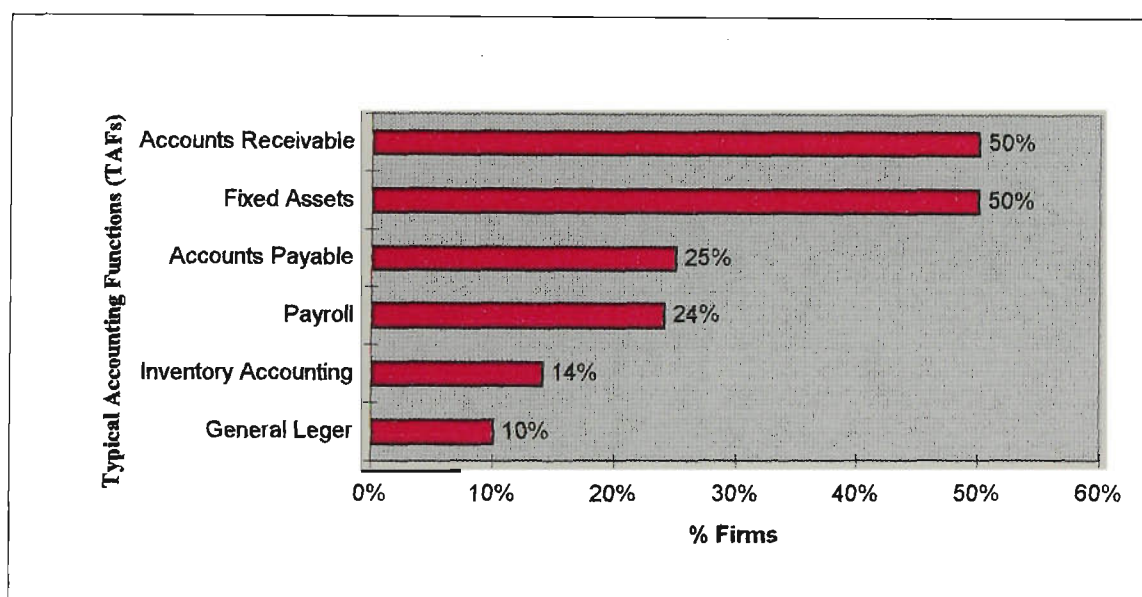
**7.7    CONTINUITY IN OUTSOURCING PRACTICE (RG No. 4D)**

Firms which had previously outsourced TAFs were asked to indicate whether they had returned to in-house processing and, where applicable, the reasons for doing so.

In the period between 1992 and 1997, firms had returned to in-house processing, in six out of the nine accounting functions. These functions include General Ledger, Accounts Receivable, Accounts Payable, Payroll, Fixed Assets and Inventory Accounting.

Figure 7.20 illustrates, for each TAF, the percentage of firms which have returned to in-house processing between 1992 and 1997.

**Figure 7.20 TAFs returned to in-house processing**



The reasons for returning to inhouse processing of TAFs were as follows:

- the change in organisational size made it more economical to return to in-house processing of TAFs;
- outsourcing produced poorer performance; and
- outsourcing resulted in relatively higher costs and was less beneficial than commercially available software which allowed faster processing (this problem was indicated for the Payroll function).

The TAFs for which firms had continued outsourcing past 1997 were Budgeting, Costing and Management Accounting.

## **7.8 AWARENESS OF KEY SUCCESS FACTORS IN RELATION TO TAFs (RG No. 4C)**

In order to determine the firms' level of awareness of the key factors used to measure the successful running of TAFs, firms were asked to identify these factors. Low response rates were received for the relevant question (Question 12 - refer Appendix D, Table D-1) which could imply the following:

- (a) the relevant questions in the survey instrument was inappropriately designed to encourage such detailed information to be provided; or
- (b) the person completing the questionnaire was unaware or had difficulty in gathering the information requested.

As such, the limited data collected were not analysed.

## **7.9 FIRMS' EVALUATION OF THE OUTSOURCING OPTION TAFs (RG No. 4E).**

Firms were asked if they had evaluated and rejected the outsourcing option for any TAFs. Low response rates were received for the relevant question (Question 14 - refer Appendix D, Table D-1) which could have the implications as mentioned in Section 7.8. As such, the limited data collected were not analysed.

**7.10 CRITERIA FOR SELECTION OF SERVICE PROVIDERS**  
**(RG No. 5)**

To satisfy Study Objective No. 4 (Section 5.2) respondents were asked to rank five listed evaluation criteria which they would use when selecting service providers for TAFs. Means tests and frequency analyses were performed to determine the most important selection criteria.

The results of analytical tests are summarised in Table 7.19. The Table shows, for each criterion, firms’ rank values and the mean of these rank values. Based on the means test performed, the three most important criteria are service provider capability, financial impact and technical and service assessment.

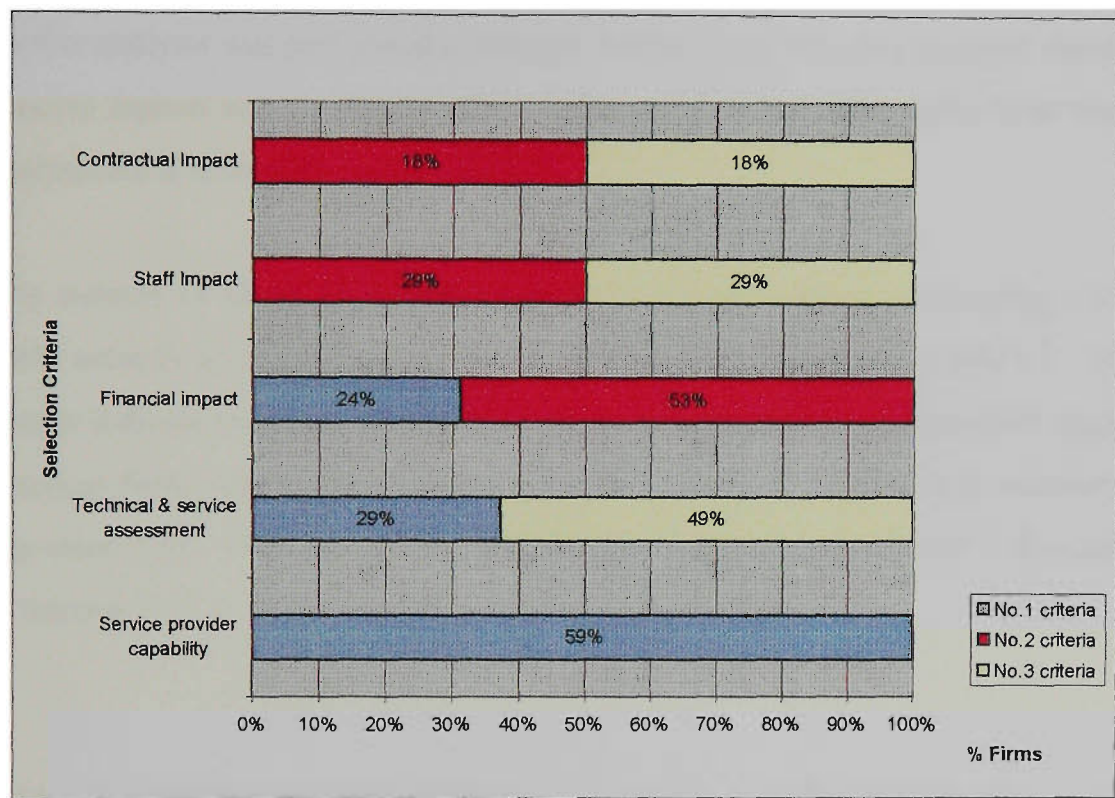
**Table 7.19 Results of Means Test**

<b>Selection Criteria for Evaluation of Service Providers of TAFs *</b>	<b>Rank values received</b>	<b>Mean</b>
Service provider capability	1,2,3 and 4	1.7059
Financial Impact	1,2,3 and 4	2.1176
Technical and service assessment	1,2,3,4 and 5	2.7647
Contractual Impact	1,2,3,4 and 5	3.7647
Staff Impact	2,3,4 and 5	3.8235

**Note:** The definition of each criterion is found in the Glossary of this report.

Variation to the above analysis was also performed to identify the criteria which had the highest percentage of No. 1, No. 2 and No. 3 rankings. The results of this analysis is illustrated in Figure 7.21.

**Figure 7.21    Rankings of No. 1,2 and 3 selection criteria for evaluation of service providers**



Based on frequency analysis of No. 1, 2 and 3 rankings, the three most important evaluation criteria used by service buyers when selecting service providers were *service-provider capability*, *financial impact* and *technical and service assessment*. These results are identical to the means ranking test performed earlier (see Table 7.19).

### 7.11    OUTSOURCING CONCERNS (RG No. 6)

To satisfy Study Objective No. 5 (Section 5.3) firms were asked to identify whether they had any concerns regarding the outsourcing of TAFs. Firms were requested to indicate their concerns under relevant categories listed in the survey

instrument. The percentage of firms which had expressed different aspects of concerns are discussed in Section 7.11.1.

Further analysis was performed to identify if there were any links between various concern aspects and the degree of outsourcing performed. The results from these analysis are discussed in Section 7.11.2.

The number of firms which have expressed concerns about outsourcing TAFs while actually having outsourced TAFs, are shown in Appendix I, Table I-1. The results indicate that the number of concerns expressed were substantially higher amongst firms which had outsourced Payroll, than firms which had outsourced any other TAF. Concerns associated with the outsourcing of Payroll is discussed in Section 7.11.3.

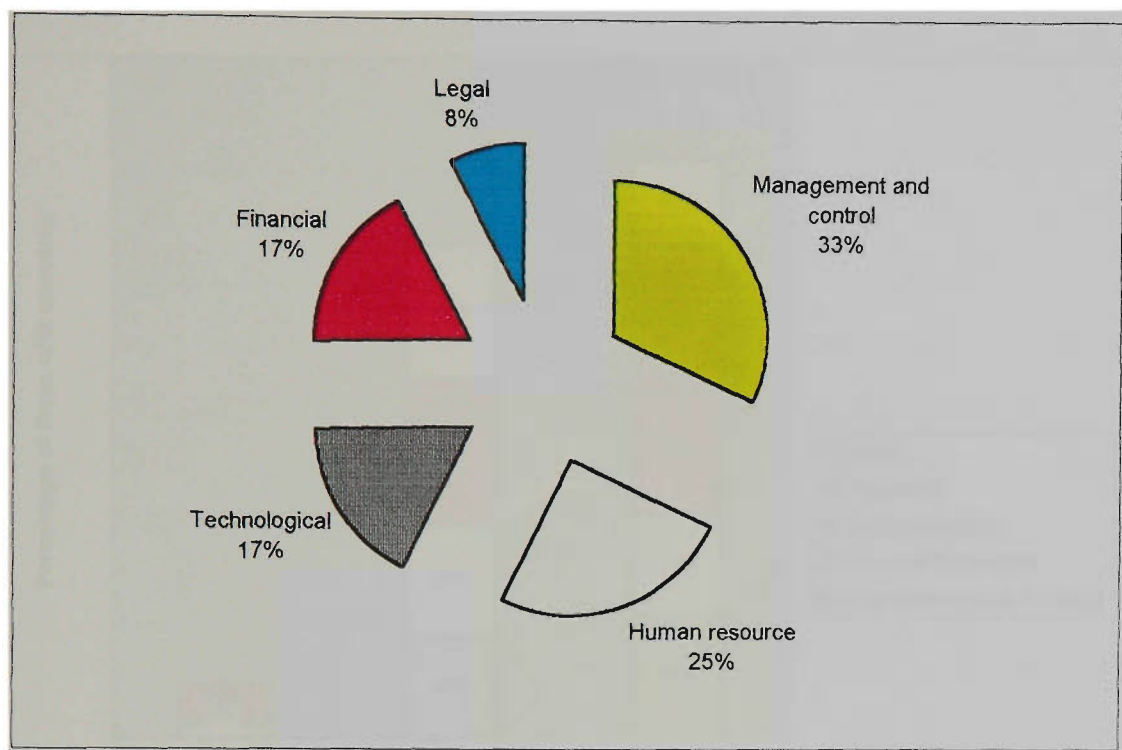
#### **7.11.1 Concerns associated with the outsourcing of TAFs (RG No. 6A)**

The study revealed that more than half (59%) of firms had concerns related to the outsourcing of TAFs. The following type of concerns are ranked in order of the most common:

- management and control of outsourced functions;
- human resource;
- technology;
- financial; and
- legal.

The distribution of firms which have expressed these concerns is illustrated in Figure 7.22.

**Figure 7.22   Outsourcing concerns**



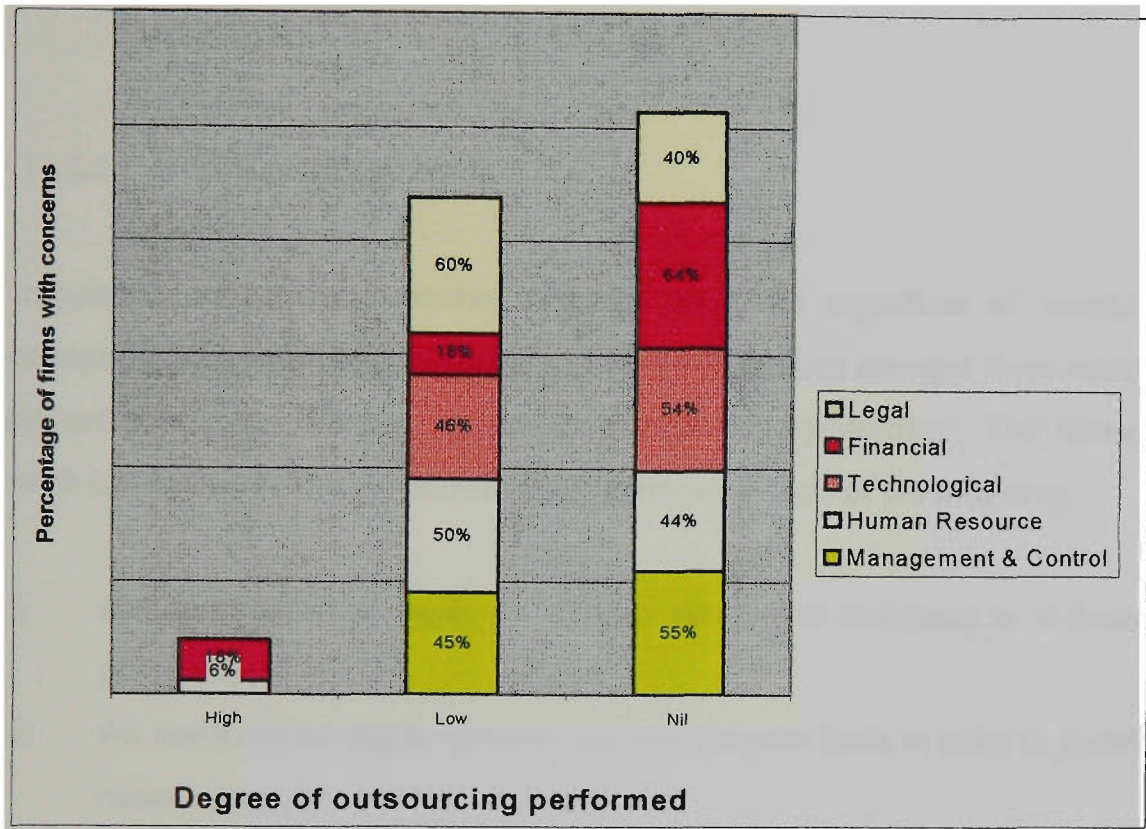
The complete listing of concerns which were expressed by firms is shown in Appendix H, Table H-1.

