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Globalization and Offshoring: the Effects of a Globalized Workplace on Auditing Procedures

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Abstract

Intensifying audit competition, increasing audit quality standards, and rising demand for audit services have prompted accounting firms across the nation to adopt new methods to meet client and industry demands while not overextending audit staff or raising audit prices. The use of offshoring to utilize a global workplace has allowed firms to maintain their competitiveness and expand to new markets to creatively respond to the industry demand. While offshoring is not something new on the global scale, the auditing practice was a late arrival to this practice, especially when compared to manufacturing industries or even the tax practice within the accounting industry. This study examines the effect of offshoring on the delivery of audit services and audit staff involved in providing audit services.

Primary and secondary research was conducted to gain an in-depth look at these trends and their impact on the local and global audit work environment. Interviews with industry leaders provided insight into their teams' offshoring use and the effects it has had on the way they conduct business. Secondary research uncovered larger trends that the accounting industry has undergone or foresees in the near future. The two were joined to explain the common trends, the causes and effects of these trends, and the benefits and drawbacks industry leaders perceive as they increase their use of offshoring. Offshoring reduces audit costs and also increases audit efficiency by allowing use of additional audit staff in other global time zones. However, offshoring alters the type of work done in the United States, and also changes the responsibilities of first-year audit staff.

Executive Summary

As the auditing field becomes more diversified, firms competing in the space are in constant search of ways to improve audit quality while maintaining efficiency and client relationships. Auditors must uphold auditing standards to ensure that the final audit opinion issued is appropriate and the financial statements are free from material misstatements. In pursuit of such an endeavor auditors must perform evaluations of their client's financial statements and related documents. The enactment of the Sarbanes–Oxley Act in 2002 re-evaluated auditing standards and "mandated strict reforms to improve financial disclosures from corporations and prevent accounting fraud" (Investopedia, 1). Auditing standards were then heightened increasing the need for additional audit staff.

With this heightened demand for auditors, firms have looked for alternative ways to complete basic audit work. Over the last 13 years, auditing firms, namely the Big Four accounting firms (Ernst & Young [EY], PricewaterhouseCoopers [PwC], Deloitte, and KPMG), have increasingly offshored client work, employees, and resources so they contribute to the foundation of company audits. As a result, onshore employees' time and resources are available to work on more advanced or more in-depth client needs. Some firms even use these additional resources to contract new clients. Each firm has leveraged this offshoring opportunity in different ways, allowing them to better compete for market share on new platforms than in previous years.

Advancements in technology and more streamlined logistics have opened the door for companies to expand their firms to international markets. Firms, whether accounting firms or other industry-specific companies, have used these advancements to integrate into new markets at a faster pace and with decreased risk in certain segments. Consequently, unprecedented benefits and risks have emerged. Thus, the United States audit market merge with international markets. When firms compete on an international level, solutions to these aforementioned risks are presented to the market and evaluated by firms to determine if, for their company, the anticipated benefits outweigh the presented risks. Firm benefits must first be evaluated on the sustainability of client satisfaction, since clients embody the epitome of the audit industry. Technology advancements have helped bridge the gap between clients concerns and global expansion of audits.

The use of a variety of online resources has shaped the research that forms this discussion. Secondary research helped form the basis of the conducted research. Online journals and publications were found in sources including the Syracuse University Library search engine, JSTOR, Business Insight, and ProQuest. See the References section for a complete list of the articles considered throughout this analysis. Access to these databases was granted through the Syracuse University campus subscription.

Industry specific journals were used to gain deeper insight into the accounting industry and some of the current issues topics affecting the industry. The *CPA Journal* and the *Journal of Accountancy* were the primary two journals used for research. Articles published by the Big Four firms also provided insight into the industry's trends toward offshoring auditing work. As offshoring mechanisms incorporate fluidly into daily accounting practices, accounting firms publish literature about their company's focus and the economic and competitive advantages each firm hopes to gain.

