Chapter One

Introduction and Research Methodology

1.1 Introduction -

This research study aims to explore and identify the compression between USA and Indian outsourcing accounting practices. This research sets out to develop a theoretical framework to compare and contrast the outsourcing accounting practices. Additionally it examines the motives of impact of globalization on outsourcing accounting practices.

1.1.1 Chapter Objectives -

The chapter objectives are to present an overview of the research and to briefly discuss the research objectives and research proposition. The chapter further discusses the methodology to be used in the study and identifies limitations. Key term definitions are provided.

1.1.2 Chapter Structure -

Chapter one comprises nine sections and provides the structure for this research.

Section 1.1 introduces the research; chapter objective provides an outline of the chapter contents.

Section1.2 provides the journey of accountancy to outsourcing accounting.

Section 1.3 is studies of accounting practices and business practices.

Section 1.4 considers the research objectives considered central to this study, utility of the study and importance.

Section1.5 include Methodology and research processes covering data collection, data sampling, analysis and interpretation of findings are outlined.

Sections 1.6 an outline of limitations of the study as identified in chapter four, is covered.
Sections 1.7 identify the key definitions and terms used in this research.

Section 1.8 presents conclusions.

Section 1.9 References.

1.2 Journey from Accounting to Outsourcing Accounting -

Accounting is one of the oldest professions that there is. In fact, since prehistoric times the families had to account for food and clothing. The first record of currency began with tokens in shapes to symbolize certain commodities such as grain, and other items people needed for everyday living. These methods were used for over 5000 years, before the first writings were found. Evidence of accounting records can be found in the Babylonian Empire, in pharaohs Egypt and in the Code of Hammurabi. Eventually, keeping records became a necessity for governments to sustain social order.

Now, it is the time of the Renaissance and the accomplishments of man are coming to new heights. This is when a man, by the name of Fra Luca Pacioli, also known as “The Father of Accounting” would come into play and express his ideas plus his theories on Accounting. Pacioli showed the world that Accounting was one of the most important inventions known to man. Born in 1445, Pacioli was a mathematician, who was also a friend of Leonardo da Vinci. He wrote and taught in many different fields, such as mathematics, theology, architecture, games, military strategy and commerce.

In 1494, he wrote a book called “Summa de Arithmetica Geometria Porportionalita”, which was on Arithmetic; but included a section dedicated to the description of Double-Entry Accounting. The book became a major success and was translated from Italian to many other languages. Even though he was not credited for developing the system he was first to publish text on its practice. The system that he used included most of today’s accounting routines such as the use of memorandums, journals, and ledgers. He described the year-end, closing entries and proposed that a trial balance be used to prove a balance ledger. There would be little modification to Pacioli’s system for the next years. Double-entry Accounting is used to catch errors to
accurately track the various streams of money in your business. This made banking reliable and also enhanced trade and commerce.

By the 1800’s, Scotland became the world’s leader in modern Accounting. In the late 1800’s, Edinburgh society, followed by other accounting societies in Scotland and England, adopted the title of Chartered Accountant (CA) to identify its members. The first Certified Public Accountant (CPA) law was passed in 1896 in the state of New York. This law required accountants to pass an examination to become certified. There were no education requirements since most accountant were trained an apprenticeship and not by formal education. The actual exam had very little to do with Accounting, it focused on reading, writing, and arithmetic. By 1912 thirty-three states had CPA laws and by 1921 all fifty states did.

In 1973 the Financial Accounting Standards Board (FASB) was founded. Its goal was to establish standard of financial accounting and reporting. Such standard are important for the creditors, investors, auditor and other people rely on credible and comparable information about their finances and the finances of others. The FASB accomplishes this mission by acting to: improve the usefulness of Financial reporting, keep standards current, and promptly consider any faulty areas in methods of financial reporting, promote international accounting standards, and to improve the understanding of the information in financial reports. (Source – accountingpaper.net)

Today, computer plays an important role in Accounting. Different types of software’s are used for accounting. Whether an accounting system is manual or computerized, the underlying principles of accounting are the same.

Manual or computerized accounting required separate accounting department. Accounting is an important function of finance department. For smoothly working of the department, Chartered Accountants, MBA and other skills and knowledgeable people are required. Huge cost is incurred for maintain the accounting department due to high salary, equipments (Computers, Electricity, Calculators) etc. As well as, Financial Reports are made by the accounting department and audited by the Government Auditor. Hence, accounting department is fully concentrated. Its affects less attentions on core functions of Organizations like production, consumer satisfaction etc. To get rid of complicated situations, outsourcing accounting is the best alternative.
Outsourcing Accounting is a contract between two companies. One company gives its accounting works to another company, as per the requirements. After completing the accounting work, it returns to the first company.

Outsourcing Accounting refers to outsourcing of accounting processes like accounts payables processing, invoicing accounts receivables processing, bank reconciliations, general ledger maintenance, fixed asset accounting, finalization of accounts, financial reporting and filing of tax returns etc. Outsourcing Accounting is available in various forms –

- Write-up services
- Bookkeeping services
- Accounts payable services
- Accounts receivable services
- Financial reporting services
- Accounts reconciliation services
- Tax preparation
- Vat returns
- Payroll services
- Financial analysis services
- Insurance services, etc.

In Outsourcing Accounting, accounting work outsource by two way. First outsource the accounting work to home country (in house sourcing) and another outsources the work to other country (off shoring). Most of the foreign countries choose the options of off shoring i.e. outsourcing work from other countries. It facilitates, minimize the efforts of accounting department and cost reductions.

1.2.1 Outsourcing Scenario -

Outsourcing is not a new phenomenon, as many of us believe. Many thousands of years ago, our ancestors had understood the need for outsourcing. They realized that it would be impossible for them to fulfill all their needs by themselves, but they would have to depend on someone else to serve them. The service provider possessed specialized skills, which enabled him to do the work faster, cheaper and more efficiently. Thus, we observe that in early societies, every man had a part to play
- he could be a farmer, a merchant, a soldier or a barber. He was, in modern parlance, a client as well as a service provider.