**7.11.2 Association between outsourcing concerns and degree of outsourcing performed (RG No. 6B)**

Further analysis was performed to identify whether certain types of concerns were more prevalent amongst firms which had either outsourced at high levels (3 or 4 out of 9 TAFs), low levels (1 or 2 out of 9 TAFs) or not at all. The types of concern expressed by firms which have outsourced at different levels are illustrated in Figure 7.23.



**Figure 7.23    Association between outsourcing concerns and degree of outsourcing performed**



More detailed observations have been made on outsourcing concerns expressed; these are discussed in sub-sections 7.11.2.1 to 7.11.2.5.

**7.11.2.1        Legal concerns**

Although the least common, legal concerns were more prevalent amongst firms which had outsourced at low levels than amongst firms which had not outsourced TAFs (weighting of legal concerns were 60% and 40% respectively). Both groups of firms had difficulty in establishing in legal contracts:

- (i)     the areas of responsibility with external service providers; and
- (ii)    the ownership of accounting data processed.



Legal concerns were not raised by firms which had outsourced at high levels, suggesting that these firms had access to appropriate legal skills when it came to negotiating outsourcing contracts.

#### **7.11.2.2 Financial concerns**

Financial concerns were common amongst all firms regardless of whether outsourcing was performed. However, it was most common amongst firms which had not outsourced TAFs (a weighting of 64% was applicable). The factors which had deterred these firms from outsourcing were fears of the following:

- (i) that outsourcing would result in higher costs when compared to in-house processing;
- (ii) the hassles in having to monitor costs on a regular basis in order to justify outsourcing;
- (iii) the inability to reduce costs as desired; and
- (iv) the lack of control over costs involved.

Firms which had outsourced TAFs had experienced the following problems:

- (i) outsourcing costs were higher than anticipated; and
- (ii) the difficulty in determining outsourcing costs in the longer term.

### **7.11.2.3      Technological concerns**

Technological concerns were not raised by firms which had outsourced TAFs at high levels. However, these concerns were equally common amongst firms which had outsourced at low levels, and amongst those which had not outsourced at all.

For firms which had not outsourced any TAFs, the factors which had deterred these firms from outsourcing were the following:

- (i) the fear that outsourcing of certain functions would be less effective than in-house processing of these functions;
- (ii) the lack of confidence in external service providers to provide timely assistance in the resolution of problems;
- (iii) the lack of compatibility between the technical systems used by external service providers and in-house systems; and
- (iv) the loss of skill base due to dependence on external service providers.

Firms which had outsourced at low levels have experienced the following problems:

- (i) the lack of compatibility between the systems used by their external service providers and in-house systems;
- (ii) the lack of disaster recovery plans;
- (iii) the loss of service quality in the longer term; and
- (iv) the lower effectiveness of systems applied by external service providers.

#### **7.11.2.4 Human resource concerns**

Human resource (HR) concerns were common amongst all firms regardless of the degree of outsourcing undertaken. Firms which had outsourced at high levels had very minimal HR concerns. On the other hand, HR concerns were equally common amongst firms which had outsourced at low levels and amongst those which had not outsourced at all.

For firms which had not outsourced TAFs, the HR concerns which had deterred these firms from outsourcing were as follows:

- (i) the lack of confidence in service providers having adequate understanding of service-users' business and their operations;
- (ii) the anticipated difficulty in managing working relationships between external service provider and operational management;
- (iii) the fear of the loss of staff morale when forced to consider outsourcing of functions performed in-house (due to the possibility of staff redundancy);
- (iv) the difficulty in obtaining reliable and experienced service providers; and
- (v) the fear of a loss of in-house skills which may results from dependence on external service providers.

The first three HR concerns raised above represented real problems for firms which had outsourced TAFs.

#### **7.11.2.5 Management and control concerns**

The concerns in the management and control of outsourced functions were equally common amongst firms which had outsourced at low levels and amongst those which had not outsourced at all.

For firms which had not outsourced TAFs, the concerns which had deterred them from doing so were as follows:

- (i) the loss of confidentiality of financial information handled by external service providers;
- (ii) the fear of a lack of control over processing timeliness and the accuracy of data processed by external service providers;
- (iii) the fear of external service providers showing lack of accountability.

The first two management and control concerns raised above represented real problems for firms which had outsourced TAFs.

#### **7.11.3 Concerns associated with outsourcing of Payroll**

Out of the ten firms which have expressed concerns while outsourcing Payroll in 1997, seven of these have indicated that outsourcing of Payroll would be discontinued after 1997. Some of the concerns which have been expressed by the other three firms which had intended to continue outsourcing Payroll after 1997, are common in comparison to those which have been expressed by the seven firms. The concerns which are associated with the outsourcing of Payroll are shown in Figure 7.24.

**Figure 7.24    Summary of outsourcing concerns**

MANAGEMENT & CONTROL	
Service providers lacked understanding of service-users' business operations	
Service providers lack accountability when managing service-users' financial assets	
Lack of control over processing timeliness and accuracy	
Lack of suitable and timely assistance in the resolution of problems	
Service delivery by external service providers were poor overall	
Lack of disaster recovery plans with outsourcing	
	HUMAN RESOURCE
	Loss of morale amongst internal staff when forced to consider outsourcing
	Difficulty in establishing good communication lines with external service providers
	Difficulty in managing relationship between external service providers and operational management
	TECHNOLOGICAL
	Technology provided by external service providers were not superior to in-house technology
	Lack of compatibility between external and in-house systems
	FINANCIAL
	Lack of control over outsourcing cost in the longer term
	Loss of confidentiality of financial information
	LEGAL
	Difficult to determine ownership of data processed
	Difficulty in establishing clear lines of responsibility in contractual agreements

## **8 FINDINGS: SERVICE-PROVIDER SURVEY (SURVEY 2)**

The questionnaire was designed to identify a number of aspects, in accordance with the Research Guidelines shown in Section 5.4, Table 5.4. A total response rate of 25.6% was achieved, based on 83 returned questionnaires. The 83 firms which responded comprised accounting firms (identified by memberships with professional accounting bodies), bookkeeping firms and payroll bureaus. The responses for individual questions were not all usable due to failure to answer certain sections of the questions. The response rates for each question in the order of the discussion in this chapter are shown in Appendix D, Table D-2.

### **8.1 PROFILE OF RESPONDENTS (RG No. 7)**

#### **8.1.1 Size of firms**

Measured in terms of staff employment, the majority of firms were small with 66% maintaining employment up to 10 staff. The percentage of firms which had employed in the ranges between 11 to 20 were 15%, while less than 5% employed in the ranges of 21 to 30 and 31 to 40. Approximately 10% had employed in excess of 40 staff.

#### **8.1.2 Professional accreditation**

More than half of the service-provider firms (54%) had memberships with the Institute of Chartered Accountants. Almost half of the firms (47%) also maintained memberships with the Australian Society of Certified Practising

Accountants. A substantially smaller percentage (18%) maintained memberships with the National Institute of Accountants whereas 6% of firms maintained memberships with various other bodies such as the Institute of Chartered Secretaries, the Institute of Actuaries and the Association of Payroll Specialists.

### **8.1.3 Client base**

Almost all of the service-provider firms (96.4%) had clients which were privately-owned enterprises. The majority of these clients, where measured by employment sizes were small to medium firms with employment ranges of up to 10 staff (66%) and 11 to 100 staff (22%).

In comparison, only 15% of service-provider firms had clients which were Government-owned enterprises. The sizes of these clients were evenly distributed amongst the various employment size ranges of 1 to 10 staff, 11 to 100 staff, 101 to 1,000 staff and 1,001 to 10,000 staff, although the percentage of clients in each range did not exceed 5%.

## **8.2 SERVICE-PROVIDER FIRMS' INTEREST IN THE PROVISION OF TYPICAL ACCOUNTING SERVICES (TAS)**

In order to satisfy study objective 6 (Table 5.1), service-provider firms were requested to indicate their interest in the provision of TAS. In particular, firms were asked to indicate the percentage contribution from the provision of TAS towards their total annual revenue (RG No. 8) and their interest or lack of interest in pursuing opportunities in the provision of TAS, with relevant reasons

(RG No. 9). The firms’ involvement in the provision of TAS in 1998 is discussed in Section 8.2.1 while their interest in becoming service providers for TAS are discussed in Section 8.2.2.

**8.2.1 Degree of provision of TAS within the accounting services industry  
(RG No. 8)**

Service-provider firms’ degree of involvement in the provision of TAS was measured in terms of the weighted average contribution each TAS made towards the respective firms’ annual revenue.

The weighted average contribution from the provision of each TAS is shown in Table 8.1. From the results, the accounting services which were more significant in contributing towards service-provider firms’ annual revenues in 1998 were General Ledger processing, followed by Management Accounting. As shown, each of the other seven TAS were contributing no more than 10% towards service-provider firms’ annual revenue.

**Table 8.1      Weighted-average contribution of TAS towards service-provider firms’ annual revenue**

<b>TAS</b>	<b>Weighted-average contribution towards annual revenue</b>
General Ledger	26 - 50%
Accounts Receivable	1 - 10%
Accounts Payable	1 - 10%
Payroll	1 - 10%
Fixed Assets	1 - 10%
Inventory Accounting	1 - 10%
Budgeting	1 - 10%
Costing	1 - 10%
Management Accounting	11 - 25%



**8.2.2 Most attractive services (RG No. 9)**

The typical accounting services which were most attractive to service-providers in the accounting services industry are shown in Table 8.2. Table 8.2 also shows the strongest reasons for service-providers nomination of the respective services as being most attractive.

**Table 8.2 Most attractive services (in order of popularity)**

TAS	Percentage firms	Most obvious reason for interest			
		High returns	High demand	Match competition	Availability of cost effective technology
Management Accounting	72%	√			
Budgeting	64%	√	√		√
Costing	24%		√		
General Ledger	27%				√
Payroll	23%				√
Accounts Receivable	17%				√
Accounts Payable	16%				√
Fixed Assets	15%				√
Inventory Accounting	8%		√		

**Note:** The three reasons indicated for budgeting received equal weightings.

From the results shown in Table 8.2, the most attractive services are the value-added type services, which includes Management Accounting, Budgeting and Costing. Management Accounting and Budgeting were the most attractive due to high returns available from the provision of these services.

**8.2.3 Least attractive services (RG No. 9)**

Service providers were also asked to indicate the typical accounting services which they had considered removing from, or had given low priority in, their services portfolio, and the respective reasons for these. The results of this aspect are shown in Table 8.3.

As shown in Table 8.3, the services which were least attractive to service providers were Accounts Receivable, Accounts Payable and Payroll, mainly due to low returns. Inventory Accounting and Fixed Assets lacked demand while General Ledger were perceived to decrease in demand.

**Table 8.3 Least attractive services**

TAS	Percentage firms	Most obvious reason for lack of interest			
		Low returns	Low demand	Decreasing demand	Lack of cost effective technology
Accounts Payable	25%	√	√		
Accounts Receivable	21%	√			
Payroll	21%	√			
Inventory Accounting	17%		√		
Fixed Assets	13%		√		
General Ledger	12%			√	
Costing	4%		√		
Budgeting	4%		√		
Management Accounting	4%		√		

### **8.3 IMPACT OF PROVISION OF TAS ON COST STRUCTURE OF SERVICE-PROVIDER FIRMS**

In order to satisfy study objective 7 (Table 5.1), service-provider firms were requested to indicate the impact of the provision of TAS on their running costs. Firms were requested to consider a number of issues. These included, first, the types of additional cost which would be incurred in their pursuit of the most attractive accounting services (as previously discussed in Section 8.2.2); second, the types of escalating costs associated with the provision of TAS in the previous three years, and third, whether escalating costs in the provision of basic accounting services (e.g., General Ledger, Payroll, etc.) had affected firms which provided these services at different degrees. The first issue is discussed in sub-section 8.3.1 whereas the second and third issues are discussed in sub-section 8.3.2.

#### **8.3.1 Cost factors in the pursuit of attractive accounting services (RG No. 10)**

In relation to TAS which service-provider firms have indicated as attractive and worth pursuing, the firms were asked to identify any additional costs which resulted from their pursuit of these TAS. The most common types of cost which have affected the firms in their pursuit of respective accounting services are shown in Table 8.4.

The most attractive TAS, which were Management Accounting, Costing and Budgeting, would require service-provider firms to incur greater expenditure in the recruitment and training of staff. Being value-added services which require accounting skills, additional expenditures were anticipated in staff training. In

comparison, staff training expenditures were not anticipated as the greatest requirement in the other seven TAS, which are capable of being serviced through automated computer technology.