Interviews with Big Four accounting firms' partners substantially influenced the drawn conclusions. These interviews served as an opportunity to gain understanding into the direction these industry leaders were heading in terms of competing in the industry within their firm. They also provided insight into firm and individual ideologies of outsourcing and globalization in the light of auditing standards. The majority of the partners interviewed were in the auditing department of their firm, though some came from alternative backgrounds including tax. The interviews were juxtaposed with the secondary research to parallel actual trends with predicted or historical trends. Differences and continuities between primary and secondary research were accounted for throughout the thesis.

As globalization permeates the market and becomes a source of new competitive advantage, firms integrate this movement into their strategic goals for their firm's future. Benefits of costs savings and increased quality and turnaround time were often highlighted. Firms further saturate the aforementioned benefits with strategic geographic and cultural placement. Implementation and transition time, while expensive and often slow, do not outweigh the derived benefits, as noted by those interviewed.

The transformation the accounting industry has undergone in the last decade has led to shifts in the daily and long-term operations of the professionals in this industry. Clients and their needs and expectations remain at the forefront of decisions made by firm leaders and they seek to improve audit quality, client relationships, and workplace efficiency. This paper aims to extract the core benefits firms and professionals reap and understand how these benefits have lent a hand in the evolution of this industry.

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<u>Note to the reader</u>

This thesis focuses on United States offshoring techniques and future prospects for their use. While Big Four firms’ offices around the world also implement offshoring techniques and many of these themes can be transferred to their international offices, please note that this thesis was written from the perspective of the United States' economic, social, demographic, and technological trends.

Introduction

1.0 Introduction

As the auditing field becomes more diversified, firms competing in the space are in constant search of ways to improve audit quality while maintaining efficiency and client relationships. Auditors must uphold auditing standards to ensure that the final audit opinion issued is appropriate and the financial statements are free from material misstatements. In pursuit of such an endeavor, auditors must perform thorough evaluations of their client's financial statements and related documents. The enactment of the Sarbanes–Oxley Act in 2002 re-evaluated auditing standards and "mandated strict reforms to improve financial disclosures from corporations and prevent accounting fraud" (Investopedia, 1). In effect, auditing standards were heightened, increasing the need for additional audit staff.

With this heightened demand for auditors, firms have looked for alternative ways to complete basic audit work. Over the last 13 years, auditing firms, namely the Big Four accounting firms (Ernst & Young [EY], PricewaterhouseCoopers [PwC], Deloitte, and KPMG), have increasingly offshored client work, employees, and resources to complete basic auditing functions. As a result, time and resources can be used for onshore employees to work on more advanced or more in-depth client demands. Some firms even use these additional resources to contract with new clients. Each firm has leveraged this offshoring opportunity in different ways, allowing them to better compete for market share on new platforms than in previous years.

Advancements in technology and more streamlined logistics have opened the door for companies to expand their firms to international markets. Firms, whether accounting firms or other industry-specific companies, have used these advancements to integrate into new markets at a faster pace and with decreased risk in certain segments. With the increase in these trends, unprecedented benefits and risks have emerged. Thus, as international markets begin to rge to allow firms to compete on an international basis, solutions to these risks are evaluated nd presented to the market.

While auditor firms aspire to offshore as much work as possible to continue to reap the competitive benefits, the firms must evaluate the risks to ensure they do not falter on offering the best service to their clients. Though offshoring is an additional benefit to the auditing firm, it is only a benefit so long as the clients remain satisfied. Technology advancements have helped bridge the gap between clients concerns and global expansion of audits.

1.1 Research Methodology

The use of a variety of online resources has shaped the research that forms this discussion. Secondary research helped form the basis of the conducted research. Online journals and publications were found in sources including the Syracuse University Library search engine, JSTOR, Business Insight, and ProQuest. See the References section for a complete list of the articles considered throughout this analysis. Access to these databases was granted through the Syracuse University campus subscription.