1.2.2 History of Outsourcing

History of Outsourcing is divided in the following steps:

1) Industrial Revolution and Outsourcing:

Just before the Industrial Revolution, the trend of companies was to retain all activities for themselves. They nearly never relied on outsourcing to look after their sales, storage and transportation, legal affairs, and taxes. The company performed all of these by itself. During the Industrial Revolution that occurred in Europe in 1750 to 1900, there was a great need for outsourcing as there was a high demand for the production of goods. Ever since then, many companies have outsourced to third party companies their own business specific functions such as accounting, insurance, and legal needs. However it was done within the limits of the country since offshore outsourcing is not yet open during those times.

2) Development of offshore outsourcing:

It was in the middle of the 20th century, many political and economic changes combined with the development of faster means of transportation. Distances began to matter less. Manufacture of low costing toys and electronic goods, apparels, etc were outsourced to less developed countries. The political set up had changed considerably. Many countries in Asia had become free. Outsourcing was a welcome development as it benefited the developing economies by increasing employment and income levels of the workers. The education and skill levels too improved. The governments in these developing countries took care to develop adequate infrastructure necessary for manufacturing companies to maximize profits.

The IT revolution and the improvement in computer technology had a great part to play in the next stage in the outsourcing history. In the 1990s, many companies began to outsource activities that were essential for them, but these did not include their core activities. Outsourced activities included data processing, human resources and accounting. All these enhanced profits for their clients. They clung on to ownership and management of core activities.
3) Recent trends:

Currently, because of globalization, the trend is towards forming strategic partnerships'. This means that large companies are ready to outsource even their core activities to service providers if it means greater profits. Outsourcing is now an indispensable part of any large organization. Despite the controversies surrounding outsourcing almost every activity - customer service business, telemarketing, logistics, computer hardware, software, IT services, finance and accounting, medical transcription, research and development, legal, human resource development is being done.

Global outsourcing trends include an expansion of services across all functional business areas and across all geography as many business (small, medium and large) discover the advantages of outsourcing. Some very common areas of outsourcing include:

- Accounting, including accounts payable, accounts receivable, invoicing/billing, payroll (the history of outsourcing shows that accounting functions - in service support roles - were early 'adopters');
- Benefits, including administering and managing employee benefits programs;
- Call Centers, this is a traditional outsourced service but it is growing into many new business uses;
- Contact Centers, for queries, assistance, returns;
- Help Desks, for instructions, online training;
- Human Resources, including testing, on-the-job training – which is different than hiring, firing (although if you follow business in the news, you'll see that some companies have hired professionals to handle large-scale lay-off creating job descriptions, researching comparative salaries and wages;
- Information Technology (IT), including outsourcing the hardware and software maintenance, email, internet, and other support;
- Landscaping and/or grounds maintenance;
- Janitorial services for office, store and/or building maintenance;
- Legal, in handling legal work on a global basis (if necessary), also consider hiring different lawyers who specialize in different areas, e.g. partnership
agreements, labor law, (the latest trend is to outsource legal research which can take time and resources), and more;

- Management, consider outsourcing experienced management services during your holidays, or business travel, or during longer term absences: such as a part-time Chief Financial Officer or Controller. Also consider outsourcing management or executive level staff for specific projects or developments (e.g. new product development work);
- Manufacturing, consider sub contracting out manufacturing work: for example, if you are a tool maker you might subcontract additional services from another manufacturer;
- Maintenance, including equipment, plant floor, plumbing, lights, etc.;
- Marketing, including planning, segmentation,
- target marketing, marketing mix programs (product management, pricing strategy development, promotional program development (including personal selling, web design, advertising, writing of brochures, web content, guerilla marketing, etc.) and strategizing and delivering your product or service to market);
- Public Relations and Communications: consider hiring a firm to help you with a specific project or keep a firm on retainer to handle your daily, monthly, annual events and internal and external communications (including social media)– use this firm to survey customers, employees and other stakeholders and build your brand and reputation;
- Sales, in an environment of small business sales consider hiring part time sales representatives, or a sales rep who is focused only on launching a particular product or service, or sales agents (some companies have even gone as far as outsourcing the sales force);
- Training, including training employees to be trainers, developing training programs, training customers;
- Transcription services, such as medical, languages, legal, etc.;
- Virtual assistants, this is a growing industry. A virtual assistant can be outsourced for a specific project or for ongoing work, whether it is part-time or full time;
- Warranty Programs and management of those programs;
- Waste removal and environmental services.
1.2.2.1 Outsourcing History - India -

The idea of outsourcing is not new. It started way back in the 1700s when manufacturers started shifting the manufacture of goods to countries with cheaper labor during the Industrial Revolution, following the precepts of Adam Smith in his book 'The Wealth of Nations'. The history of outsourcing to India is an interesting story. Even after over a decade of competitive global outsourcing, most of it still goes to India. Reaching this pinnacle in outsourcing has been a long journey. As land, sea, and later, air routes developed between the 15th and 21st centuries, more nations started to outsource trade to other nations, eventually leading to outsourcing to India and other nations.

Why do companies actually outsource? In earlier times, cost and headcount reductions were the most common reasons to outsource. Today, the drivers are often more strategic, such as how a company can best utilize its own core competencies. Though the outsourcing of manufacturing is an old story, outsourcing to services is a relatively new phenomenon. Services outsourcing to India started in the 1980s and rapidly accelerated in the '90s. In today's world where information technology has become critical to business, the meaning of outsourcing has undergone a drastic change over the years. Companies have started focusing on their core competencies and outsourcing many non-core functions, for which they had no competence internally.