**Table 8.4      Additional costs which were most common in the provision of respective TAS**

TAS	Percentage firms wishing to pursue more of these services	Additional cost areas which were most common				
		Recruitment of more staff	Staff training	Acquisition/upgrade of		Occupancy
				h/ware	s/ware	
Management Accounting	72%	√	√			
Budgeting	64%	√	√			
Costing	24%	√	√			
General Ledger	27%	√				
Payroll	23%	√				
Accounts Receivable	17%	√				
Accounts Payable	16%	√				
Fixed Assets	15%	√				
Inventory Accounting	8%	√				

**Note:** The two cost areas indicated for Management Accounting, Budgeting and Costing received approximately equal weightings.

**8.3.2    Escalating costs and impact on firms’ ability to compete (RG No. 11A and 11B)**

Two issues are considered in this section. The first issue is the identification of the types of escalating cost associated with the provision of TAS in a three-year

period between 1995 to 1998. The results in Table 8.5 show the most common cost types which have escalated in the three-year period for TAS. As shown, cost escalation has been most common in the *acquisition and upgrade of software* for all basic accounting services (General Ledger, Payroll, etc.) and for two value-added services, i.e., Costing and Management Accounting. Cost escalation has also been common in the recruitment of staff for a number of services.

The second issue is the determination of whether cost escalation associated with basic accounting services (e.g., General Ledger, Payroll, etc.) had affected firms' ability to compete. For this analysis, firms were distinguished by their degrees of provision of the basic accounting services. The distinction was made between firms which had provided basic accounting services at low to moderate levels (measured by revenue contribution of up to 50% from these services), and firms which had provided the services at high levels (measured by revenue contribution in excess of 50% from these services).

The analysis was made on the two most attractive basic accounting services, i.e., General Ledger and Payroll.

In relation to General Ledger, 77% of firms had provided this service at low to moderate levels. Amongst the one-third of these firms which have experienced escalating costs, the majority were not affected by these costs. Similar results were also found amongst the 23% of firms which had provided General Ledger services at high levels.

In relation to Payroll, 76% of firms had provided this service at low to moderate levels. However, the percentage of these firms which have been affected by escalating costs was very minor. For the 24% of firms which had provided

Payroll services at high levels, a substantial portion of these firms had experienced escalating costs. However, the percentage of those which have been affected by these escalating costs was also minor.

**Table 8.5      Escalating costs and impact on firms’ ability to compete**

TAS	Most common escalating costs areas ( ↑ )				
	Recruitment of more staff	Staff training	Acquisition/ upgrade of		Occupancy
			h/ware	s/ware	
Management Accounting				↑	
Budgeting	↑				
Costing				↑	
General Ledger				↑	
Payroll	↑			↑	
Accounts Receivable				↑	
Accounts Payable	↑	↑		↑	
Fixed Assets	↑			↑	↑
Inventory Accounting				↑	

**Note:** For TAS which have resulted in escalating costs in more than one cost area, the cost areas have approximate equal weightings.

**8.4      SERVICE-PROVIDERS’ PERCEPTION OF OUTSOURCING BENEFITS (RG NO. 12)**

Service-provider firms were requested to identify the benefits enjoyed by their clients from the outsourcing of typical accounting functions (TAFs). In this respect, firms were asked to rank the top three benefits which were enjoyed by their clients and also indicate, where applicable, the magnitude of cost savings enjoyed by their clients.

In relation to the ranking of benefits in general, a means test and a frequency test were applied to determine the most significant benefits. The results of these tests are discussed in sub-section 8.4.1. In relation to the identification of any cost savings, a frequency test was applied to identify the percentage of service-provider firms which have indicated cost savings as one of the benefits enjoyed by their clients. These results are discussed in sub-section 8.4.2.

### 8.4.1 Perception of most significant outsourcing benefits

The results of the means test which was applied to these firms’ rankings are shown in Table 8.6. As shown, the top three benefits of outsourcing TAFs as perceived by service-provider firms were *better focus on core business*, *access to skilled staff* and *improved accountability and control of accounting functions*.

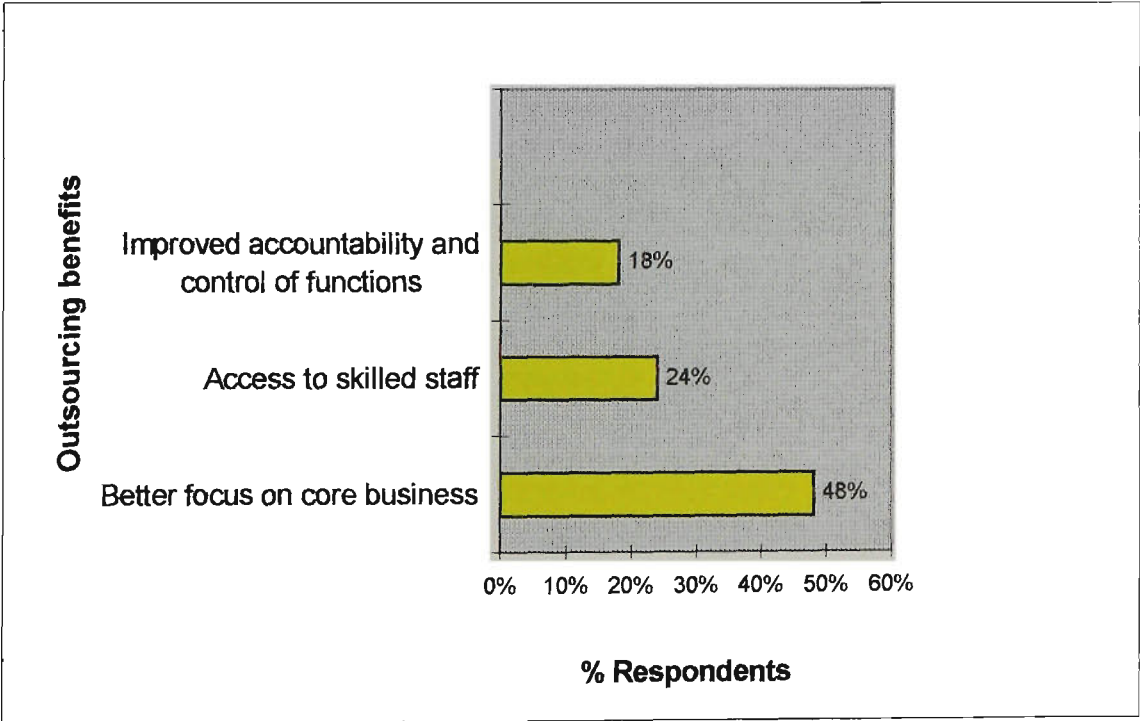
**Table 8.6      Results of means test:  
Service-providers’ rankings of benefits enjoyed by their  
clients from outsourcing TAFs**

Benefits enjoyed by outsourcing of TAFs	Mean
Better focus on core business	1.4688
Access to skilled staff	1.8980
Improved accountability/control of accounting functions	2.0250
Better service delivery	2.0417
Access to technology	2.2273
Better cost control	2.3182
Ability to meet requirements of special projects	2.4000
Greater ability to cope with changes in staffing structure	2.5000

The results of the frequency tests to identify the benefits with the highest percentage of No. 1 and No. 2 rankings are illustrated in Figures 8.1 and 8.2 respectively.

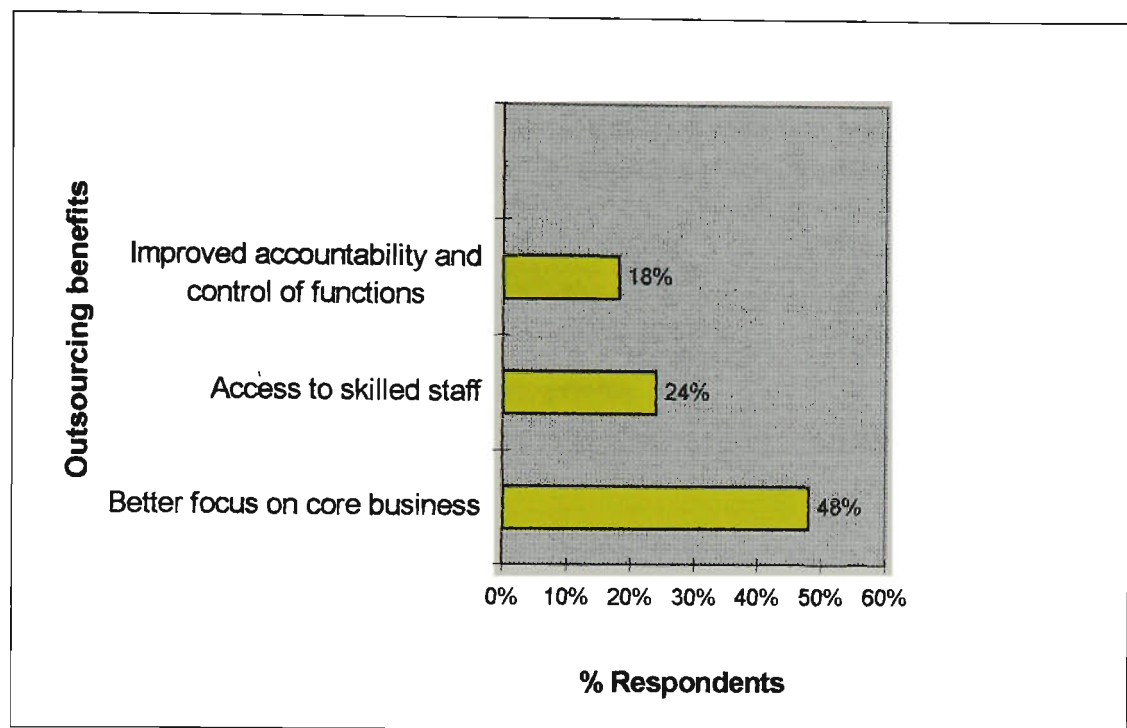
As shown in Figure 8.1, the results from the frequency test are similar to the results from the means test. The top three outsourcing benefits as perceived by service-provider firms were *better focus on core business*, *access to skilled staff* and *improved accountability and control of accounting functions*.

**Figure 8.1     Outsourcing benefits given ranking of '1'**





**Figure 8.2     Outsourcing benefits given ranking of '2'**



As shown in figure 8.2, the benefits with the highest percentage of No. 2 rankings included the top two benefits shown in Figure 8.1, plus *improved accountability and control of accounting functions*, which was ranked the third most significant benefit according to the means test.

Combining the results of both the means and frequency tests, the four most significant benefits from service-user firms' outsourcing of TAFs, as perceived by the service-provider firms, are as follows:

- better focus on core business;
- access to skilled staff;
- improved accountability and control of accounting functions; and
- better service delivery

#### **8.4.2 Magnitude of cost savings achieved**

The results of the frequency test indicated that more than half (56%) of service-provider firms believed that their clients had achieved cost savings through outsourcing TAFs. Almost half of these firms (42%) had indicated that the magnitude of savings was in the range of 11 to 20%, almost a third (29%) in the range of 1 to 10% and approximately 20% in the range of 21 to 30%.

## **PART D**

### **9.0 SERVICE-USER SURVEY: SUMMARY OF KEY FINDINGS AND CONCLUSIONS**

The key findings of the study which provided insight into the outsourcing of typical accounting functions (TAFs) are explored in this chapter. The discussion centres on the outsourcing trends as well as the actual experiences and expectations of both service-user and service-provider firms. The conclusions identify the degree to which the previously held beliefs on outsourcing (stated in a set of hypotheses in Section 5.3, Tables 5.2 and 5.3) were substantiated.

The key findings and conclusions derived from the Service-User Survey are discussed in Sections 9.1 to 9.5. Key findings and conclusions derived from the Service-Provider Survey are discussed in Sections 9.6 to 9.7. Finally, the compatibility of service users' and service providers' perception of outsourcing rationales or benefits is discussed in Section 9.8.

#### **9.1 TRENDS IN THE OUTSOURCING OF TAFs**

Service-user firms selected for this study in 1997 were medium to large firms which were expected to have strong familiarity with the nine types of accounting functions termed as typical accounting functions (TAFs). Responding firms were based in all Australian states, with the majority operating in mining, manufacturing, retail trade and finance and insurance industries. The majority of responding firms had a minimum of ten years

experience, with revenues in excess of \$10 million per annum, and employment of more than 100 full-time staff.

The outsourcing trend in relation to TAFs between 1992 and 1997, and the period beyond 1997, varied, depending on the type of accounting function. Accounting functions for which outsourcing had increased in the period specified were Accounts Receivable and Accounts Payable. Functions for which outsourcing had decreased over the specified period were General Ledger, Inventory Accounting, Costing, Management Accounting and Payroll which was most severely affected. The functions for which the level of outsourcing was expected to remain unchanged over the specified period were Fixed Assets and Budgeting.

Except for Accounts Receivable and Accounts Payable, outsourcing trends for the other seven functions were not continually on the increase between 1992 and the period after 1997. The results of the study revealed trends to be contrary to beliefs that accounting functions which could be computerised, would be increasingly outsourced in the 1990s (rejecting Hypothesis No. 1, Section 5.3, Table 5.2).

## **9.2 DETERMINATION OF FACTORS AFFECTING OUTSOURCING LEVELS WITHIN SERVICE-USER FIRMS**

The second study objective (Section 5.2, Table 5.1) was to identify any association between organisational and accounting infrastructure characteristics and the degree of outsourcing performed. To satisfy this objective, analytical tests were carried out to determine the existence of any correlation between the level of outsourcing and ten organisational factors.

In this study, firms’ TAF outsourcing levels were classified as high, low or nil. In relation to the level of outsourcing undertaken in 1997, more than three quarters of responding firms had not outsourced any TAFs. In the case of the majority of firms which had, outsourcing was undertaken at relatively low levels.

The ten factors which were used for this correlational test comprised six organisational and 4 accounting infrastructure factors. These factors are shown in Table 9.1.