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Articles published by the Big Four firms also provided insight into the industry's trends toward offshoring auditing work. As offshoring mechanisms incorporate more fluidly into daily accounting practices, accounting firms have recently published literature about their company's focus and the economic and competitive advantages each firm hopes to gain. Literature published by these firms provides key insight into the impacts offshoring has begun to have on auditing practice. In the following section important considerations relating to the global outlook, offshore risks and benefits, and audit trends are included.

After a wide spread of information was gathered and understood, Big Four accounting firm (Ernst & Young, PricewaterhouseCoopers, Deloitte, and KPMG) partners were interviewed. These interviews served as an opportunity to gain understanding into the direction these industry leaders were heading in terms of competing in the industry with their firm. They also provided insight into firm and individual ideologies of outsourcing and globalization in the light of auditing standards. The majority of the partners interviewed were in the auditing practice of their firm. The questions that formed the basis for the interview can be found in the 7.1 Interview Questions. Partners were interviewed between November 1, 2015 and November 21, 2015; interviews were completed close together to avoid deviation from the flow of the interview and from the questions asked during the interview.

Five of the interviews were conducted over the phone, one was conducted in person at Syracuse University, and one person working offshore was interviewed through email. Each interview, with the permission of the interviewee, was recorded and they lasted no longer than one hour. The interview that was conducted in person was held in a conference room in the Martin J. Whitman School of Management at Syracuse University. Those interviewed were primarily firm leaders in their respective departments. Most have previously had significant experience with offshoring over the course of his or her career.

A comparative analysis of these interviews is detailed in a following section. The interviews were juxtaposed with the secondary research to parallel actual trends with predicted or historical trends. Differences and continuities between primary and secondary research were accounted for in this section.

1.2 Results

The interviews and the research highlighted trends consistent among those interviewed and the research reviewed for this project. As globalization permeates the market and becomes a source of new competitive advantages, firms integrate this movement into their strategic goals for their firm's future. Benefits of costs savings and increased quality and turnaround time were the source highlighted by most. Firms further derive benefits from strategic geographic and cultural placement. The responses regarding benefits given by the seven interviewees' were consistent. Nonetheless the reasons and ways in which each firm and each department derived their benefits varied. This perceived difference is due to each interviewee's diverse experience with offshoring and how offshoring has impacted and/ or evolved over the course of their career.

Technology improvement and advancements in auditing procedures and communication have enabled the industry to integrate these changes and optimize these opportunities as much as they have to date. Firm leaders are also able to leverage benefits from time zone, geographic location, and the educational strengths of the regions to which the firms offshore. Paying close attention to each of these assets is crucial when striving for new offshoring goals.

Of those interviewed, the risk involved and the impact on their clients must remain at the front of every decision. Given that the accounting profession is heavily dominated by the need of client satisfaction and service, exceeding their expectations and managing their concerns onshore is key to any long-term growth in the offshore market.

The relationships with onshore employees and the alteration of leadership's expectations of their entry-level staff was one area that has been less impacted by offshoring than one may assume. Nearly all those interviewed noted that expectations of entry-level staff have not changed for when they enter. Firms are beginning to pass more responsibility to these entry level staff personnel. As the demand for accounting services continues to grow, few onshore jobs are being substituted for cheaper offshore positions. Offshoring was partly prompted by the need of a larger workforce, which has influenced its continual expansion.

Implementation and transition time, while expensive and often slow, do not outweigh the derived benefits, as described by those interviewed. Some of those interviewed noted the extra oversight and planning required to maintain this offshoring program. Although time, money, and other resources are poured into this program's success, firm leaders believe that the efforts put into it will only return greater dividends each year. As such, firm leaders perceive a rapid and continual growth in the use of offshoring for all accounting firms in the near future.

1.3 Conclusion

The transformation the accounting industry has undergone in the last decade has led to shifts in the daily and long-term operations of the professionals in this industry. Conducted research and interviews each sought to understand the various aspects in which offshoring has affected or influenced change within the industry. Benefits and drawbacks could thus be derived. Together, these benefits and drawbacks have led to an overall positive growth trend that firm professionals and supporting research perceive to only increase in effectiveness and efficiency for the future.