Key Factors:

Although the IT industry in India has existed since the early 1980s, it was the early '90s which saw the emergence of outsourcing. First, some global airlines began outsourcing their back office work to India—and then IT companies followed. Some of the earliest players in the Indian outsourcing market were Texas Instruments, American Express, Swissair, British Airways and GE, who started captive units in India.

Developments in telephony, fiber optics and satellite communications made Internet-based communication and transfer of data possible, paving the path for outsourcing to India. The telecom industry in India used to be a government-controlled monopoly and the market was small. By 1999, the government introduced
policies which played a key role in reshaping the structure and size of the telecom Industry, allowing commercial entities to participate in almost every industry segment. The new telecom policy brought in further changes with the introduction of IP telephony and ended the state monopoly on international calling facilities. The government’s liberalized investment policies have resulted in several foreign companies entering Indian markets, which has been a major contributor to the growth of the Indian economy.

In addition to the central government's intervention, state governments are also competing with each other to offer more favorable business environments in order to attract IT/ITES companies to set up development units in their states. This kind of competition is helping the industry grow at an astronomical rate.

The IT & BPO sector has been a key beneficiary in India's growth, with the cost of international connectivity declining rapidly and quality of service improving significantly. India’s National Association of Software and Service Companies (NASSCOM) have played a critical role in outsourcing by acting as a coordinating body for the industry. It conducts surveys and conferences which help in the dissemination of knowledge and research in the outsourcing industry.

According to NASSCOM, the major reasons behind India's success in ITES/BPO industry are:

- Abundant, skilled, English-speaking manpower, which is being harnessed even by ITES hubs such as Singapore and Ireland.
- High-end telecom facilities and infrastructure which are on par with global standards.
- Better focus on maintaining quality and performance standards.
- Fast turnaround times, and the ability to offer 24x7 services based on the country's unique geographic locations that allow for leveraging time zone differences.
- A friendly tax structure, which places the ITES/BPO industry on par with IT services companies.
- Proactive and positive policy environment which encourages ITES/BPO investments and simplifies rules and procedures.
1.2.3 Outsourcing Accounting –

Outsourcing Accounting is one of the fastest growing segments of BPO and ITES industry. BPO is a strategy which promotes in a unique way either by putting in new technology or applying existing technology to improve a process (bpoindia.org). IT-enabled outsourcing services use information technology in the processing and delivery of the services. These services are typically delivered through a telecommunication, data network and other electronic media.

India in the recent years has shown huge developments in the areas of communication, power and software developments etc. It has already established itself as a global BPO hub and is fast becoming a popular outsourcing destination for major manufactures across the globe.

According to the research report of BPOIndia.org, Factor Cost Advantage, Economy of Scale, Business Risk Mitigation, Superior Competency and Utilization Improvement are the motivational factors helping Indian BPOs to gain importance.

India is fast emerging as a winner in outsourcing services hype. Today the US based companies are ranking India to be their first choice as an offshore outsourcing destination. India stands as one of the major players in the outsourcing industry, in terms of well educated, talented, low cost and English speaking workforce, excellent IT and networking infrastructure, a fairly stable political scenario, friendly laws and well laid taxes and quality certified software firms.

The Research and advisory firm, NASSCOM (NASSCOM, 2011) , in one of its report show that by 2011, the Indian BPO industry accounted for almost 34% of the global BPO market. Indian BPO players, like IBM, EDS, Accenture, etc have proved themselves as powerful opponent to Western BPO. The” BPO economy” in India today is anywhere between $25 billion and $50 billion and growing 30-40%.

According to Sourcing Line Computer Economics report, total number of US jobs 22, 73,392, outsourced in 2011. BPO employment is growing faster than IT and touches a much wider spectrum of society. The BPO boom has helped developing countries like India in a major way by creating quality job opportunities in turn benefiting the Indian economy.
However, in BPOs, outsourcing accounting experience the events that bring in issues. “Issues are a kind of knowledge, skills of employees, technical, financial, Government etc affecting progress and growth of Indian Service Providers”. Issues can’t grasp the jobs offered by US and other countries.

India is a developing country. Agriculture sector clutches the economy, is the basic reason of slow pace of Indian Economy growth. The role of Industrial and Service Sectors is inadequate. To increase the growth of Indian Economy, Service Sector must be developed. As a result, outsourcing accounting service providers are playing the vital role in changing look of service sector.

1.3 Study of Accounting Practices and Business firm-

1.3.1 Study of Accounting Practices-

Study of Accounting Practices is the firm routine manner in which the day to day financial activates of a business entity are gathered and recorded. A firm’s accounting practices refers to the method by which its accounting policies are implemented and adhered to on a routine basis, typically by an accountant. It involves issues, problems, challenges arises to them in routine work while providing the accounting services.

Both the country use different Accounting Standards to run the accounting practices. USA use IFRS and India use Indian Accounting Standards. It impact on accounting practices like change in accounting concepts, different method of measurement and recording the transaction, preparation of accounts, presentation of financial statements, etc.

1.3.2 Study of Business Firm-

Study of business firm is the study of business environment of outsourcing accounting practices (service providers). Business environment of both countries are different. Factors of business environment like economic condition, competition, Social and culture factors, labor force, legal environment, etc. of both countries are differ from each other, thus it affect on their accounting practices.

Business environment of both countries creates different problems and issues to them at different level like financial problems, employee related problem, technical
1.4 Research Methodology -

Quantitative data is data expressing a certain quantity, amount or range. Usually, there are measurement units associated with the data, e.g. meters, in the case of the height of a person. It makes sense to set boundary limits to such data, and it is also meaningful to apply arithmetic operations to the data. (Economic Commission, 2000) Quantitative research is a kind of research strategy that emphasizes quantification in the collection and analysis of the quantitative data. Contrast to the quantitative research, qualitative research usually focuses on the meaning of words. (Bryman & Bell, 2007).