**Table 9.1      Firm-related factors**

Organisational factors	Accounting infrastructure factors
Annual revenue	Size of accounting department (measured by ratio of full-time accounting staff to total full-time staff)
Industry classification	Strategic importance of TAFs
Experience (measured by period of operation)	Risk levels associated with TAFs
Size (measured by full-time staff employment)	Cost of TAFs (measured as a ratio to total revenue)
Outsourcing of non-accounting administrative functions:  Legal, Superannuation, Information Technology	
Organisational stability (measured by no. of organisational restructures)	

No correlation between any of the above-mentioned factors and the degree of outsourcing performed was found.

In relation to factors such as organisational size, business stability, departmental staff ratios and strategic importance of the accounting services, the study results support the set of hypotheses (Section 5.3, Table 5.3, Hypotheses No. 2,3,4 and 5) which were parallel to the hypotheses stated in Cullen's 1994 study on Information Technology outsourcing.

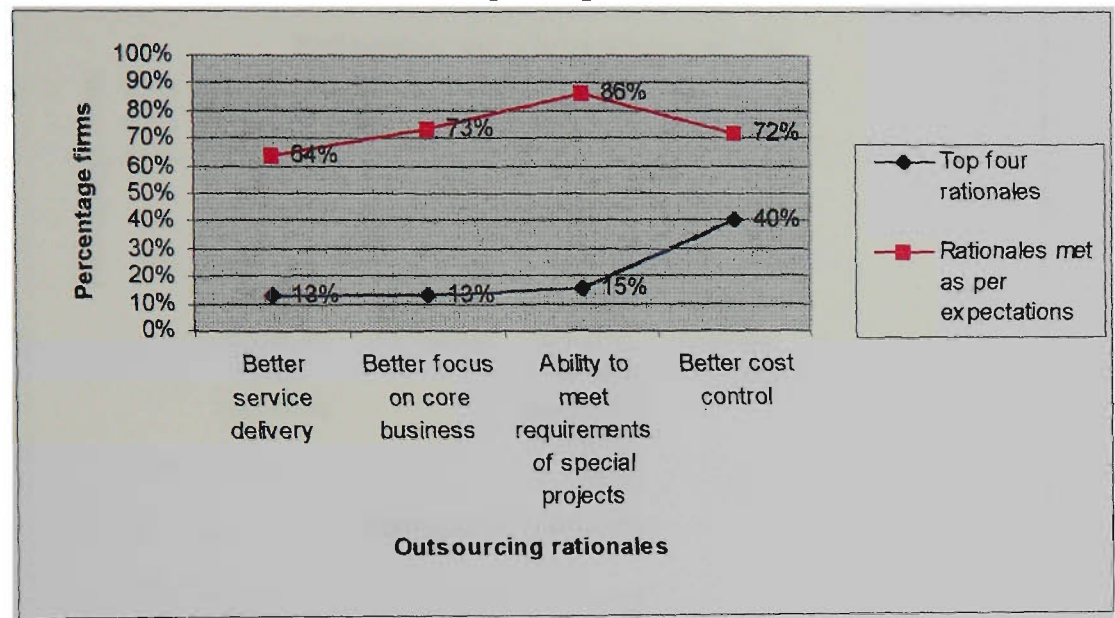
Despite the lack of correlation between the above-mentioned factors and the degree of outsourcing performed, the following organisational characteristics were noted amongst the majority of firms which had outsourced TAFs:

- firms' annual revenue earned falling in between \$10 and \$100 million;
- outsourcing of TAFs was more evident in the manufacturing, mining, communication services and finance/insurance industries than in any other industries;
- firms' period of service falling in the range of 11-20 years; and
- staff employment numbers falling in the range of 101 to 1000 staff.

### **9.3 RATIONALES FOR OUTSOURCING TAFs**

As shown in Figure 9.1, the most significant rationales for outsourcing were *better cost control, better focus on core business, better service delivery and ability to meet requirements of special projects*. The percentage of firms which have rated these factors as their top rationales is illustrated by the blue line. As indicated by the red line, at least two-thirds of firms have had these rationales met at expected levels.

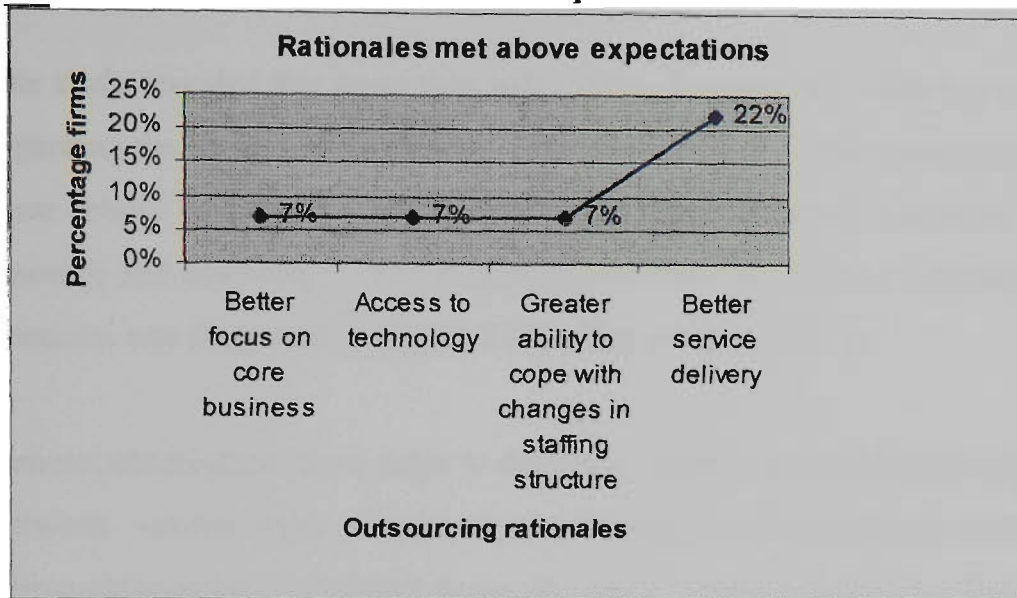
Figure 9.1      Rationales met as per expectations



While the four most significant rationales were satisfied as per expectations, other outsourcing rationales were also satisfied at expected levels. These include *improved accountability and control*, *improved ability to cope with changes in staffing structure* and *access to technology*.

As illustrated in Figure 9.2, there were four rationales which were met above expectation levels. These include *ability to meet requirements of special projects*, *improved ability to cope with changes in staffing structure*, *access to technology* and *better focus on core business*. This standard of performance achieved, was, however, enjoyed by less than a quarter of firms. The rationale which were met above expectations by the highest percentage of firms was *ability to meet requirements of special projects* (22 % of firms).

**Figure 9.2      Rationales met above expectations**



#### **9.4      CRITERIA FOR SELECTION OF SERVICE PROVIDERS**

The ranking of criteria when selecting service providers, according to service-user firms was as follows:

- i) service provider capability;
- ii) financial impact;
- iii) technical and service assessment;
- iv) contractual impact; and
- v) staff impact



## **9.5 OUTSOURCING CONCERNS**

The study revealed that more than half (59%) of responding firms had concerns regarding the outsourcing of TAFs. The three most common types of concerns were related to the management and control of outsourced functions, human resource and technology. The distribution of firms which have expressed these concerns was illustrated in Figure 7.22 earlier (Section 7.11.1).

General observations were made to determine whether there was any association between various types of concern and the degree of outsourcing undertaken. These observations were made across the three groups of firms (i.e., firms which had outsourced at high levels, firms which had outsourced at low levels and firms which had not outsourced at all), and are summarised in Section 9.5.1.

Of the two-thirds of firms which had not outsourced TAFs in 1997 (section 7.3), many of these firms had expressed concerns regarding outsourcing. The study found that many of the concerns expressed by these firms were common, and had represented actual problems for firms which had outsourced TAFs. These problems are summarised in Section 9.5.2 .

### **9.5.1 General observations**

As shown in Figure 7.23 earlier (Section 7.11.2), firms which had outsourced at high levels only had financial and human resource (HR) concerns, which were of very minimal weighting compared to the other two groups. The conclusion that can be drawn is that there is stronger confidence amongst firms to outsource TAFs if they are able to overcome legal, technological and management and

control problems. Alternatively, if firms anticipate no legal, technological or management and control problems, outsourcing can be performed at high levels.

In comparison to firms which had outsourced at high levels, those which had outsourced at low levels had all types of concern. These include legal, financial, technological, HR and management and control of outsourced functions. The conclusion that can be drawn from this observation is that, outsourcing may be less attractive to firms unless they can overcome legal, technological and management and control problems. In other words, as long as technological or management and control problems are not extremely serious issues, firms will still outsource TAFs, but at low levels.

Firms which had not outsourced any TAFs had all types of concerns. As shown in Figure 7.23 earlier (Section 7.11.2), financial, technological and management and control concerns were more prevalent amongst these firms, than those which had outsourced at low levels. The conclusion which can be drawn from this is that, financial, technological and management and control concerns are strong deterrents in the decision to outsource TAFs.

### **9.5.2 Common concerns**

Of the two-thirds of firms which had not outsourced TAFs in 1997 (section 7.3), many of these firms had expressed concerns regarding outsourcing. Many of the concerns were common and had represented real problems for firms which had outsourced TAFs. The sub-sections under 9.5.2 compare concerns which were common between firms which had not outsourced TAFs, with firms which had outsourced TAFs. The concerns listed under the second column in Tables 9.1 to 9.5 represented problems which were actually experienced by firms which have outsourced TAFs.

**9.5.2.1 Legal concerns**

Legal concerns were common amongst firms which had not outsourced TAFs and amongst those which had outsourced at low levels. The common concerns faced by both groups of firms are shown in Table 9.2.

**Table 9.2 Common legal concerns**

<b>Firms which had not outsourced TAFs</b>	<b>Firms which had outsourced TAFs at low levels</b>
Difficulty in establishing in legal contracts:  (i) the areas of responsibility with external service providers; and (ii) the ownership of accounting data processed.	Difficulty in establishing in legal contracts:  (i) the areas of responsibility with external service providers; and (ii) the ownership of accounting data processed.

**9.5.2.2 Financial concerns**

Financial concerns were common amongst all firms regardless of whether outsourcing was performed. A comparison of these concerns are shown in Table 9.3.

**Table 9.3      Common financial concerns**

<b>Firms which had not outsourced TAFs</b>	<b>Firms which had outsourced TAFs</b>
Outsourcing would result in higher costs when compared to in-house processing.	Outsourcing costs were higher than anticipated (note that firms did not clarify whether these costs were higher than in-house processing costs).
The hassles in having to monitor costs on a regular basis in order to justify outsourcing, and, the lack of control over costs involved.	The difficulty in determining outsourcing costs in the longer term.

**9.5.2.3 Technological concerns**

Technological concerns were common amongst firms which had not outsourced TAFs and firms which had outsourced at low levels. A comparison of these concerns are shown in Table 9.4.

**Table 9.4 Common technological concerns**

<b>Firms which had not outsourced TAFs</b>	<b>Firms which had outsourced TAFs at low levels</b>
Outsourcing evaluations found lack of compatibility between the technical systems used by external service providers and in-house systems.	The lack of compatibility between the systems used by their external service providers and in-house systems generated problems.
The fear that outsourcing of certain functions would be less effective than in-house processing of these functions.	The systems used by external service providers were less effective than previous in-house systems.
The lack of confidence in external service providers to provide timely assistance in the resolution of problems.	The system offered by external service providers had failed to provide disaster recovery plans.
The fear of loss of skill base due to dependence on external service providers.	The loss of service quality in the longer term.

The finding that technological concerns were not relevant to firms which had outsourced at high levels support Hypothesis No. 6 (Section 5.3, Table 5.2), that outsourcing of TAFs can be undertaken at high levels when technological problems are overcome.

#### **9.5.2.4 Human resource concerns**

Human resource (HR) concerns were common amongst all firms regardless of the degree of outsourcing undertaken. A comparison of these concerns are shown in Table 9.5.

**Table 9.5      Common HR concerns**

<b>Firms which had not outsourced TAFs</b>	<b>Firms which had outsourced TAFs</b>
The lack of confidence in service providers having adequate understanding of service-users' business and their operations.	External service providers were found to have lacked adequate understanding of service-users' business and their operations.
The anticipated difficulty in managing working relationships between external service providers and operational management.	Difficulties were experienced in managing work relationships between external service providers and operational management. In addition, there was difficulty in establishing good communication lines between service-user firms and external service providers.
The fear of the loss of staff morale when forced to consider outsourcing of functions performed in-house.	A reduction of staff morale were experienced in firms during the period when outsourcing was under evaluation, due to the fear of organisational restructure and staff redundancy.

**9.5.2.5 Management and control concerns**

Concerns related to the management and control of outsourced functions were equally common amongst firms which had not outsourced TAFs and those which had not outsourced at low levels. These concerns are shown in Table 9.6.

**Table 9.6      Common management and control concerns**

<b>Firms which had not outsourced TAFs</b>	<b>Firms which had outsourced TAFs at low levels</b>
The loss of confidentiality of financial information handled by external service providers.	There was a breach of confidentiality of accounting/financial information within the client network of the external service providers
The fear of a lack of control over processing timeliness and the accuracy of data processed, by external service providers.	There was lack of control over the timeliness and accuracy of data processed. External service providers were also found to lack accountability in the management of financial resources of clients.

**9.6      INTEREST IN THE PROVISION OF TYPICAL ACCOUNTING SERVICES WITHIN THE ACCOUNTING SERVICES INDUSTRY**

The sample of 83 service-provider firms which had responded in the Service-Provider Survey had largely comprised accounting firms which had maintained employment of up to 10 staff, with the majority of clients being private enterprises.

The interest of service-provider firms in providing TAS was determined by the revenue contribution made by TAS and the firms’ perception of the most attractive accounting services. The findings in relation to these two aspects were as follows:

- (i) In 1998, General Ledger and Management Accounting had contributed the highest levels of revenue for service-provider firms (providing revenue in the range of 25 to 50%, and 11 to 25%, respectively). The majority of firms which had provided these two types of services were accounting firms, as indicated by their membership with professional accounting bodies.
- (ii) While General Ledger services had, on average, contributed the highest level of revenue for service-provider firms, it is the value-added accounting services, i.e., Management Accounting, Budgeting and Costing which were perceived to be the most attractive. The main reason for the attractiveness of these value-added services was the high returns generated from these services. This finding supports Hypothesis No. 8 (Section 5.3, Table 5.2). Nevertheless, General Ledger services ranked fourth after the value-added services and was the most attractive basic accounting service compared to other basic services such as Payroll, Accounts Receivable, etc.. The provision of General Ledger was encouraged by the availability of cost effective technology.