Clients and their needs and expectations remain at the forefront of decisions made by firm leaders as they seek to improve audit quality, client relationships, and workplace efficiency. This paper aims to extract the core benefits firms and professionals reap and understand how these benefits have lent a hand in the evolution of this industry.

Literature Review

2.0 Introduction

The following sections are based on literature addressing globalization trends, offshoring trends, and auditing trends and the interrelationships that exists amongst them. This section is intended to provide an analysis of past, present, and future benefits, concerns, and advancements and how the previously mentioned trends intersect and impact one another.

2.1 U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB)

International competition, growth, and penetration has been on the rise, especially as companies seek new performance opportunities. The melting pot of international business growth and globalization has posed a variety of challenges for the accounting industry both in the United States and globally. Conflicting ideas and regulations between the U.S. Financial Account Standards Board (FASB) and the International Accounting Standards Board (IASB) have only complicated globalized business. In 2002, “efforts began with the Norwalk Agreement, where the two boards agreed to make efforts to make each reporting standards fully compatible” (Morea, 2015). In this transitory period, more governance, however, has raised prices and red tape to completing quality audits. “The homogeneity of audit work, therefore, has resulted in pricing pressures and slower audit segment revenue growth” (Morea, 2015). Though prices and margins have been affected this convergence effort has positively influenced the accounting industry and the greater changes the industry undergoes as businesses go global.

2.2 Sarbanes–Oxley Act

The Sarbanes–Oxley Act of 2002, released around the beginning of the FASB/ IASB convergence initiative, set forth a new array of guidelines for auditors in an effort to raise audit quality. These new regulations ranged from inspections, to corporate responsibility, partner rotation, and crime and fraud (Public Law 107–204, 2002). These new legislative measures were enacted to raise the quality of the audits issued and of the auditing firms. Inspections occur annually for large public accounting firms that audit more than 100 issuers each year (Public Law 107–204, 2002). Inspections detail the firm's processes and vet all corridors of the firm, but they have caused audits to become more expensive than previously contracted. These costs were either absorbed by the firm or passed onto the clients. Margins from audit clients were further impacted by the economic recession of 2008. With these two turning stones in place, auditing firms analyzed ways to restore margins while improving audit quality.

2.3 Advances in the Audit Industry

Based on a recent survey, “46 percent of audit committee members and 59 percent of financial statement users would like the audit profession to be more proactive in addressing evolving demands” (Deloitte, 2015). As businesses and audits become more complex, the PCAOB has sought to simplify reporting, yet maintain accuracy. Cost cutting measures, such as offshoring, are an answer to raising audit quality without increasing the associated costs.

(Figure 1)