Qualitative data is data describing the attributes or properties that an object possesses. The properties are categorized into classes that may be assigned numeric values. However, there is no significance to the data values themselves; they simply represent attributes of the object concerned. (Economic Commission, 2000)

To be specific, quantitative data could be denoted as hard data; it is information that could be described as profit in rupees, unsold units or similar. Qualitative data that can be called soft data consists of information for example about comfort at work or good function. We use qualitative method as our research strategy.

Our study subject is to examine the advantages of outsourcing accounting, knowledge and skills required for outsourcing accounting, problems, challenges faced by the Indian and US service Providers and to find out the difference between Indian and USA outsourcing accounting practices as well as give our suggestions on improving outsourcing accounting practices. The purpose of our research determined that we have to focus on the issues and challenges faced by Indian and USA outsourcing accounting service providers. Thus, quantitative data is not appropriate to describe these issues, challenges and difference between Indian USA outsourcing accounting practices, qualitative method is more suitable for our study. We choose qualitative method to conduct our research. By adopting this approach, we not only can generate theory from our empirical information but also testing the theoretical framework we used.
1.4.1 Statement of Problem -

As we know, the research problem undertaken for study must be carefully selected. (C.R. Kothari, 2004)

Organization maintains various departments like Purchase Department, Sales Department, H.R. Department, Finance Department, etc. Finance Department is one of the important departments in all e departments. All types of financial activity are run through financial department. Financial Planning, Financial Decisions, Keeping records, maintain of books of accounts, financial reports, availability of statistical information for various decision purpose, etc.

Accounting is the important functions of Finance Department. It includes keeping records, updating records, preparations of Journals and Ledgers of business transactions, maintain various types of accounts like Debtors, Creditors, Bills Payable, Bills Receivable, Inventories, etc, also prepare various statements like Fund Flow Statements, Cash Flow Statements, preparation of Financial Statements etc. Preparation of Financial Statements means Profit and Loss Account and Balance Sheet. To run all these activities smoothly - skilled man power, various equipments like, computers, calculators, etc., are required.

In today’s competitive world, organization could not ready to maintain the separate accounting department due to –

1) It’s very costly.
2) It is very complicated procedure.
3) Requirement of skill and knowledgeable staff.
4) Very time consuming.
5) Concentration of management.

Hence, Outsourcing is the best alternatives. Organizations now ready to outsource their accounting work. Organizations outsourced accounting work by two ways first is in-sourcing and second is offshore outsourcing. Most of the organizations interested in offshore outsourcing rather than in-sourcing because off shoring generates savings.
Hence, foreign companies outsourced their accounting work to other countries. Most of the countries choose India for outsourcing accounting partner due to following reasons -

- Cost effective services.
- Time Zone advantage.
- High quality services.
- Skilled, talented and experienced professionals
- High-end technology and best-of-breed infrastructure.

India is a most favorable outsource accounting partner of the various countries. India has good opportunity to reduce the unemployment by grasping employment opportunities in outsourcing accounting sector.

USA and other countries outsourced their accounting work to India and hence, outsourcing accounting work still waiting for skill and knowledgeable work force. Due to availability of plenty of outsourcing accounting work, outsourcing is still at the beginning stages. As technology increases and companies learn more about exporting, the numbers will begin to skyrocket.

For grasping such opportunity some educations, skills and knowledge is required i.e.-

- Education of Accounting practices, rules and regulations
- Knowledge of Outsourcing Accounting
- Computer and Internet knowledge
- Accounting practices followed by foreign countries

India is fast becoming a major outsourcing hub to the world (NASSCOM, 2011). India is a leader in all fields of offshore services, excelling in IT (Economic Turbulence). Many organizations like the NASSCOM consulting group have predicted a highly positive development in the industry. Over the last decade and a half India has emerged as a strong provider of outsourcing accounting services to US, European and Asian companies. Governmental agencies from several western countries have also lately begun to embrace IT outsourcing, and much of this business has been directed towards India. As a result, India’s outsourcing accounting sector has seen meteoric growth in recent times. With the advent growth of the service providers
there has been a sharp increase in the outsourcing job opportunities in India. Many believe that this would help India to improve its economic and social stability in a major way.

However, Indian Service Providers experience various types issues affecting working efficiency, quality of work etc. Issues at work are more strongly related to employees, Knowledge, Quality of Work, technical, financial etc. The outsourcing service providers may be lost their rank due the issues. Outsourcing accounting service providers face some challenges. The challenges may be internal or external are negatively affected. As a result challenges are the obstacles in smoothly working of Indian service providers.

According to the U.S. Department of Labor and Forrester Research, outsourcing is expected to expand as per the projection 33, 20,213 jobs will be outsourced in the year 2015 (jobs.lovetoknow.com).

However, facing the challenges and issues for long-term, will be result in illness of Indian Service Providers. This could give slow down the rate of economic growth, can’t grasp the opportunities in outsourcing sector.

Hence, the researcher has made an attempt to understand the extent of vulnerability to issues and challenges experienced by the Indian service providers, also seeking and advocating the solution for the issues and challenges after comparing the practices of USA and Indian outsourcing accounting service providers.

Hence, a study on “THE COMPARATIVE STUDY OF USA AND INDIA OUTSOURCING ACCOUNTING PRACTICES” has been undertaken with the following objectives.

1.4.2 Objectives of Study

1) The study of profiles of Indian and USA Companies providing their outsourcing of Accounting Services –

To study the profile of Indian and USA Service Providers is the prime objective of the research study. The study focuses on types of service providers, nature of service providers, employee details, education
required for outsourcing, types of services provides by the Indian service providers, clients details like name of country, type of organization, nature of Company, size of client’s business, number of clients, etc.

2) To study and review the Accounting Outsourcing Services in India and USA -

To study and review the outsourcing accounting services is the main objective of the study. Accounting Services is the heart of the accounting outsourcing process. To satisfy the demand of clients Outsourcing Accounting Service Providers outsource the various accounting services. Hence, to study and review all these outsourcing accounting services provided by India and USA is necessary for the research.