While service-provider firms perceived high demand for Budgeting and Costing, this was not the case for Management Accounting. At the same time, the availability of cost-effective technology was not indicated as a positive factor in relation to the provision of Management Accounting. A conclusion which may be drawn from this is that the lack of cost-effective technology and the high fees expected by service-provider firms in relation to Management Accounting services may be a deterrent in service-user firms' outsourcing this service. This finding supports Hypothesis No. 6 (Section 5.3, Table 5.2) which proposes a negative relationship between technological barriers and the degree of



outsourcing which can be undertaken by firms. Furthermore, it is a possible explanation for the projected decrease in the outsourcing of Management Accounting services after 1997, as found in the Service-User Survey (Section 7.2, Figure 7.11).

## **9.7 IMPACT OF PROVISION OF TAS ON SERVICE-PROVIDER FIRMS' COST STRUCTURE**

In assessing the impact of the provision of TAS on service-provider firms' running costs in between 1995 and 1998, there were three main findings:

- (i) the types of additional cost which would be incurred by service-provider firms if they were to increase their provision of the three most attractive accounting services, i.e., Management Accounting, Budgeting and Costing, were associated with *staff recruitment* and *staff training*.
- (ii) cost escalations associated with the *acquisition and upgrade of software* were most common in the provision of all basic accounting services (e.g., General Ledger, Payroll, etc.). Cost escalations in *recruitment of staff* were also indicated for a number of accounting services.
- (iii) cost escalations in the two common areas, i.e. *acquisition and upgrade of software* and *recruitment of staff* which were associated with the two most popular basic accounting services, i.e., General Ledger and Payroll, had not affected the majority of firms' ability to compete. This finding was consistent amongst firms which had provided these services at low to moderate levels and amongst firms which had specialised in the provision of these services.

Two conclusions can be drawn from service-providers' behavior towards the provision of TAS.

First, regardless of major additional expenditure which would be required if firms performed more value-added services such as Management Accounting, Budgeting and Costing, the returns must be perceived by these firm to outweigh the additional costs.

Second, cost escalations associated with General Ledger and Payroll were not significant enough to deter service-provider firms from increasing their provision of these services. It is possible to conclude that firms which had chosen to provide these services at low to moderate levels, must perceive opportunity costs if they were to choose to provide these basic services at higher levels. The opportunity costs are presumably the provision of services which provide greater net returns, such as the value-added services. Nevertheless, for the majority of firms, General Ledger services were found to have contributed between 25 to 50% of firms' annual revenue. The availability of cost-effective technology has allowed service-provider firms to continue providing General Ledger services, and to allow these services to be used as a drawcard for value-added services which generate higher net returns.

**9.8     A COMPARISON OF SERVICE-USERS' AND SERVICE-PROVIDERS' PERCEPTION OF OUTSOURCING BENEFITS**

Service-user and service-provider firms were asked to rank the list of eight rationales or benefits associated with the outsourcing of TAFs. A comparison of the top four factors as perceived by each group of firms are presented in Table 9.7.

**Table 9.7     Comparison of rationales/benefits associated with outsourcing TAFs**

Ranking	Service-user firms' perception of top four benefits	Service-provider firms' perception of top four benefits enjoyed by their clients
1	Better cost control	Better focus on core business
2	Better focus on core business	Access to skilled staff
3	Better service delivery	Improved accountability and control of accounting function
4	Ability to meet the requirements of special projects	Better service delivery

A number of conclusions can be drawn from Table 9.7.

First, service users prioritise cost control, whereas service providers perceive their clients' ability to focus on their core activities as the main benefit. Cost control was not perceived by service providers as a major benefit for their clients.

Second, outsourcing has allowed service-user firms to concentrate on their core operations and to gain from better service delivery. These two factors have been acknowledged by both service-users and service-providers as significant benefits.

Third, the ability to meet requirements of special projects was perceived as an important outsourcing rationale by service users. However, this factor was not awarded the same level of significance by service providers. Service providers perceive their clients' ability to access skilled staff as a more significant benefit.

Fourth, while the ability to achieve improved accountability and control of outsourced functions was perceived as a top outsourcing benefit by service providers, this was not the case for service users. Nevertheless, this benefit was enjoyed by the majority of firms which have outsourced TAFs. As an outsourcing rationale, it was achieved as per expectation by 86% of service-user firms (sub-section 7.6.2).

## **PART E**

### **10.0 RECOMMENDATIONS**

The nature of this study was exploratory in determining the extent, experiences and expectations of service-user firms in relation to the outsourcing of typical accounting functions (TAFs). Also explored were the interest of firms in the accounting services industry to provide typical accounting services.

Based on the results of the study, a number of questions has arisen in relation to the outsourcing of TAFs.

First, the question of whether outsourcing is worthwhile, given the number of service-user concerns or problems, is raised. Along with this, recommendations which can be taken to minimise these problems are presented in Section 10.1.

Second, the degree of difference between service-users' and service-providers' perceptions of outsourcing benefits is raised. With these differences leading to the possibility that maximum outcomes from outsourcing cannot be easily achieved, recommendations addressing the approach service-providers can take, are discussed in Section 10.2.

Third, there is the question of whether the current trends in relation to the outsourcing of TAFs in 1999 are reflective of the trends represented in 1997 and 1998 when the Service-User and Service-Provider Surveys were performed. The first point of discussion centres on the approaches taken by service-users as alternatives to outsourcing, while the second centres on the role service providers can undertake in conjunction with these alternatives, in assisting service-users to maximise the desired outcomes from accounting functions. These aspects are discussed in Section 10.3.

## **10.1 IS OUTSOURCING OF TAFs REALLY WORTHWHILE?**

The results of the study which indicated that more than half (62%) of the firms had not outsourced TAFs in 1997 and the majority of those which did (35%) had outsourced at low levels, raises the question as to the extent with which firms are willing to outsource their accounting functions.

The examination of an approximate trend on outsourcing of TAFs between 1992 and 1997, and projections of outsourcing beyond 1997, indicated that the outsourcing of only two out of nine TAFs, was expected to increase after 1997. These results were not significant enough to support assertions that outsourcing of TAFs in general, would increase over the 1990s. While Accounts Payable and Accounts Receivable were functions where outsourcing was expected to increase, basic functions such as General Ledger, Payroll, Inventory Accounting, and value-added functions such as Costing and Management Accounting, were expected to decrease after 1997.

An aspect of the finding which partly explains the low levels of outsourcing in 1997, and the projected drop in the outsourcing of certain accounting functions after 1997, were the concerns which were held by all service-user firms, regardless of their outsourcing extent. While firms which had not outsourced TAFs held concerns which had deterred them from outsourcing, many of these concerns represented real problems for firms which had outsourced TAFs in 1997. The three main concerns involved management and control of outsourced functions, human resource and technological aspects.

### 10.1.1 Management and control of outsourced functions

In relation to the management and control concerns associated with the outsourcing of TAFs, three major issues and respective recommendations are discussed.

First, service providers were found to possess inadequate knowledge of their clients' business operations which was a serious disadvantage.

*To minimise these problems, service providers should consider specialising in servicing specific industries, which would then reduce the challenges taken to familiarise with new industries. Specialisation means having a demonstrated knowledge of clients' business, industry and the relevant regulations. These aspects will affect the reporting of accounting data and how service providers can add value to the data for the benefit of their clients. Specialisation will offer service providers the opportunity to concentrate on service quality, rather than quantity. Of course, specialisation will also require service providers to incur greater expenditure in staff training. However, in the long run, service providers will avoid malpractice suits by servicing the industries in which they have solid experience.*

Second, service providers were found to lack reliability when it came to processing timeliness, accuracy and the ability to provide appropriate solutions during unexpected situations.

*While the responsibilities of service-providers are bounded by the outsourcing contract, the nature of outsourcing which focuses on the outcomes or deliverables, especially for service-based areas such as accounting, necessitates some sort of service level agreement. As opposed to a contract which describes*

*the obligations, rights, responsibilities, guarantees, liability and termination aspects, a service-level agreement describes the service to be performed, performance requirements and expectations, key performance indicators and measures. In other words, a contract is written up for service failure whereas a service-level agreement is written up for service success.*

*In all fairness to service providers, service users must, before outsourcing, be aware of issues that need to be resolved prior to outsourcing. Apart from understanding all aspects of their accounting functions, including the details of problems which have, or are likely to occur, service users should fully understand their strategic reasons for outsourcing, methods for the evaluation of costs, benefits and risks, standards and performance guarantees, properly defined policies and procedures and clear definition of roles and responsibilities in the outsourcing arrangement. In contrast, service-user firms that have inadequate up-front definition of scope and deliverables, unrealistic expectations, exclude staff from outsourcing decisions, have inflexible contractual arrangements and poor outcome measurement methods, would be more likely to experience difficulties in their outsourcing arrangements.*

*Service-user firms should be careful not to outsource accounting functions which are strategic to their business, or that differentiate them in a positive way from their competition. The maturity of the technology used in the outsourcing arrangement and the service-users' understanding of that technology are important factors which can determine whether outsourcing can be a successful option. If the function is highly integrated in a business or technical sense, then outsourcing should be treated with caution because there will be many complex interfaces with the organisation which will require management.*

Third is the breach of confidentiality through outsourcing. It was interesting to note that firms which had outsourced at high levels did not experience this legal



problem, which implies that firms can outsource at higher levels if they have complete confidence that breach of confidentiality is not a risk in their outsourcing arrangements.

*As the breach of confidentiality is an intellectual property issue which can generate legal liability for service-providers, it requires serious attention for the protection of both service users and service providers. The range of legal issues which may be covered by an outsourcing arrangement is very wide and is likely to vary depending on the type of accounting function outsourced. It is therefore vital for planners of an outsourcing arrangement to establish, early in the process, a checklist of features and requirements of the proposed transaction. This should enable them to prepare a sound contract and prevent them overlooking important matters. It is recommended that this confidentiality aspect be given high priority in contractual agreements, apart from the two legal aspects which were found to be of concern to firms (Section 9.5.2.1, Table 9.1). While a range of intellectual property rights can be put on the negotiations checklist (e.g., copyright, trademarks, confidentiality, trade secrets, etc.), particular care needs to be taken with respect to confidentiality. It may well be in the interest of each party in the outsourcing arrangement to require the other to acknowledge that all aspects of their relationship are to be treated confidentially.*

*The requirements of any Privacy Act, e.g., the Australian Privacy Act 1988 (Cwth) which is concerned with protecting the intellectual property of databases, which was originally developed for the Commonwealth public sector, should be considered in outsourcing contracts. Given that the processing of accounting data involves the process of data collection, data processing and data output, outsourcing contracts should stipulate details associated with the handling and use of data during these three stages. For instance, during data collection, individuals should be notified of the purposes to which information*

*collected from them may be put; and collection should be fair, lawful, relevant and necessary. During the processing stage, data should be held securely and freely accessible to the individual to whom this relates. The data output should cater only for permitted uses and disclosures of personal information.*

*The outsourcing contract should also require the service provider to comply with the service user's directions from time to time in connection with security safeguards. The service provider may have to establish a mechanism whereby checks can be made to ensure that the information is accurate, relevant, complete and not misleading. Ideally, the quality of the data should be no less than the requirements of the Accounting Standards SAC 3 which deals with the qualitative characteristics of financial information.*

#### **10.1.2 Human resource concerns**

There were two major human resource concerns raised in relation to the outsourcing of TAFs and one recommendation has been made to address these two issues.

First, service-users have emphasised the difficulty in managing work relationships between external service providers and internal staff, as well as the drop in staff morale when these firms were evaluating the outsourcing decision. Although the fear of staff redundancy is a demoralising issue, the impact on staff was found to be a factor which was the least important to firms when it came to evaluation of service providers (as part of the exercise in considering outsourcing practice).

Second, there was the problem of external service providers lacking familiarity with the operations of their clients. While the arrangements recommended have been beneficial in the Information Technology industry, it is highly likely that these arrangements will also benefit the accounting services industry.

*A recommendation is for further research to be carried out to determine whether an organisation can benefit by re-employing staff whose job tasks have been outsourced, either as independent contractors or as contractors for external service firms. An advantage of recruiting redundant staff is that such staff would already have familiarity with the business, compared to external service providers who need to invest time and effort to gain the same level of familiarity.*

*The consideration to recruit redundant staff in an outsourcing arrangement would also demonstrate that the organisation is responsible towards the handling of personnel problems which have been generated by their decision to outsource. After all, personnel problems have to be considered within a cost/benefit framework, too.*

### **10.1.3 Technological concerns**

The prediction by IBIS (1994) that technological factors would be a major obstacle to the outsourcing of TAFs was supported in the results of this study. While technological problems were not experienced by firms which had outsourced at high levels, they were common amongst firms which had outsourced at low levels, and are believed to be deterrents to firms which had not outsourced TAFs in 1997. The main technological concerns were:

- (i) the lack of compatibility between the systems supplied by external service providers;

- (ii) the effectiveness of the systems introduced by external service providers; a portion of service-users have found that systems supplied by external service-providers were in fact less effective than in-house systems; and
- (iii) the loss of quality of service in the longer term.

*In the case of firms which have experienced the above-mentioned technological problems, it is recommended that research be carried out to identify the approaches these firms have taken to overcome their technological problems. This research can also identify whether there were substantial benefits in firms returning to in-house processing of their accounting functions.*

## **10.2 HOW COMPATIBLE ARE SERVICE USERS' AND SERVICE PROVIDERS' PERCEPTIONS OF OUTSOURCING BENEFITS?**

A comparison of the perceptions or expectations of the most significant outsourcing benefits from the point of view of service users and service providers (Section 9.8) revealed some differences. In order for outsourcing to achieve the highest possible outcomes, there is a need for service providers to be aware of service users' major expectations in outsourcing.