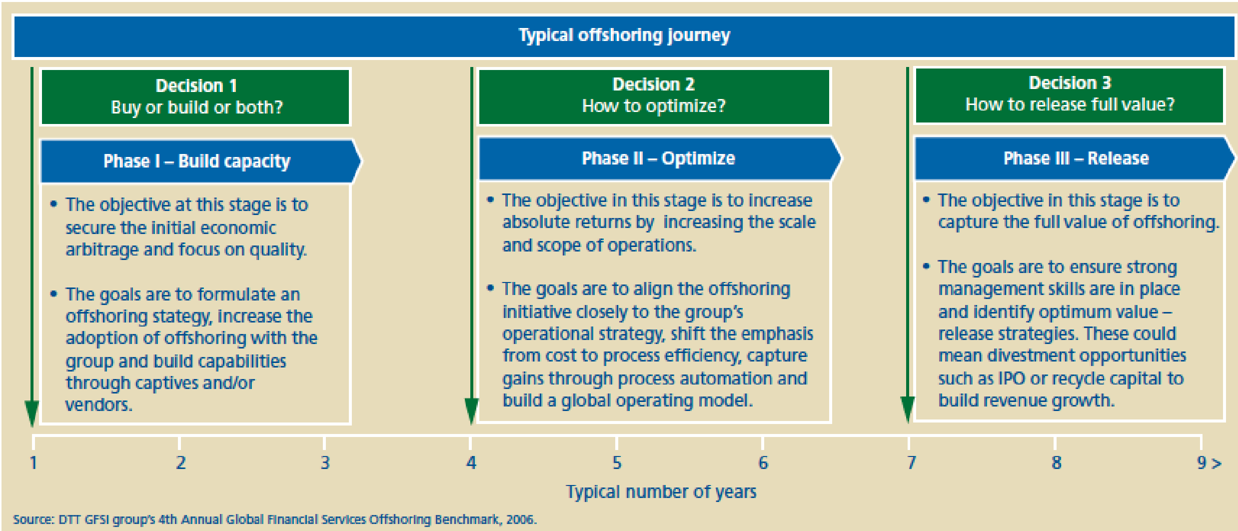
Accounting firms globally utilize such functions at increasing rates to meet clients, PCAOB, and firm needs while maintain their own revenues and not passing costs onto their client. Audit revenues in the United States accounting industry are forecasted to decrease over the next five years. Finding ways to protect margins through reducing audit fees is a defense mechanism firms are heavily leaning on. Most audit clients support the advancement of auditing and approve of the shift of offshoring audits. Clients, firms, and governing boards want added assurance beyond that which is provided by traditional audits.

As such, clients have increased pressure on auditing firms to raise the quality standards of financial statement audits and to provide additional benchmark information on which clients can clearly evaluate industry competitors (Deloitte, 2015). Understanding other firms' or other investments' financial standing becomes more complicated as the marketplace becomes more global, which increases demand for detailed documentation that leads to clearly understanding global businesses and their financial security and prospective growth (Deloitte, 2015). "Investors are looking for broader and deeper insights that can help them make smarter, more informed decisions" Ucuzoglu, chairman and CEO of Deloitte & Touche LLP, commented (Deloitte, 2015). In order to meet or exceed these expectations, audit firms have leveraged offshoring capabilities to capitalize on audit quality while benefiting from cost, time, location and technological efficiencies. Ultimately, clients, the PCAOB, and the SEC have called for auditors to deliver higher quality audits, but the firms' already tight workload limits the possible adjustments onshore. Offshoring, then, becomes an even more attractive option to meeting the demands placed on the accounting firms. One way in which firms have responded is with offshoring.

2.4 Growth of Offshoring

Offshoring enables firms in all industries to grow and capture a greater market; accounting firms also share this opportunity to increase market share, efficiency, and ultimately profitability. One major difference is that many consumer-based firms search for opportunities to offshore raw materials or unfinished goods, but accounting firms desire to maximize the services they provide their clients by sending work to offshore offices. Both product- and service-based industries continue to seek and reap opportunities in offshoring.

Deloitte & Touche Global Financial Services Industry (DTT GFSI) releases global reports each year. In the 2014 edition, the GFSI identified three phases most financial service institutions go through when offshoring: build, optimize, and release (Ribeiro et al., 2007).



(Figure 2)

Most firms are in the optimize phase as they seek ways to further leverage their competitive advantages to better compete in this developing market space. In 2001 "less than 10 percent of major financial institutions had moved processes offshore," yet by 2007, over 75 percent of these institutions had made this transition (Ribeiro et al., page 3, 2007). The market for offshoring still holds huge potential for firms to continue to grasp for new competitive advantages on which to capture market share. Firms seek strategic and operational excellence to leverage this advantage.

2.5 Optimizing Offshoring

When firms do not properly carry out the transition and maintenance of offshoring, the financial burden and lack of efficiency will inadvertently increase costs and decrease their advantage; continual improvement is imperative to maintain its advantage. Firms create value by enhancing operational efficiency; the way in which their strategies are executed lies in the firm's clarity in execution (Ribeiro et al., 2007). Similarly, when a firm identifies that the advantages from their current offshoring strategy flat-lines or slows, re-examining their strategy and identifying areas for additional advancements becomes necessary.