3) To study the issues and problems faced by Outsourcing Accounting Service Providers –

Outsourcing Accounting Service Provider outsources various accounting services to the various countries. According to client’s demand, services are to be provided. Moving on a success path is not easy. It has various problem and challenges. To achieve the success the problems and challenges should have solutions. The issues and problem may be related to clients, employees, competition or others. The issues and problems faced by the Outsourcing Accounting Service Providers is also the subject for the study of the research.

4) To investigate and study the factor considered by the US clients while selecting the outsourcing partners –

Partner is always a right hand. Hence while choosing the right hand proper precision must be taken. Accounting is a confidential work for every organization. In outsourcing process such confidential data is handed over to another person i.e. partner. Hence, the partner must be reliable. To choose such reliable partner is a difficult task. US clients consider some factors for choosing such a partner. To investigate and
study the factors considered by the US clients while choosing the Indian Service Providers as a partner is an important objective of the study.

5) To study the Challenges faced by Service Providers –

To outsource the services as per the requirement of clients, within a specific time limit is a challenging job because demands required by the clients are customized. In addition, competitors are another factor influencing the clients demand. All such challenges faced by the Service Providers are the subject for study of research.

6) To study the Opportunities for the Indian Service Providers in Outsourcing Accounting –

In today’s world, profit earning is not the sole objective of organization. Apart from profit opportunities motivate the organization. Identifying and studying opportunities to the Indian companies is also an important object of the research.

7) To study knowledge and skills required for Outsourcing Accounting –

Outsourcing accounting process is a combination of account, computer and internet, hence, outsourcing accounting require various types of knowledge and skills, like Accounting Standards, Accounting Procedure, Computer & Internet knowledge Communication skills etc. Identifying the knowledge and skill sets required for Outsourcing of Accounting are also studied in the research.

8) To compare the Indian and USA Outsourcing Accounting Practices:-

India and USA both the countries provide the outsourcing accounting services in our own country. Indian practices follow the Indian Accounting Standards and USA practices follow the IFRS. Thus the accounting practices of both countries are different. As well as business environment of both the countries is different. Thus problems, challenges faced by both countries service providers also
differ. Thus the difference between both the practices is one of the vital objectives of the research.

1.4.3 Importance of Study -

1) Employment Opportunities :-

India is a developing country. To increase employment opportunities is the need of a developing country. This study increases the awareness of outsourcing accounting. This subject is newly introduced to everyone, so people are easily ready for learning. When they get the knowledge, they will get a good employment opportunity in KPO, BPO and in various outsourcing companies. People start new outsourcing businesses. Today 35% USA Company gives their work to India. (NASSCOM, 2011)

2) Source of Income :-

Outsourcing accounting increases the source of income of any individual by doing this work as a part time work. In other words it will be possible after finishing the routine work and give additional income. Because of time difference between India and USA, it is possible for an individual to do this job as a part time job and may do from home also. It will not only increase the income of individual but will increase the income of Communication Company, Electricity Company also.

3) Full utilizations of Resources :-

Outsourcing accounting work is possible as full time or part time ob also. All the resources such as manpower and equipment like computer are not fully utilized. So for proper and fully utilizations of all these resources this study is very useful.

4) Foreign Income :-

Outsourcing accounting helps to increase the foreign income. Most of the USA companies are ready for offshore outsourcing accounting. Indian people are hard working; they work according to their convenience and get the foreign income.
5) **Increase the growth of economy** :-

Outsourcing accounting helps to accelerate the growth of economy because income of individuals, communication companies, Electricity Companies is increasing and there is also increase in foreign income. It creates the employment opportunities. It helps to increase the National Income.

6) **Part time job** :-

Outsourcing accounting provides employment opportunities as full time as well as part time. Outsourcing work is possible in free time or after finishing the regular work. The time gap between two countries is also helpful to create part time work.

7) **In house Job** :-

Outsourcing work is possible at home also. Proper Office is not a basic requirement of outsourcing accounting. It requires only a set of computer system and internet. Through mails, outsourcing works transfer from clients to service provider companies and after finishing the work it’s again sent back through emails in minimum cost. In short this study is important for- the job can be operated from home.

Now a day’s near about 35% of USA companies give this job to Indian people (NASSCOM, 2011). If the awareness of outsourcing accounting is increased it will increase the working qualities of service provider companies. Quality work attracts the USA Companies and thus will be forced to outsource more work to India. It will be beneficial to USA clients and can lower the cost and they can concentrate on their main objectives etc.

**1.4.4 Utility of Study** –

1) **Service Provider Company** :-

This study is useful to the service Provider Company. Service Provider Companies faces various problems and challenges. This study provides solutions to various problem and issues to the Service Provider Company by creating awareness of outsourcing accounting.
2) **Employees:-**

Employees are the heart of the company. The study focuses on the employee’s issues and problem with their solution. It is helpful to the employees to improve themselves. They can understand the problems faced by the employer and help in finding solutions for the same.

3) **Universities :-**

This research work is useful to the various universities for introducing new course. Outsourcing accounting is a new subject for the universities. To grasp the employment opportunities and to increase the income capacity and living of standard to provide such type of education to students is the responsibility of university. So the study helps them in introducing this subject in academic study and also helps them to design the course structure and syllabus.

4) **New comers :-**

This research work is usable to the newly born outsourcing companies for start their business or to develop their business. It’s very useful because the study focus on issues, problems, challenges and opportunities of service providers.

5) **Governments:-**

According to NASSCOM, the IT-BPO sector in India generated revenue of US $8.1 billion in FY 2011. The sector has also led to employment generating direct employment in the IT-BPO sector nearly 2.5 million by the end of FY 2011 and indirect employment of over 8.3 million job opportunities is also expected to be generated due to growth. The core subject of research is issues, problems and challenges of service providers. Hence study is useful to Government for implementing some policy for service providers.