First, service users prioritised cost control as a rationale for outsourcing, whereas service-providers have not acknowledged this as an important factor.

*Service providers need to be aware that the ability to determine the costs associated with outsourcing in the medium to long term is vital in influencing service users' decision to continue outsourcing. This is an important consideration, since the inability to determine outsourcing costs in the medium to long term was a major concern indicated by service-users (Section 7.11.2.2).*

Second, while service-providers perceive their expertise skills as a major asset to their clients, service-users expect to have the requirements of special projects met through outsourcing. Furthermore, service-users have indicated service provider capability as a significant criteria when selecting service providers.

*In this regard, service providers should capitalise on their ability to implement solutions promptly and efficiently.*

### **10.3 CURRENT TRENDS IN THE ACCOUNTING SERVICE INDUSTRY - ARE THERE ALTERNATIVES TO OUTSOURCING?**

The technological concerns which were identified in this study and which were earlier discussed in Section 10.1.3, led to two additional steps being taken to identify the current trends in the accounting service industry .

First, a brief investigation of the accounting software market was performed to identify the types of accounting software available for the TAFs included in this study. The results of this investigation are worthwhile highlighting for the benefit of service-provider firms. *Service-provider firms need to be aware of the existence and capabilities of software which service-user firms can now utilise as an alternative to outsourcing, thereby avoiding the above-mentioned technological problems.*

A brief look at the commercial software market indicates the availability of a number of fully integrated accounting packages known as SAP, FINANCE 1, PEOPLESOFT, ORACLE, SOLOMON, PRONTO, SAGE, PASTEL, ATTACHE, MYOB, etc. which are capable of running basic accounting

functions such as General Ledger, Accounts Receivable and Payable, Payroll, Inventory Accounting, and Fixed Assets. These packages can be tailored to suit the needs of medium to large firms and are flexible enough to run on either expensive mainframe or PC networks.

With the relative economy on computer software and PC networks now available, these software packages are feasible for many firms. Software companies also provide continuing training to client firms to meet their accounting needs as the firms grow. The legal contracts involving service-user firms' use of such software emphasise a number of aspects which include the licensing agreement, the maintenance and support service-user firms receive during and after the implementation phases and the costs of procuring the software. In general, these contracts are expected to be more straightforward than outsourcing contracts, given the study finding that so many service-user firms have raised legal problems:

- (i) defining areas of responsibility with external service providers; and
- (ii) determining ownership of accounting data processed.

Second, interviews were held with three accounting firms<sup>16</sup> to identify their role in assisting clients in the use of commercial accounting software capable of processing the basic accounting functions.<sup>17</sup>

*The findings indicate that where service-user firms were satisfied to use commercially available software, the accounting firms could benefit by educating their clients on application of the software and capitalise on their expertise accounting skills which would be required for value-added services such as Management Accounting and Budgeting. These accounting firms have*

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<sup>16</sup> For brief details of interviews conducted, refer Appendix J (Interview Nos. 9, 10 and 11)

<sup>17</sup> Basic accounting functions refer to General Ledger, Accounts Receivable, Accounts Payable, Payroll, Inventory Accounting, and Fixed Assets.

*also indicated that commercially available software packages offer service-user firms several benefits. These software packages are becoming increasingly affordable, allow firms to maintain control of their processing efficiency as well as the confidentiality of the accounting information processed.*

To conclude, no matter what the trend may be in future in relation to the outsourcing of typical accounting services, service providers need to be flexible and prompt to capitalise on their expertise skills. A major factor which impacts on the way businesses are managed in this information era is technology, which, in turn, creates uncertainty in the role of service providers. Where service-user organisations choose to run their typical accounting functions in-house by using commercially available software, service providers with professional accounting skills would most likely be the best advisers for business. Service providers who possess accounting skills and are capable of servicing specific industries due to their industry knowledge, need to invest in promoting client awareness in the aspects of good business management and control.

## GLOSSARY

Contractual Impact	Refers to service provider's flexibility to manage change, their acceptance of risk and financial arrangements.
Financial impact	Refers to net financial benefits expected to be gained by the accounting department or the service-user organisation.
IT	Abbreviation for Information Technology.
Risk	Risk levels associated with typical accounting functions. Risk include the possibility of errors or problems associated with carrying out the accounting function. For instance, a risk associated with Accounts Payable is the failure to generate cheques on time. For Payroll, the risk may be the miscalculation of pays and the loss of confidentiality of payroll information.
SAC	Statement of Accounting Concepts. The conceptual framework set by the Australian accounting profession consist of five SACs. The conceptual framework was developed to ensure that the objectives and quality of financial reporting undertaken by reporting entities were of a standard adequate enough to serve the purposes for which accounting information reports were intended for.
Service-provider capability	Refers to service provider's business strength, quality of staff, experience and flexibility in service provision.



**GLOSSARY (cont'd)**

Staff Impact	Refers to service-user organisation's ability to retain existing employees and their skills, and avoiding unnecessary staff disruption or redundancies.
TAF	Abbreviation for <i>typical accounting functions</i> . The nine accounting functions which are the focus of this study have been collectively termed as typical accounting functions. These functions include general ledger processing, accounts receivable, accounts payable, payroll processing, fixed assets accounting, inventory accounting, budgeting, costing and management accounting.
TAS	Abbreviation for <i>typical accounting services</i> . The services relate specifically to the nine accounting functions which have been collectively termed as <i>typical accounting functions</i> (refer 'TAF').
Technical and service assessment	Refers to service quality, efficiency of service migration plans and service provider's capacity to meet changes in work volumes.

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# APPENDICES

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**APPENDIX A**

**SERVICE-USER SURVEY:**

**INDUSTRY CLASSIFICATION OF ORGANISATIONS  
IN SURVEY SAMPLE**

**Table A-1      Service-user survey: Identification of industries involved in survey sample for outsourcing study**

Class No	Stock Exchange Industry Classification	ASX Profitability Study		Current Outsourcing Study	
		No. of companies listed in Profitability Study	Proportion of companies under each classification %	No. of companies selected for this study	Proportion of companies under each classification %
1	Gold	90	20.7	45	15.0
2	Other Metals	34	7.8	27	9.0
3	Solid Fuels	7	1.6	5	1.6
4	Oil & Gas	23	5.3	20	6.6
5	Diversified Resources	5	1.1	5	1.6
6	Developers & Contractors	15	3.0	22	7.3
7	Building Materials	14	3.2	14	4.6
8	Alcohol and Tobacco	4	0.9	4	1.3
9	Food & Household	15	3.0	15	5.0
10	Chemicals	5	1.2	4	1.3
11	Engineering	12	2.7	12	4.0
12	Paper & Packaging	5	1.1	5	1.6
13	Retail	15	3.0	15	5.0
14	Transport	5	1.1	5	1.6
15	Media	14	3.2	14	4.6
16	Banks & Finance	8	1.8	8	2.6
17	Insurance	2	0.4	2	0.6
18	Entrepreneurial Investors	4	0.9	3	1.0
19	Investment/Financial Services	48	11.0	NIL	
20	Property Trusts	22	5.0	NIL	
21	Miscellaneous Services	40	9.2	30	10.0
22	Miscellaneous Industrials	36	8.3	34	11.3
23	Diversified Industrials	11	2.5	11	3.6
24	Tourism & Leisure	9	2.0	9	3.0
Total		433	100.0	300	100.00

**APPENDIX B**

**SURVEY INSTRUMENT:   SERVICE-USER SURVEY**

## OUTSOURCING OF TYPICAL ACCOUNTING FUNCTIONS

To be completed by the Head of the Accounting/Finance Department in your organisation.

This research study is being conducted as a requirement towards a Master of Business degree through the Victoria University of Technology. The aim of this survey is to ascertain the needs of service-user organisations in the outsourcing of typical accounting functions.

This questionnaire will take approximately 15 minutes to complete. Your assistance in answering all questions is appreciated. However, do not feel obliged to respond to those questions where you feel the answers may compromise the interest of your organisation.

Should you require clarification on the contents of the questionnaire, please contact the following person:

Frances Hayes  
Lecturer Accounting and Finance  
TAFE Business  
Victoria University of Technology (Werribee Campus)  
Tel: (03) 9216 8181 Fax: (03) 9216 8209  
Mobile: 015 833 642

### Glossary of Terms

Earnings Before Interest and Tax (EBIT)	Refers to Operating Profit before charging interest expense and tax for the year. This figure represents profit from normal trading operations and does not include Abnormal nor Extraordinary items.
Outsourcing	The contracting out of functions to external service providers, rather than having the functions performed by internal staff.
P/f/y	Previous financial year.
Revenue	Refers to your organisational annual turnover generated from operations <u>in Australia</u> .
Risk level	Refers to the risks associated with each type of accounting function. Eg. for accounts payable, a risk may be failure to generate cheques on time; for payroll processing, risks may include the untimely processing of pays and loss of confidentiality in payroll information.
Typical accounting functions	These functions include basic processing tasks and value-adding tasks. Basic processing tasks are those which are capable of being computerised and include General ledger processing, accounts receivable, accounts payable, payroll processing, fixed assets and inventory accounting. Value-adding tasks include budgeting, costing and management accounting, all of which require analysis and interpretation skills. Sections B, C, D and E of the questionnaire refer specifically to these tasks. Typical accounting functions mentioned in these sections refer to functions which are based, and are used to support your organisation's operations performed <u>in Australia</u> .

Please return this questionnaire as soon as possible,  
but no later than Friday 31 October 1997

QUESTIONNAIRE

SECTION A: ORGANISATIONAL PROFILE  
To be completed by all respondents

1. What is your organisation's industry classification as used by the Australian Bureau of Statistics?
- a. Agriculture, Forestry and Fishing
  - b. Mining
  - c. Manufacturing
  - d. Electricity, Gas and Water Supply
  - e. Construction
  - f. Wholesale Trade
  - g. Retail Trade
  - h. Accommodation, Cafes and Restaurants
  - i. Transport and Storage
  - j. Communication Services
  - k. Finance and Insurance
  - l. Property and Business Services
  - m. Government Administration and Defence
  - n. Education
  - o. Health and Community Services
  - p. Cultural and Recreational Services
  - q. Personal and Other Services
2. For how many years has your organisation been operating?
- a. Less than 10 years
  - b. 11 - 20 years
  - c. 21 - 30 years
  - d. 31 - 40 years
  - e. 41 years and above
3. What is the range of your organisation's annual revenue in financial year ending xx/xx/1997?
- a. Under \$1 m
  - b. \$1 m to < \$10 m
  - c. \$10 m to < \$100 m
  - d. \$100 m to < \$500 m
  - e. \$500 m and above
4. Using information from your published reports, please indicate on the following table, the percentage change (from the previous financial year) in your organisation's annual revenue over the last three financial years:

Financial year ending	Has revenue increased or decreased from p/f/y? Enter I - Increase or D - Decrease	% change from p/f/y
xx/xx/95		
xx/xx/96		
xx/xx/97		

5. Using information from your published reports, please indicate on the following table, the percentage change (from the previous financial year) in your organisation's annual Earnings before Interest and Tax (EBIT) over the last three financial years:

Financial year ending	Has EBIT increased or decreased from p/f/y? Enter I - Increase or D - Decrease	% change from p/f/y
xx/xx/95		
xx/xx/96		
xx/xx/97		

6. Does your organisation maintain any of the administrative functions shown in the table below?

Administrative functions	Which functions exist? <input checked="" type="checkbox"/>	Are existing functions performed in-house or outsourced? Enter I - In-house O - Outsourced
a. Accounting	<input type="checkbox"/>	
b. Information technology	<input type="checkbox"/>	
c. Legal	<input type="checkbox"/>	
d. Superannuation	<input type="checkbox"/>	
e. Other (specify):	<input type="checkbox"/>	
	<input type="checkbox"/>	
	<input type="checkbox"/>	

7. How many times has your organisational structure significantly changed over the last 5 years (eg. change in staffing structure, reduction of staff numbers, etc.)?
- a. None
  - b. Once
  - c. Twice
  - d. Over twice
8. Please provide employment details within your organisation:

	Employment numbers	
	Full-time	Part-time
Organisation as a whole		
Accounting department (based in Australia)		

**SECTION B: TYPICAL ACCOUNTING FUNCTIONS (SUPPORTING YOUR ORGANISATION'S AUSTRALIAN BASED OPERATIONS)**  
**To be completed by all respondents**

**Typical accounting functions** are defined as General ledger processing, Accounts receivable, Accounts payable, Payroll processing, Fixed assets accounting, Inventory accounting, Budgeting, Costing and Management accounting. These functions must be performed in Australia, supporting your organisation's Australian operations.

9. Please complete the table below.

Typical accounting functions		Which functions exist now?  <input checked="" type="checkbox"/>	For functions which exist now													Which functions were outsourced in 1992?  <input checked="" type="checkbox"/>
			What is the function's importance in achieving the organisation's strategic goals?  (Rate by ticking a box) 5 = high 1 = none	What is the risk level associated with these functions?  (Rate by ticking a box) 5 = high risk 1 = low risk					Is the function performed in-house or outsourced?  Enter: I - In-house F - Fully-outsourced P - Partially outsourced	Which functions will be considered for outsourcing or further, beyond 1997?  <input checked="" type="checkbox"/>						
a. General ledger processing	<input type="checkbox"/>														<input type="checkbox"/>	
b. Accounts receivable	<input type="checkbox"/>														<input type="checkbox"/>	
c. Accounts payable	<input type="checkbox"/>														<input type="checkbox"/>	
d. Payroll processing	<input type="checkbox"/>														<input type="checkbox"/>	
e. Fixed assets accounting	<input type="checkbox"/>														<input type="checkbox"/>	
f. Inventory accounting	<input type="checkbox"/>														<input type="checkbox"/>	
g. Budgeting	<input type="checkbox"/>														<input type="checkbox"/>	
h. Costing	<input type="checkbox"/>														<input type="checkbox"/>	
i. Management accounting	<input type="checkbox"/>														<input type="checkbox"/>	

10. What is the total estimated cost of your organisation's 'typical' accounting functions for financial year 1996/97, taken as a **percentage of organisational annual revenue** for the same year?