The Kaizen model, also known as the continuous improvement method, most commonly applies to manufacturing firms, but such concepts can also be applied to service-based firms (Hanna, 2007). Offshoring was one step towards an improvement in auditing procedures. Recognizing inefficiencies within the team translated into potential improvement areas. When offshoring first began in the service industry, firms saw the need for cost reductions; hence they looked towards the manufacturing industry to understand its model (Hanna, 2007). Now that the Big Four firms offshore, they must further implement the Kaizen model to remain ahead of or competitive with other accounting firms. This process directly stimulates the model explained by the DTT GFSI in 2.4 Growth of Offshoring. To move between the described states, firms implement Kaizen methodology of continual improvements.

2.6 Value Added from Offshoring

When firms send more work offshore they have more time to serve new clients (Shamis, et al., 2015). Given that the firm is able to provide quality services to their client, the firm should expect an increase in client growth, leading to greater firm profitability. The auditing field experiences seasonal demands, the height of which follows the client's reporting date (most clients report within 60-90 days of year-end). By completing the same amount of work in-house, each team is ultimately able to complete a greater workload since some work is sent offshore. Benefits are reaped during both peak load seasons and slower seasons. With the capabilities offshoring provides, audit teams seek to move as much work as possible to the interim period. Pushing work to interim allows teams to work ahead of the year-end and complete workpapers earlier. The net benefit of pushing work to the interim period is twofold. First, offshoring becomes functional for teams throughout the year. Secondly, team members can reduce the excessive hours worked during year-end audits (for more information see 2.10). Value added from the perspective of industry leaders is further discussed in 3.16 Benefits to the Firm.

Another transition firms have enjoyed is the ability to shift work down and out. What was traditionally manager level work has become senior level work. Likewise, what was traditionally senior level work has been shifted to staff level work and staff work has been moved out to the firm's offshore teams. This shift has allowed upper management to work on more complex assignments. A higher value is added to the firm when sending lower skilled jobs offshore (Bahman, 2009). With this shift, expectations of employees have adjusted to meet requirements (Section 3.6: Team Structure, Development, and Training). Value can be added, but also lost, due to many factors including cost efficiencies, technology, geographic location, time zone, language, regulations, and risks, as explored in the subsections that follow.

2.7 Cost Efficiency

Value-added cost benefits can be understood on a variety of levels both to the auditing firms and to the clients. Offshoring allows firms to send work to virtually any city around the world. Offshoring locations are strategically chosen based on a list of criteria and goals (see 3.3: Choosing an Offshore Location). One of the key criteria for choosing such offices is the cost efficiency achieved from the location.

Firms strategically place their businesses in locations that hold high efficiencies (Bahman, 2009). One French specialty company reported a cost saving of 30% in two years by outsourcing internal accounting functions (Jones and Trapasso, 2003). When placed on a large firm scale the cost savings can have a tremendous impact on the financial decisions of the firm.

Accounting firms are known for the large fluctuations in the average hours worked per week due to the seasonality of the industry. January to April are the peak seasons for accounting firms because most clients have a December year-end, and most audit work is completed after year end. However, these seasons depend on each client's business and when quarterly, mid-year and annual reports are due. During the busiest seasons, offshoring helps firms achieve cost efficiency by utilizing the larger workforce during the heightened seasonal demand (Shamis et al., 2015). Lower international salary rates enable firms to complete the same or heavier workloads, while not significantly increasing the volume of hours worked.