6) **Development of Regional area :-**

This study is usable to reach the various states for their development. Outsourcing accounting concept is new subject for various states. So to improve the undeveloped area of our country and to increase the employment opportunities, this study is useful for the development.
1.4.5 Scope of Study -

Research study has compared the outsourcing accounting practices of India and USA. India means geographically limited up to Maharashtra i.e. the service providers of Maharashtra and USA is limited to New York i.e. the service providers of New York.

Accounting Practices is the day to day working of outsourcing accounting service providers. It includes the problems and challenges faced by the outsourcing accounting service providers for running the business.

Indian Outsourcing accounting service providers who provide the services to USA are considered for the study.

The study covers the analysis of different dimensions with varied nature of problems (Employees, Technical, Government, Knowledge, Financial, etc.), challenges (Internal, Customer, Competitor and industry) of Indian and Service Providers. It creates awareness and explores the sources for increasing the global competitiveness of outsourcing accounting.

1.4.6 HYPOTHESES OF THE STUDY-

Hypothesis is usually considered as the principal instrument in research. Its main function is to suggest new experiments and observations. In fact, man experiments are carried out with the deliberate object of testing hypothesis. Ordinarily, when one talks about hypotheses, one simply means a mere assumption or some supposition to be proved or disproved. But for a researcher hypothesis is a formal question that intends to resolve. The main objective of this research is to test the following statements of hypotheses:

**Research Hypotheses No. 1**

$H_0$: Cost reduction is the main reason of outsourcing accounting

Versus

$H_1$: Cost reduction is not the main reason of outsourcing accounting.

**Research Hypotheses No. 2**

$H_0$: Employee is major issue for the Outsourcing Accounting Service Providers
$H_1$: Employee is not major issue for the Outsourcing Accounting Service Providers.

**Hypotheses No. 3**

$H_0$: To face the competition is a challenging job for Outsourcing Accounting Service Providers

Versus

$H_1$: To face the competition is not a challenging job for Outsourcing Accounting Service Providers.

**Research Hypotheses No. 4**

$H_0$: Outsourcing accounting service providers gives high salary for retention of employee

Versus

$H_1$: Outsourcing accounting service providers could not give high salary for retention of employee.

**Research Hypotheses No. 5**

$H_0$: Job of Outsourcing Accounting sector badly affects the health of employee.

Versus

$H_1$: Job of Outsourcing Accounting sector could not badly affect on the health of employee.

### 1.5 Data Collections -

The use of surveys is a research technique in which information is gathered from a sample of people through a questionnaire. In using surveys the researcher systematically asked the same questions to number of people and then recorded their answers.

Surveys may be classified by the communication medium using: mail and self-administered questionnaires; face-to-face interview; and web surveys.
Web surveys use the internet as the communication medium. They are fast and inexpensive, and allow for a flexible design of the survey with visual, audio or video capabilities. The main advantages of this method are the relatively short implementation of time and flexibility of design (Manning & Munro, 2007)

In terms of research technique, this research study utilizes the web survey research method. The decision to use this survey method is based on various factors including costs, available budget, time constraints, access to research facilities, expertise of the researcher, research objective, respondents demographics, and survey instrument complexity.

The web survey research method is more appropriate where there is a lack of secondary data. (Zikmund, 2003). In this case, secondary data relative to outsourcing accounting service providers of India is quite limited.

The study involved data collection from two groups. First group is Indian outsourcing accounting service providers and USA outsourcing accounting service providers. For the purpose of this study the primary source of data is considered and data will be gathered from a questionnaire distributed to service providers.

The second participant group to be surveyed will be randomly-selected from service providers of USA. The online survey collection method is considered an appropriate means of data collection due to the demographic distribution of the two survey groups. This survey method provided an opportunity to design and implement the survey questionnaire in a short period of time, and allowed testing the questionnaire before distribution to respondents. Testing the questionnaire provided the opportunity to evaluate and rectify and design and completion issues.

1.5.1 Primary Data -

- Method of Primary Data -

For the research study the Primary data is collected by using the following methods –

- Interview Method
- Mail Questionnaire Method
**Interview Method –**

The main source of primary data is Indian service provider companies. Primary data are collected by arranging the interview of service provider companies. Interviews are arranged only of those Indian service provider companies who provide the outsourcing accounting services to USA. Through the interview, skills and knowledge required for outsourcing accounting, problem faced by the service provider companies, challenges and opportunities, etc. are collected.

Research study is also depending on US accounting practices. The study of USA Accounting Service Providers is also equally important. Researcher searches the list of Accounting Service Providers of USA by Google & Mail the questionnaire to the USA accounting service providers and collect primary data from them.

**Mail Questionnaire Method –**

Researcher used interview method for data collection purpose, it is impossible to take interview of all the service provider companies. Hence online questionnaire-based information is collected. Questionnaire has been prepared with five likert scale method. Questionnaire having questions regarding profile of service providers, knowledge and skills required for outsourcing accounting, problems and issues of service providers, challenges faced by the service providers etc.

The questionnaire is send only to the companies who outsource their accounting services to USA. The information of outsourcing service provider companies such as address, email and contact numbers can be obtained from online Portal (123outsourcing.com and indamart.com etc.) and send the questionnaire to service providers companies of Maharashtra.

Questionnaire is also sent to USA Accounting Service Providers, who provide the accounting services to the USA i.e. In-house outsourcing.

**1.5.2 Secondary Data –**

For the collection of other information regarding outsourcing accounting, process of outsourcing accounting, USA accounting practices and procedures, rules and laws some books, e-books, research journals, International Accounting Journals, News Papers are used as a secondary data.
Websites : - Relating to Outsourcing Accounting
Periodicals : - Indian Journal of Accounting, IIJM

1.5.3 Sampling -

The researcher indentified world renowned web sites which registered the Name and address of the Outsourcing Accounting Service Providers like 123 outsourcing.net, indianindustry.com, indiayellowpaes.com and indiamart.com

Table1.1: City wise list of Maharashtra’s Outsourcing Accounting Service Providers.