Indicate the range which represents this percentage (annual cost:annual turnover):

- a. 10 % and below of annual revenue
- b. 11 - 20 % of annual revenue
- c. 21 - 30 % of annual revenue
- d. 31 - 40 % of annual revenue
- e. 41 - 50 % of annual revenue
- f. Above 50% of annual revenue
- g. Information not available or unknown

**Note:**  
 The annual revenue must pertain to Australian based operations.  
 Costs must be that incurred in running the typical accounting functions which support these operations.

If your organisation has not outsourced and is not considering outsourcing any 'typical' accounting functions in future, please proceed to Section E of this questionnaire.

**SECTION C: OBJECTIVES FOR OUTSOURCING TYPICAL ACCOUNTING FUNCTIONS**  
Complete this section only if your organisation has outsourced, or is considering outsourcing any 'typical' accounting functions

11. Please complete the table below:

Objectives for outsourcing	Rank objectives (1, 2, 3 ...)  1 = most important	To what degree were objectives achieved?					For objectives not achieved or achieved below expectations give reasons
		4 = Achieved well above expectations 3 = Achieved as per expectations 2 = Achieved below expectations 1 = Not achieved (Tick the appropriate box)					
		4	3	2	1		
a. Better focus on core business							
b. Better cost control							
c. Access to skilled staff							
d. Better service delivery							
e. Access to technology							
f. Improved accountability/control of accounting functions							
g. Meet requirements of special projects							
h. Greater ability to cope with changes in staffing structure							
i. Other, please specify:							

12. Describe the important factors used to measure the success in running the following accounting functions in your organisation .  
(eg. accounts payable: Cheques printed on time).  
Enter "N/A" for functions which do not apply.

Functions	Critical Success Factors
a. General ledger processing	
b. Accounts receivable	
c. Accounts payable	
d. Payroll processing	
e. Fixed assets accounting	
f. Inventory accounting	
g. Budgeting	
h. Costing	
i. Management accounting	



13. Has your organisation RETURNED TO THE IN-HOUSE PROCESSING OPTION after having outsourced any of the following accounting functions?

On the table below, identify these functions and provide reasons for returning to in-house processing for these functions  
(Ignore this question if it is not applicable to your organisation)

Identify functions	Reasons for returning to in-house processing
a. General Ledger processing <input checked="" type="checkbox"/>	
b. Accounts receivable <input type="checkbox"/>	
c. Accounts payable <input type="checkbox"/>	
d. Payroll processing <input type="checkbox"/>	
e. Fixed assets accounting <input type="checkbox"/>	
f. Inventory accounting <input type="checkbox"/>	
g. Budgeting <input type="checkbox"/>	
h. Costing <input type="checkbox"/>	
i. Management accounting <input type="checkbox"/>	

14. Has your organisation CONSIDERED and MADE A DECISION TO REJECT the outsourcing option for any of the following accounting functions?

In the table below, identify those functions which have been considered for outsourcing and rejected. Provide reasons for the decision.  
(Ignore this question if it is not applicable to your organisation)

Identify functions	Reasons for rejecting outsourcing
a. General Ledger processing <input checked="" type="checkbox"/>	
b. Accounts receivable <input type="checkbox"/>	
c. Accounts payable <input type="checkbox"/>	
d. Payroll processing <input type="checkbox"/>	
e. Fixed assets accounting <input type="checkbox"/>	
f. Inventory accounting <input type="checkbox"/>	
g. Budgeting <input type="checkbox"/>	
h. Costing <input type="checkbox"/>	
i. Management accounting <input type="checkbox"/>	

SECTION D: SELECTION CRITERIA FOR SERVICE BUYERS

Complete this section only if your organisation has outsourced, or is considering outsourcing any 'typical' accounting functions

15. What are your organisation's most important criteria when selecting service providers for typical accounting functions?

Rank selection criteria / = most important	Selection Criteria
(Enter "N/A" for criteria which do not apply)	
<input type="checkbox"/>	a. Service provider capability (refers to service provider's business strength, quality of staff, experience and flexibility in service provision)
<input type="checkbox"/>	b. Technical and service assessment (refers to service quality, efficiency of service migration plans and service provider's capacity to meet changes in work volumes)
<input type="checkbox"/>	c. Financial impact (refers to net financial benefits expected to be gained by the accounting department or the service user organisation)
<input type="checkbox"/>	d. Contractual impact (refers to service provider's flexibility to manage change, their acceptance of risk and financial arrangements)
<input type="checkbox"/>	e. Staff impact (refers to ability of service user organisation's ability to retain existing employees and their skills and avoiding unnecessary staff disruption/redundancies)

SECTION E: CONCERNS REGARDING OUTSOURCING

To be completed by all respondents.

16. Does your organisation have any concerns in regards to the outsourcing of 'typical' accounting functions?

Please list any concerns under the appropriate headings on the table below:

Aspect	Concerns
a. Technological	
b. Financial	
c. Human resource	
d. Legal	
e. Management and control	
f. Other:	

**Thank you for your participation in this survey.**

**Are you prepared to be contacted for any follow-up to this questionnaire?**  
**Yes/No**

**If you wish to receive a synopsis of the findings of this study, please indicate a mailing address:**

<b>COMPANY</b>	:	_____
<b>MAILING ADDRESS</b>	:	_____
		_____
		_____
		_____
		_____

# **APPENDIX C**

**SURVEY INSTRUMENT:   SERVICE-PROVIDER SURVEY**

# QUESTIONNAIRE

## **OUTSOURCING OF TYPICAL ACCOUNTING FUNCTIONS YOUR INTEREST AS SERVICE PROVIDER**

**To be completed by the Principal/Managing Executive of your firm**

This research study is being conducted as a requirement towards a Master of Business degree through the Victoria University of Technology. The aim of this survey is to ascertain the interest amongst firms/organisations (within the accounting services industry) in becoming service-providers of "typical accounting functions" outsourced by businesses in Australia.

"Typical accounting functions" include basic processing tasks and value-adding tasks. Basic processing tasks are those which are capable of being computerised and include General Ledger processing, accounts receivable, accounts payable, payroll processing, fixed assets and inventory accounting. Value-adding tasks include budgeting, costing and management accounting, all of which require analysis and interpretation skills.

This questionnaire will take approximately 10 minutes to complete. Your assistance in answering all questions is appreciated. However, do not feel obliged to respond to those questions where you feel the answers may compromise the interest of your firm.

Should you require clarification on the contents of the questionnaire, please contact:

Frances Hayes  
Lecturer Accounting & Finance  
TAFE Business  
Victoria University of Technology (Werribee Campus)  
Tel: (03) 9216 8181      Fax: (03) 9216 8209

**Please return this questionnaire as soon as possible,  
but no later than Friday 29 May 1998**

### Section A. Provision of typical accounting services (TAS)

SECTION B. Benefits of outsourcing typical accounting services (TAS)

Q2. What do you consider to be the greatest benefits to your client in their outsourcing of typical accounting services?

Benefits	Rank the top three benefits (where applicable) <i>1 = most important</i>
Better focus on core business	
Better cost control	
Access to skilled staff	
Better service delivery	
Access to technology	
Improved accountability/control of accounting functions	
Meet requirements of special projects	
Greater ability to cope with changes in staffing structure	

Q3. If cost savings is one of the outsourcing benefits enjoyed by your clients, estimate how large the savings are on average.  
0-10% ☐      11-20% ☐      21-30% ☐      Above 30% ☐      No idea ☐      N/A ☐

SECTION C. Profile of Your Firm

Q4. What is the total number of staff in your firm?  
(Enter appropriate numbers)

	Staff No.
Principals	
Accountants (non-principals)	
Other staff	
Total	

Q5. Are you or any of the other principals in your firm or organisation a member of any of the following associations?  
(Tick appropriate box where applicable)

- Association
- Institute of Chartered Accountants ☐
  - Australian Society of Certified Practising Accountants ☐
  - National Institute of Accountants ☐
  - Other (please specify): \_\_\_\_\_

Q6.

Client Category	Please tick the box that represents the size of the majority of your clients in each of the two client categories listed				
	1-10 staff	11-100 staff	101-1000 staff	1001-10000 staff	Above 10000 staff
Government-owned enterprises					
Privately-owned enterprises					

Thank you for your participation in this survey.

Are you prepared to be contacted for any follow-up to this questionnaire?  
Yes/No

If you are prepared to be contacted or wish to receive a synopsis of the findings of this study, please complete the detail below:

FIRM : \_\_\_\_\_  
MAILING ADDRESS : \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# APPENDIX D

## SURVEY RESPONSE RATES

The response rate for each question in the survey instruments used in the Service-User and Service-Provider Surveys are provided in Table D-1 and D-2, respectively.

### SERVICE-USER SURVEY

The Service-User Survey had a response rate of 21.7 % based on 281 questionnaires which were presumed to have been received. However, a very small proportion of the 61 returned questionnaires were not completed properly. This rendered a usable rate of less than 100% for some questions. Table D-1 indicates the percentage of usable responses for each specific question with references to Chapter 7 of the thesis (Findings of Service-User Survey) and the actual Questionnaire.

**Table D-1      Service User Survey - Response Rates**

Thesis Section Reference	Thesis Section Heading	Percentage usable responses (%)	Questionnaire Section Reference
7.1	Profile of Respondents	100	Q. 1
		100	Q. 2
		100	Q. 3
		100	Q. 4
		100	Q. 5
		100	Q. 8



# APPENDIX D SURVEY RESPONSE RATES

Table D-1 (cont'd)    Service User Survey - Response Rates

Thesis Section Reference	Thesis Section Heading	Rate of useable responses (%)	Questionnaire Section Reference
7.2	Trends in the outsourcing of Typical Accounting Functions		Q. 9
	General Ledger	100	
	Accounts Receivable	97	
	Accounts Payable	98	
	Payroll	98	
	Fixed Assets	98	
	Inventory Accounting	88	
	Budgeting	98	
7.5	Association between Accounting Infrastructure and Degree of Outsourcing Performed		
7.5.1	Size of Accounting Department	98	Q. 8
7.5.2	Strategic Importance of Typical Accounting Functions		Q. 9
	General Ledger	97	
	Accounts Receivable	90	
	Accounts Payable	97	
	Payroll	97	
	Fixed Assets	95	
	Inventory Accounting	82	
	Budgeting	95	
	Costing	87	
	Management Accounting	95	
7.5.3	Risk Levels associated with Typical Accounting Functions		Q. 9

**Table D-1 (cont'd) Service User Survey - Response Rates**

Thesis Section Reference	Thesis Section Heading	Rate of useable responses (%)	Questionnaire Section Reference
	General Ledger	95	
	Accounts Receivable	89	
	Accounts Payable	93	
	Payroll	95	
	Fixed Assets	95	
	Inventory Accounting	81	
	Budgeting	93	
	Costing	85	
	Management Accounting	94	
7.5.4	Cost of Typical Accounting Functions as a Ratio to Total Revenue	98	Q. 10
7.6	Rationales for Outsourcing		Q. 11
7.6.1	Most Significant Rationales	25	Q. 11
7.6.2	Degree Outsourcing Objectives were Achieved	25	Q. 11
7.7	Continuity in Outsourcing Practice	3 - 28	Q.13
7.8	Awareness of Key Success Factors in relation to TAFs	23	Q.12
7.9	Firms' Evaluation of the Outsourcing Option	2 - 5	Q.14
7.10	Criteria for Selection of Service Providers	28	Q. 15
7.11	Outsourcing Concerns	100	Q. 16

# APPENDIX D

## SURVEY RESPONSE RATES

### SERVICE-PROVIDER SURVEY

The Service-Provider Survey had a response rate of 25.6% based on 83 questionnaires which were presumed to have been received. However, a very small proportion of the 83 returned questionnaires were not completed properly. This rendered a usable response rate of less than 100% for some questions. Table D-2 indicates the percentage of usable responses for each specific question with references to Chapter 8 of the thesis (Findings of Service-Provider Survey) and the actual Questionnaire.

**Table D-2      Service Provider Survey - Response Rates**

Thesis Section Reference	Thesis Section Heading	Percentage usable responses (%)	Questionnaire Section Reference
8.1	Profile of Respondents	100	Q. 4
		100	Q. 5
		99	Q. 6
8.2	Service-Provider Firms’ Interest in the Provision of Typical Accounting Services (TAS)	99	Q.1
8.3	Impact of Provision of Typical Accounting Services on Cost Structure of Service-Provider Firms	100	Q.1
8.3.1	Cost factors in the pursuit of attractive accounting services	100	Q.1
8.3.2	Escalating costs and impact on firms’ ability to compete	100	Q.1
8.4	Service-Providers’ Perception of Outsourcing Benefits		
8.4.1	Perception of most significant outsourcing benefits	95	Q.2
8.4.2	Magnitude of cost savings achieved	98	Q.3

# APPENDIX E SERVICE-USER SURVEY

## OUTSOURCING LEVELS PERFORMED IN 1992, 1997 AND THE PERIOD BEYOND 1997

The outsourcing levels measured by the percentage of total respondents outsourcing each type of TAF are contained in Table E-1.

Table E-1    **Percentage of respondents outsourcing TAFs at three points in time**

Typical Accounting Functions (TAFs)	1992		1997		beyond 1997	
	Outsourcing %	Not Outsourcing %	Outsourcing %	Not Outsourcing %	Outsourcing %	Not Outsourcing %
General Ledger	3	97	3	97	2	98
Accounts Receivable	5	95	2	98	5	95
Accounts Payable	5	95	5	95	8	92
Payroll	18	82	27	73	13	87
Fixed Assets	5	95	2	98	2	98
Inventory Accounting	4	96	12	88	4	96
Budgeting	2	98	2	98	2	98
Costing	2	98	4	96	0	100
Management Accounting	3	97	8	92	3	97

# APPENDIX F-1 SERVICE-USER SURVEY

## PEARSON’S CORRELATION TEST RESULTS

**Table F-1      Association between general characteristics of firms and their outsourcing behaviour**

Thesis reference section	General Characteristics of Firms	Pearson’s Correlation Test Results
7.4.1	Annual revenue	.1183
7.4.3	Experience (measured by period of operation)	.0088
7.4.4	Size (measured by full-time employment)	.0298
7.4.5	Outsourcing of administrative functions: - Information Technology - Legal - Superannuation	.0892 -.0051 -.1084
7.4.6	Organisational change (measured by number of organisational restructures)	-.0129

The results in Table F-1 indicate that there is **no correlation** between the listed characteristics and the degree of outsourcing performed.