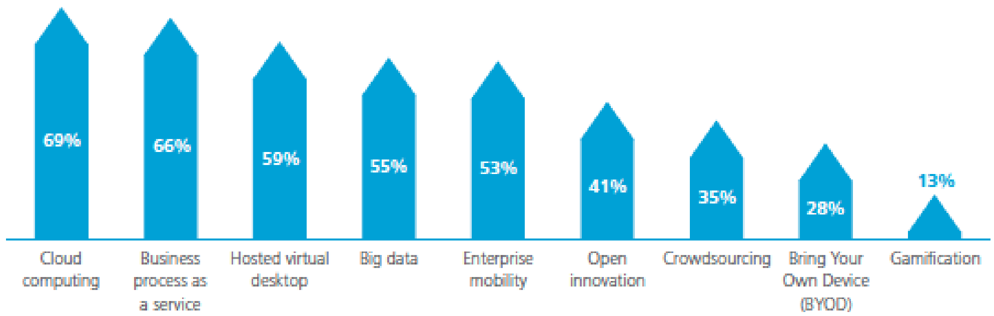
Most firms notice that cost efficiencies are only achieved if the assignment is extensive. If the project will only take an hour or two there is no cost benefit to offshore the work (Shamis et al., 2015). If a project has a very restrictive time limit or if the task can be done quickly, teams typically do not find it beneficial to send these projects to the offshore team. Conversely, projects that have a very tight time limit, are extensive, or require specialized treatment may be optimal to send offshore. Time savings are directly correlated with cost savings as less time used or less expensive labor used will lead to an overall less expensive audit.

Exchange rates have benefited the United States through providing a cost savings in transactions with their international counterparts. India, as described in 3.5: Benefits in India, holds qualities of a prime offshoring country. The past two years have shown an average of $1: 66.069 INR. On average, the United States firms have benefited by recognizing extra profit earned from foreign currency exchange rate conversions (US Dollar, 2016). Choosing a country in which the exchange is more likely to produce a benefit than a burden is essential when evaluating a country's potential as an offshore location.

2.8 Offshoring and Technology

A correlation exists between the rise of technology and the rise of offshoring. Accounting firms hold that the primary reason for offshoring is to increase efficiency, cut costs, and maintain margins; offshoring only becomes effective if technology can reliably and efficiently support high volumes of information transfer, which was not the case prior to 2000 (Bahman, 2009). “Information related jobs such as collecting, manipulating, and organizing information like accounting… technological advances make outsourcing feasible and cost effective” (Bahman, 2009, 4). As computer technology becomes an everyday commodity, costs decrease and security increases. Clients are most concerned with information security; they need assurance that their confidential information is not being jeopardized through technology transfers. Hence, innovations in computer security were a prerequisite to a client’s comfort with accounting firms sending their information to offshore locations. Connecting the previous, offshoring, then, could not advance until internal databases and intranet sites progressed.

According to the Deloitte Global Financial Services Division, “more than 75 percent of audit committee members and financial statement preparers surveyed believe that there are significant benefits to auditors utilizing advanced technologies” (Deloitte, 2015). This supports the claim that advanced computer technology is a necessity to advance offshoring. Having the most advanced technologies to support operations is another competitive factor. Firms continually update their technologies to ensure their systems support the most complex transactions.



(Figure 3)

In the last five years, cloud computing and business process as a service (BPAS) drive outsourcing growth (Mancher et al., 2014). These transitions further enhance the security and efficiency concerns previously addressed. While cloud computing and business processes make up the largest technological innovations, other impactful technological changes include hosted virtual desktop, big data, and enterprise mobility (Mancher et al., 2014). Together, these five account for more than 50% of the technological updates since 2012. Firms have found that cloud computing can better support client needs both internally and externally. Ultimately, firms had to first invest in the technology and cloud-computing era before making the leap of significant influence in the offshoring spectrum.

2.9 Offshore Geographic Locations

While manufacturing and commercial-focused firms have offshored for many years, service-oriented companies have only recently begun offshoring their work (Bahman, 2009). Broken down further, tax services were the first accounting activity to go offshore; only in the last seven years have auditors focused more heavily on offshoring their work (Bahman, 2009). Realizing the benefits the tax and information technology sectors were reaping, Big Four leadership sought to further their offshore endeavors by expanding the assurance practice.