<table>
<thead>
<tr>
<th>Name of the City</th>
<th>No. of Service Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aurangabad</td>
<td>1</td>
</tr>
<tr>
<td>Bandera</td>
<td>1</td>
</tr>
<tr>
<td>Goa</td>
<td>1</td>
</tr>
<tr>
<td>Latur</td>
<td>1</td>
</tr>
<tr>
<td>Mumbai</td>
<td>85</td>
</tr>
<tr>
<td>Nagpur</td>
<td>1</td>
</tr>
<tr>
<td>Nasik</td>
<td>2</td>
</tr>
<tr>
<td>Pauni</td>
<td>1</td>
</tr>
<tr>
<td>Pune</td>
<td>36</td>
</tr>
<tr>
<td>Solapur</td>
<td>1</td>
</tr>
<tr>
<td>Wardha</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>131</strong></td>
</tr>
</tbody>
</table>

(Source - 123 outsourcing.net, indianindustry.com, indiayellowpaes.com and indiamart.com)

There are 131 outsourcing accounting service providers in Maharashtra. Some of the service providers provide the service within the city, within state or within country. Some service providers are providing the services to others countries like Japan, Norway, Australia, New Zealand, Canada, Germany Netherlands, Sweden, USA, etc. The following table show the number of service providers who provide the services to USA.
Table 1.2: List of Maharashtra’s Outsourcing Accounting Service Providers which provide services to USA.

<table>
<thead>
<tr>
<th>Name of City</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumbai</td>
<td>39</td>
</tr>
<tr>
<td>Pune</td>
<td>22</td>
</tr>
</tbody>
</table>

(Source – Table 1.1)

A well structured questionnaire was prepared and used to collect primary data considering various parameters other than personal information for the study of portfolio of issues, problems, challenges of Indian service providers: Personal Information relates to Personal Profile, Company’s Name, Address, Contact No., email id, web id.

The other parameters are Company Profile, clients information, advantages of outsourcing accounting, reason for outsourcing accounting, points to be consider by US companies for selecting the outsourcing partner, issues, problems, challenges and opportunities for the Outsourcing Accounting Service Providers.

Researcher sent the mail to the all services providers of Maharashtra who are providing the services to USA i.e. 61 service providers.

A process of cross-checking was highly established to ensure authenticity of the data and the reliability of the interviews. Every effort was made to ensure that the management of the company did not influence the employee’s responses.

The world famous web site www.dmoz.org is used for searching the Name, Address, Contact details like Contact No., email id etc. of USA Outsourcing Accounting Services Providers. There are 95 service providers of New York. Researcher randomly selects the 30 service providers and mail the questionnaire.

The summary of the data collection process is presented as
Table 1.3 - Summary of Data Collection

<table>
<thead>
<tr>
<th>Type</th>
<th>No. of Respondents</th>
<th>Replied</th>
<th>Response Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct and Mail Interview - India</td>
<td>61</td>
<td>30</td>
<td>49.18</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct and Mail Interview - USA</td>
<td>30</td>
<td>20</td>
<td>66.67</td>
</tr>
</tbody>
</table>

(Source – Primary Data)

1.5.4 Validity -

“Validity is concerned with the integrity of the conclusions that are generated from a piece of research.” Our primary data is coming from the face to face interviews and publications of different authorities which enhanced the level of validity and reliability of our research. Our interviews with representatives from these authorities also increased the validity of our research since it enabled us to get authentic and relevant information. Besides, we collected more information related to our topic from other independent source as the supplement of our primary data. This information helped us obtain a valid and reliable research.

To judge and ensure the quality of the research, four criteria were considered. The four criteria constructed are validity, internal validity, external validity and reliability (Yin 2003). Construct validity is a measure of whether consistent operational measures for the concepts being studied are established. Internal validity is a measure that indicates whether causal relationships found, or inferences made, are logical. External validity is a measure used to indicate whether a study’s findings can be generalized. Reliability demonstrates that the operations, or procedures, of a study can be repeated, and its results can be replicated. Table No.1.5 Provides a description of the tactics used by this research achieve validity and reliability.
Table 1.5 - A Description of the Tactics Used to Achieve Validity and Reliability

<table>
<thead>
<tr>
<th>Test</th>
<th>Tactics Used</th>
<th>Descriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construct Validity</td>
<td>Use of Multiple sources of evidence</td>
<td>For this study, related information was collected from the available resources, such as the mail id, contact numbers, NASSCOM Reports. By taking the personal interview expressions, way to giving the answers, body language is observed.</td>
</tr>
<tr>
<td></td>
<td>Review the transcripts (Questionnaire)</td>
<td>The researcher read each transcript (questionnaire) at least twice (once with and once without the voice files running) to ensure the accuracy of transcriptions.</td>
</tr>
<tr>
<td></td>
<td>Establish a Chain of Evidence</td>
<td>By using the Google, search the fill up information of questionnaire with the web site of the particular Service Providers.</td>
</tr>
<tr>
<td>Internal Validity</td>
<td>Cross questions within questionnaire</td>
<td>The questionnaire was frame with cross questions. Some questions results might be found the reasons or answered of another questions in the questionnaire. The comparisons allowed the confirmation of research results and findings.</td>
</tr>
<tr>
<td>External Validity</td>
<td>Use authorized Published data with questionnaire</td>
<td>The study used outsourcing accounting practices of two countries. The analyzing data of questionnaires with the authorized published data. The theoretical framework was provided and literature provides the base for compression of accounting practices.</td>
</tr>
<tr>
<td>Reliability</td>
<td>Research design hierarchy</td>
<td>The research design hierarchy was explained step by step to describe how the interview data were analyzed.</td>
</tr>
<tr>
<td></td>
<td>Develop a questionnaire database</td>
<td>A questionnaire database was created. The database has made it easier to trace conclusions drawn from the questionnaire analysis, which were the transcripts stored in the database. A unique paragraph indentifying number was used to facilitate the traceability.</td>
</tr>
</tbody>
</table>

(Source – First two column from Mayur Sancheti, 2007 and the third column is used to describe the researcher’s actions taken in response to their suggestions.)
1.5.5 Analysis and Interpretations -

Each question of questionnaire is contained statements requiring responses. A five point Likert scale is used to develop for this study and is used to record responses. The real strengths of the Likert scale measurement are in its simplicity and ease of use, which allows for more comprehensive multiple indicator measurement where several items are being combined.