# APPENDIX F-1 SERVICE-USER SURVEY

**Table F-2      Association between accounting infrastructure of firms and their outsourcing behaviour**

Thesis reference section	Accounting infrastructure characteristics	Pearson's Correlation Test Results
7.5.1	Size of accounting department	-.1183
7.5.2	Strategic importance of TAFs: - General Ledger - Accounts Receivable - Accounts Payable - Payroll - Fixed Assets - Inventory Accounting - Budgeting - Costing - Management Accounting	.2431 .2289 .1293 -.2253 -.1565 -.1104 .1242 -.0131 -.0960
7.5.3	Risk levels associated with TAFs: - General Ledger - Accounts Receivable - Accounts Payable - Payroll - Fixed Assets - Inventory Accounting - Budgeting - Costing - Management Accounting	.2054 .1777 -.2250 -.0438 -.2206 -.1970 .2297 -.1936 .0587
7.5.4	Cost of TAFs (as a ratio to total revenue)	.1867

The results in Table F-2 indicate that there is **no correlation** between the listed accounting infrastructure characteristics and the degree of outsourcing performed.

# APPENDIX F-2 SERVICE-USER SURVEY

## RESULTS OF CROSS-TABULATIONS BETWEEN TAF OUTSOURCING LEVELS AND VARIOUS ORGANISATIONAL FACTORS

### INDUSTRY CLASSIFICATION

Table F-3    Industry classification of firms which outsource TAFs at various degrees

	Firms' Industry Types											
Degree of Outsourcing Performed ( TAFs)	A	B	C	D	E	F	G	H	I	J	K	Tot (%)
High	1.6					1.6			1.6			4.8
Low	4.9	11.7	3.2	3.3		1.6	1.6	4.9	3.3			34.5
SUBTOTAL	6.5	11.7	3.2	3.3		3.2	1.6	4.9	4.9			39.3
Nil	14.7	13.1		1.6	3.3	6.6	3.3	3.3	4.9	1.6	3.3	60.7
TOTAL	21.2	24.8	3.2	4.9	3.3	9.8	4.9	8.2	9.8	1.6	3.3	100.0

Industry Types											
A	Mining	E	Wholesale Trade	I	Finance and Insurance						
B	Manufacturing	F	Retail Trade	J	Cultural and Recreational Services						
C	Electricity, Gas and Water Supply	G	Transport and Storage	K	Personal and Other Services						
D	Construction	H	Communication Services								

## APPENDIX F-2

### SERVICE-USER SURVEY

#### OUTSOURCING OF FIRMS' LEGAL FUNCTION

**Table F-4** Degree of Legal outsourcing undertaken by firms which outsource TAFs at various degrees

	Degree of outsourcing Legal (%)		
Degree of Outsourcing Performed ( TAFs)	Nil	Outsourced Partially/Fully	Total (%)
High		5.7	5.7
Low	11.3	24.5	35.8
Nil	17.0	41.5	58.5
TOTAL	28.3	71.7	100

#### OUTSOURCING OF FIRMS' SUPERANNUATION FUNCTION

**Table F-5** Degree of Superannuation outsourcing undertaken by firms which outsource TAFs at various degrees

	Degree of outsourcing Superannuation (%)		
Degree of Outsourcing Performed ( TAFs)	Nil	Outsourced Fully/Partially	Total (%)
High	1.8		1.8
Low	9.1	29.1	38.2
Nil	9.1	47.3	56.4
TOTAL	20.0	80.0	100



# APPENDIX F-2 SERVICE-USER SURVEY

## FREQUENCY OF ORGANISATIONAL RESTRUCTURE

**Table F-6      Organisational restructure frequency of firms outsourcing at various degrees**

	Frequency of organisational restructure				
Degree of Outsourcing Performed ( TAFs)	None	Once	Twice	> Twice	Total (%)
High		3.4		1.7	5.1
Low	6.9	17.2	3.4	6.9	34.5
Nil	15.5	20.7	19.0	5.2	60.4
Total	22.4	41.3	22.4	13.8	100.0

## COST RATIOS (TAFs)

**Table F-7      TAF cost ratios of firms outsourcing at various degrees**

	TAF cost ratios						
Degree of Outsourcing TAFs	<10%	11-20%	21-30%	31-40%	41-50%	Above 50%	Total (%)
High	1.7	1.7					3.3
Low	27.8	3.3	3.3				34.4
SUBTOTAL	29.5	5.0	3.3				37.8
Nil	55.6	3.3	3.3				62.2
TOTAL	85.1	8.3	3.3				100.0

# **APPENDIX G** **SERVICE USER SURVEY**

## **DEGREE TO WHICH OUTSOURCING RATIONALES WERE MET**

Frequency analysis was performed on firms’ rankings of eight listed rationales to identify how well these rationales were satisfied. The results of this analysis is shown in Table G-1.

**Table G-1**

Rationales	Degree to which rationales were met			
	*			
	(% firms)			
	A	B	C	D
Better cost control		72	14	14
Better focus on core business	7	73	13	7
Better service delivery	22	64		14
Ability to meet requirements of special projects		86		14
Access to skilled staff		86	7	7
Improved ability and control of accounting functions		86		14
Access to technology	7	72	7	14
Greater ability to cope with changes in staffing structure	7	79	7	7

\* Note:     A - Rationales were met above expectations  
              B - Rationales were met as per expectations  
              C - Rationales were met below expectations  
              D - Rationales were not met

# APPENDIX H

## SERVICE USER SURVEY

### OUTSOURCING CONCERNS

Table H-1

Management and control
<ul style="list-style-type: none"> <li>• Lack of control over processing in general</li> <li>• Lack of control over timeliness in processing</li> <li>• Loss of control over accuracy of data processed</li> <li>• Lack of service provider accountability in the handling of service-user assets</li> <li>• Lack of suitable and timely assistance to resolve problems</li> <li>• Poor service provided by external service providers in payroll</li> <li>• Lack of disaster recovery plans with outsourcing</li> <li>• Loss of quality of service in the longer term</li> </ul>
Human Resource
<ul style="list-style-type: none"> <li>• Redundancy of full-time staff</li> <li>• Loss of morale amongst internal staff when forced to consider outsourcing of functions performed in-house (due to the possibility of staff redundancy)</li> <li>• Difficulty in establishing good communication lines with external service providers</li> <li>• Difficulty in managing relationship between external service provider and operational management</li> <li>• Difficulty in obtaining reliable and experienced service providers</li> <li>• Service providers lack understanding of service-users' business and their operations</li> <li>• The depth of knowledge and experience provided by external service providers is insufficient to meet outsourcing needs of a large organisation</li> <li>• Inability of external service provider to have full and current knowledge of the internal affairs of the service user due to the limited amount of time spent with the service users</li> <li>• Loss of in-house skill base due to dependence on external service providers</li> </ul>
Technological
<ul style="list-style-type: none"> <li>• Outsourcing of certain functions are less effective than a fully integrated accounting package</li> <li>• Technology provided by external service providers is not necessarily superior to in-house technology which already exists</li> <li>• Lack of compatibility between external technical systems (used by service providers) and in-house systems</li> </ul>

**Table H-1 (cont'd)**

<b>Financial</b>
<ul style="list-style-type: none"><li>• Higher costs were calculated in the review of potential outsourcing of some areas</li><li>• Cost of outsourcing was higher than anticipated</li><li>• Costs do not justify benefits of outsourcing</li><li>• Need for costs to be monitored and analysed on a regular basis to ensure costs are justified</li><li>• Inability to reduce costs as desired</li><li>• Lack of control over cost of outsourcing</li><li>• Lack of control over cost of outsourcing</li><li>• Costs of processing was too high</li><li>• Difficulty in knowing cost of outsourcing in the longer term</li><li>• Lack of control of outsourcing cost in the longer term</li></ul>
<b>Legal</b>
<ul style="list-style-type: none"><li>• Ownership of data associated with the functions outsourced</li><li>• Difficulty in establishing clear lines of responsibility in contractual agreements</li></ul>

**APPENDIX I**  
**SERVICE USER SURVEY**

**FIRMS OUTSOURCING TAFs**  
**AND**  
**THEIR OUTSOURCING CONCERNS**

**Table I-1**

Typical Accounting Functions (TAFs)	No. of firms outsourcing TAFs	No. of concerns expressed
Payroll	10	25
Accounts Payable	2	8
Inventory Accounting	2	6
Accounts Receivable	2	3
General Ledger	1	3
Management Accounting	1	2
Budgeting	1	2

Table I-1 indicates the number of firms which have expressed concerns on the outsourcing of TAFs while actually having outsourced TAFs. As shown, the number of concerns associated with outsourcing are highest amongst firms which have expressed Payroll.

# APPENDIX J RECORD OF INTERVIEWS

A number of interviews were conducted at various stages of this study.

Prior to the implementation of the Service-User Survey in 1997 and the Service-Provider Survey in 1998, interviews with Government Offices, accounting firms and private organisations were conducted to provide a general understanding of the trends in outsourcing within Australia. The list of organisations and firms interviewed are shown in Table J-1.

Table J-1

GOVERNMENT OFFICES			
No.	Contact	Topic of Discussion	Date
1	Mr Norman Jordan Consultant Victorian Purchasing Board 1 Treasury Place Melbourne Victoria	<ul style="list-style-type: none"> <li>General information on Victorian government's tendering guidelines</li> </ul>	27/2/96
2	Mr Bruce Williamson Assistant Director Outsourcing Evaluation and Contract Management Unit (OECM) Department of Treasury and Finance 5th Floor 1 Treasury Place Melbourne Victoria	<ul style="list-style-type: none"> <li>Victorian Government tendering requirements</li> <li>Outsourcing trends within Government departments</li> <li>Accountants' role as service-providers in outsourcing practice</li> <li>OECM guidelines in the evaluation of outsourcing decision</li> </ul>	28/2/96

**Table J-1 (cont'd)**

	<b>Contact</b>	<b>Topic of Discussion</b>	<b>Date</b>
3	Ms Nancye Livingstone Senior Consultant Outsourcing Evaluation and Contract Management Unit (OECM) Department of Treasury and Finance 5th Floor 1 Treasury Place Melbourne Victoria	<ul style="list-style-type: none"> <li>• Rate of outsourcing accounting services undertaken within Government sectors, as documented in 1996 Issues Paper by Industry Commission</li> <li>• Overview of OECM outsourcing methodology</li> <li>• Outsourcing concerns associated with human resource within the public sector</li> </ul>	21/5/96
4	Ms Margaret Livingston Manager Service Industries Output Australian Bureau of Statistics 485 La Trobe St Melbourne Victoria	<ul style="list-style-type: none"> <li>• Identification of different categories of service-provider firms within the accounting service industry</li> </ul>	16/8/96
<b>ACCOUNTING FIRMS</b>			
5	Mr Laurie Toovey Partner Mann Judd Level 32 80 Collins St Melbourne Victoria	<ul style="list-style-type: none"> <li>• Rate of growth in the outsourcing of accounting functions</li> <li>• Interest and capacity of accounting firms to become service-providers of typical accounting functions</li> <li>• Competitive position of accounting firms in provision of typical accounting services</li> </ul>	2/7/96

**Table J-1 (cont'd)**

<b>ACCOUNTING FIRMS (cont'd)</b>			
		<ul style="list-style-type: none"> <li>• Contents of Service-User Questionnaire (feedback using pilot questionnaire)</li> </ul>	
6	Mr Daniel McMahon Partner McMahon & Associates Station St Sunbury Victoria	<ul style="list-style-type: none"> <li>• Accountants' future roles in the servicing of basic and value-added accounting functions</li> <li>• Contents of Service-User Questionnaire (feedback using pilot questionnaire)</li> </ul>	13/11/97
<b>PRIVATE ORGANISATIONS</b>			
7	Mr Tony Alleva Accounting Department Coles Myer Ltd 800 Tooronga Rd Malvern Victoria	<ul style="list-style-type: none"> <li>• Contents of Service-User Questionnaire (feedback using pilot questionnaire)</li> </ul>	25/8/97
8	Mr Ting Tiong Pong Financial Controller Intervath Australia Pty. Ltd. 35/23-25 Bunney Rd South Oakleigh Victoria	<ul style="list-style-type: none"> <li>• Contents of Service-User Questionnaire (feedback using pilot questionnaire)</li> </ul>	26/8/97



# APPENDIX J

## RECORD OF INTERVIEWS (cont'd)

A number of interviews with accounting firms and accounting software houses were also conducted in 1999 prior to the conclusion of this study. These interviews were performed in order to ascertain whether the trends in the outsourcing of typical accounting functions in 1999 were still representative of the trends in 1997 and 1998 when the Service-User and Service Provider Surveys were conducted.

The list of firms contacted are shown in Table J-2.

Table J-2

ACCOUNTING FIRMS			
No.	Contact	Topic of Discussion	Date
9	Mr Ting Tiong Pong Partner KST Partners Level 5 118 Queen St Melbourne Victoria	<ul style="list-style-type: none"> <li>Accountants' roles in the servicing of basic and value-added accounting functions</li> <li>Commercial accounting software for basic accounting functions</li> </ul>	8/10/99
10	Mr Damian Quinn Damian Quinn and Associates 56 York St Coorparoo Queensland	<ul style="list-style-type: none"> <li>Accountants' roles in the servicing of basic and value-added accounting functions</li> <li>Commercial accounting software for basic accounting functions</li> </ul>	11/10/99
11	Mr Collin Hopper Thomas Hopper and Partners 68 Alfred St Milsons Point New South Wales	<ul style="list-style-type: none"> <li>Accountants' roles in the servicing of basic and value-added accounting functions</li> <li>Commercial accounting software for basic accounting functions</li> </ul>	11/10/99