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The Future Of Globalization: Outsourcing Guru Chris Frederiksen And Others See Additional Opportunities

More and more white-collar jobs are becoming ripe for offshore outsourcing, and accounting is no exception. The reasons vary, but all point to the lack of available labor nationwide.



Chris Frederiksen

CPA firms feel particularly pinched by the shortage during the tax season. They can hire temporary help and pull in-house staff off other projects to complete tax returns, or they can look to companies such as **Xpita**x, CCH Datamatics or SurePrep to handle the work in a timely manner.

According to **Chris Frederiksen**, a consultant based in Mill Valley, Calif., there are two reasons for offshore outsourcing. The first is to provide a faster turnaround on tax returns, thus improving the quality of client service. “The second reason is to improve the quality of life of our staff,” he says, “and allow the staff at an earlier age and at an earlier point in their careers to move from being a grunt accountant to being a reviewer.”

Outsourcing Helps Meet Client Demands For More Services

Frank Hambalek Jr., administrative partner for **Wiebe & Associates** in Fresno, Calif., notes that clients in his firm’s rapidly expanding market expect more and more services. He points out that when you have increased client demand but fewer resources available to meet that demand, it creates a situation that’s “the worst of all worlds. You need to supplement that with other accountants that you can’t get here.”

As a result, three years ago his firm began outsourcing to **Xpita**x, a Braintree, Mass.-based firm with facilities in Chennai (Madras), India. W&A outsources not only individual 1040s, but also business tax returns and the trial-balance work to support those business returns. Outsourcing the trial-balance work not only helped the staff, Hambalek tells **IPA**, but also provided quicker turnaround for clients. The firm outsourced close to 200 returns this year, representing about one-third of its total business.



Patricia Bell Harik
Zdonek & Wolowicz

**Despite The Hype,
The Practice Hasn't
Caught On In The U.S.**

Before her firm started outsourcing overseas two years ago, **Patricia Bell Harik**, vice president in charge of the tax department of **Zdonek & Wolowicz** in Torrance, Calif., explains that she used temp workers and the firm's auditing staff to work on tax returns. Going that route, however, took more time, and the firm made less profit.

The decision to outsource to **XpitaX** "was easy for me, because I'm the tax partner," Harik says. "If I can't hire [enough] people locally, then I have to do something else. There's really no alternative." She notes that most of the returns Z&W outsourced were individual 1040s; the firm kept most business returns in-house. This past tax season, Z&W sent 237 returns – 208 of them 1040s – overseas.

Just how prevalent is outsourcing in the profession? According to a 2006 survey conducted by management consultant Marc Rosenberg, only 5% of 281 firms indicated they planned to outsource a "meaningful" amount of 1040s during the next tax season. Despite a seemingly low acceptance rate, global observers are bullish on outsourcing.

Generally, here's how outsourcing works: The American-based firm scans in and uploads a client's tax documents to a secure stateside server. The offshore accountants access the documents via dummy terminals and complete the client's tax return on that server. When the return is complete, the American-based firm is notified and can download the finished return. The data remains in the U.S. throughout the entire process.

Scanning every receipt and form, however, can be time-consuming. Harik's firm had two bookkeepers complete the more paper-intensive tax returns, those that required too much time to scan. "The messier ones we kept in-house – the ones leaning more toward the shoe box, and they bring in all these receipts. It's not feasible to scan every little receipt like that," she explains.

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**Security Concerns
Top The List of
Client Fears...**

Security is the biggest issue firms – and clients – have with overseas outsourcing. “Before we agreed to join on with **Xpita**x, we went through a due-diligence period with them,” Hambalek says. “That was key for us. I needed to be able to go to our client base that’s going to be questioning us on, ‘How can I be sure that I won’t be a victim of identity theft?’ ”

For two weeks this past December, Frederiksen visited five outsourcing firms in India, including **Xpita**x. He was impressed with their established security measures. “Not only are the companies concerned about [security], but the Indian government has to certify that an individual facility has appropriate security procedures in place,” he explains. “All the facilities have armed guards. They have very strict procedures about who can and cannot come into the processing area.” In the processing areas, computers do not have hard drives, and accountants are forbidden to have any cell phones, cameras, or even pen and paper – nothing that will enable them to copy information.

**...But Protocols Have
Been Drastically
Improved Overseas**

“When you compare that to what’s happening at an American CPA firm, with people wandering in and out all day long, people are taking files home, you’ve got janitors coming in at night completely unsupervised,” Frederiksen told **IPA**. “Watching what they would do in India was really the exact opposite.”

Despite the extreme security measures Frederiksen witnessed, some clients still worry about the safety of their personal information. Harik’s firm gives such clients the option to keep their tax returns in-house. They simply have to pay a higher fee for the privilege.

“I had one client that had objections to the principle of it, that sending jobs offshore was ‘un-American,’ ” Harik comments. “That was one out of 500 people. There are people more concerned with their pocketbook, not their patriotism.”

**Staff Members
Embrace – Not Reject –
Outsourced Offerings**

Client response to outsourcing isn’t the only concern for firms. When W&A decided to start sending work overseas, Hambalek called a staff meeting to quell any layoff fears. His presentation was well received. Staff members prefer to do higher-level services, such as consulting, he noted. “Doing a 1040 tax return is not necessarily always the highest level of work. Therefore, if we can outsource and offshore some of that work, that gives them exposure to more work quicker in their career.”

He points out that some staff members were skeptical at first, but the firm's history with outsourcing has proved itself. "We didn't decrease; we *increased* our staff during that period," he explains. "Our revenues increased significantly as a result."

"I'm not saying we're tying it to the outsourcing," he continues. "What I'm saying is it was a good business plan, a good business model of expansion of services to existing clients and new clients through our current staffing situation and utilization of offshoring labor."

**Opportunities Exist
Beyond Just The
1040 Returns**

Overseas outsourcing isn't limited to tax returns. For example, the **Xpitax** team does partnership returns for Hambalek's firm. This year, W&A also used **Xpitax** to convert Lacerte data files to UltraTax. "It made perfect sense," Hambalek says. "Because it's a rather regimented process, why not outsource that as a project?" Not only did the Indian accountants convert the files, they integrated data from W&As' trial-balance package into the tax software.

Beyond Hambalek's experiences, Frederiksen sees bookkeeping as a major outsourcing opportunity for American-based CPA firms. "In the rest of the world, most of the outsourcing is of bookkeeping work," he notes. But he also sees outsourcing growth for American-based firms in such areas as payroll and sales tax. "The thing is, anything that can be systematized and [made routine] can be done in India," he says. ■