MS-Excel is used for evaluating the collected data. All the collected data from USA and Indian service providers are made in tabular form and is presented graphically by using excel. Proportionate method is used for analyzing the data. MS-Word is used for typing the thesis.

Expected frequency method is used for the Comparison of two outsourcing accounting practices i.e. Indian and USA outsourcing accounting practices. MS-excel are used for calculating the expected frequency method. All the calculation of expected frequency method is shown in tabular form and explained with the help of graphs.

As per given analysis finding and conclusion has been drawn regarding the practices of India and USA. Hypotheses are tested by using Chi-square test. The data regarding related hypotheses is made in tabular form. R-software (statistical computer software) is used for the calculations in hypotheses, finding out the significance level and testing the entire hypothesis.

The suggestions entire research work makes contribution to management study. MLA style is used for writing the research.

- Presentation of data through tabulation and graphs.
- Software used for data analysis: MS Word, MS Excel, R-software (statistical computer software)
- Statistical tools: Calculation of expected frequencies, proportion method and Chi-square test
1.6 Limitations -

1) The selected Methodology and method of data of data analysis has its own limitations.
2) Both the nations are in different continent, thus the time limitations affect the research work.
3) The data were collected from Maharashtra region in India and New York in USA.
4) Subjectivity is inherent in all human inquiries and interpretations. This study was subject to this subjectivity limitation during the interview and analytical stages. The interview data was subject to the knowledge and bias of the participants, whereas the results were subject to the bias arising from the interpretations and judgments by the researcher.
5) Measuring attitudes of respondents is quite subjective. Although great care was taken for precision.
6) Due to large number of employees, respondents unable to provide the particular details of each employee. Studied the information collectively.
7) Since there has been no real research undertaken to study the Indian outsourcing accounting service providers, the secondary data collected is limited and may lack accuracy.
8) Researcher compares only the Accounting Practices i.e. the day to day working of outsourcing accounting service providers. It includes the problems and challenges faced by the outsourcing accounting service providers for running the business.
1.7 Definitions -

**India:** Geographically India, limited to Maharashtra.

**USA:** Geographically USA, restricted to New York.

**Accounting Practices:** Accounting Practices is the routine manner in which the day to day financial activities of a business entity are gathered and recorded. A firm’s accounting practices refers to the method by which its accounting policies are implemented and adhered to on a routine basis, typically by an accountant.

**Outsourcing:** The strategic use of outside resources to perform activities traditionally handled by internal staff and resources.

**Outsourcing Accounting:** Outsourcing Accounting means to outsource some or all of the functions of account work to the third party service providers. The outsourcing functions could range from simple operational activities, such as payroll, account payable, account receivable, to more complicated professional functions, like taxation, financial reporting, or even management reporting, and so on.

**Research:** The process of systematically obtaining accurate answers to significant and pertinent questions by the used of the scientific method of gearing and interpreting information.

**Core Activity:** Those activities considered central to the organization successfully serving the needs of their customers.

**In-sourcing:** when an organization delegates its work to another entity, which is internal yet not a part of the organization.

**Off-shoring:** It means having the outsourced business functions done in another country.

**Operated at home:** A home based business where most of the work of the business is carried out at the home(s) of the operator(s)

**Operated from home:** A home-based business where the business has no other premises. Owned or rented other than the home(s) of the operator(s)
Co-sourcing partner:- Outsourcing service providers assign or distribute the accounting work to other person, is called co-sourcing partner.

Business Processing Outsourcing:- occurs where a supplier takes over responsibility for one or more of an organization’s business processes.

US Clients:- USA companies who outsource their accounting work to USA and Indian outsourcing accounting service providers. (Operational definition)

Likert Scale:- A scale often used in survey research in which people express attitudes or other responses in terms of ordinal-level categories ranked along a continuum.

Regional area: A geographic area outside of the Central Business District (CBD) of capital Cities, including non capital cities. (Operational definition)

Service Provider Companies:- Organizations who provide Outsourcing Accounting services.

Accounting Standards:- Accounting Standards refer to the rules or guidelines adopted for recording and reporting of business transactions in order to bring uniformity in the preparation and presentation of financial statements.

Back ward area:- Under developed area.

Financial Statements:- Financial Statements includes Trading and Profit and Loss Account and Balance Sheet.

Practices and Procedures:- The way of show the financial statement i.e. Trading and Profit and Loss Account and Balance Sheet.

Outsourcee:- Outsourcing partner in re-outsourcing. A person to whom outsourcing accounting work is given by the service provider. (Operational definition)
1.8 Conclusion -

The ultimate aim of this research study is to determine the comparative study of USA and Indian outsourcing accounting service providers. This is achieved through identifying variables like issues, challenges, etc. of outsourcing service providers of both the countries.

This chapter has identified the study’s research objectives, and provided justification for the research based on a review of the literature. Methodology (including data collection methods and analysis and interpretation of findings) has been outlined in this chapter.

The chapter also comments on the indentified limitations of the research and provide of terms and definitions used in this study. The next chapter consists of a review of relevant literature encompassing the background and rationale for the research, discusses the apparent and immediate disciplines and set out the research issues for the study.
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