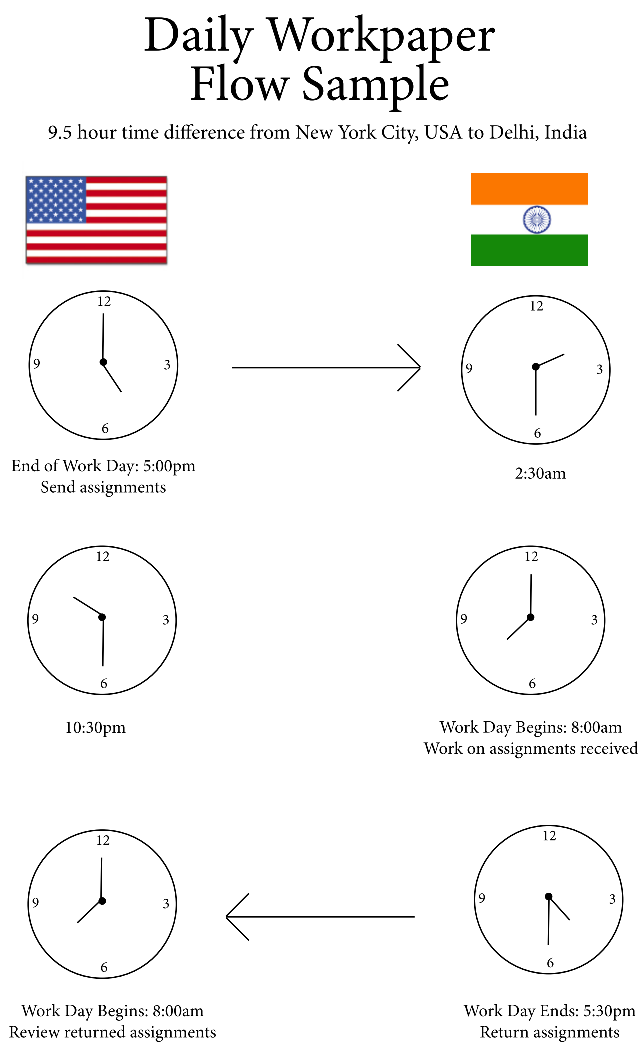
Manufacturing and service firms have been offshoring for decades, but the location and purpose has not always remained consistent because of changes in economics and politics. India, China, and Malaysia remain the top locations for offshoring both in the goods and services sectors since 2011. Asia and Latin America experience the most offshore traffic over other continents. , are also experiencing high offshoring growth (Mancher et al., 2014). As business becomes more globalized, international firms are willing to move further away to reap economic benefit (A.T. Kearney, 2014).

Potential movement in the next few years includes South America (specifically Mexico and Brazil) and Romania (Mancher et al., 2014). While these are good prospects, companies are seeking areas that are more developed than these regions and countries are at this point. With further development, these countries may become more desirable for offshore activity in the coming years. Firms also account for economic benefit, cultural intricacies, time zone effects, and language impacts as factors in choosing offshore locations.

All U.S. based Big Four accounting firms offshore to India. India provides up to 25-50% savings after assessing relevant constraints of outsourcing (Bahman, 2009). If savings can be achieved, firms will evaluate the additional benefits or costs to determine if the sought location will substantially influence the overall firm future goals. Partners' and top firm leaders' reasoning for choosing these offshore locations are further described in Section 3.3 and choosing India specifically in section 3.5.

2.10 Time Zone Benefits

Time zone considerations closely relate to the location to which firms offshore. Since all Big Four firms offshore to India, benefits derived from time zones will be analyzed in this light. By using India as an offshore office, as discussed in 3.4: Current Offshore Locations, the workday length expanded to a 24 hour spread, rather than the typical eight to ten hour standard workday (Bahman, 2009). Each afternoon, onshore teams send work to their offshore team that should be completed during the offshore team's workday. By the next morning the onshore team receives these completed workpapers back from their offshore teammates.



*The chart above illustrates a possible workpaper process between India and the U.S. (Figure 4)

Most firms have tried to incorporate a culture of work life balance; they recognize that, especially during busy season, these balances are often lost. Time zones and spreading the work among a larger team helps maintain these balances.

Time zones help increase turnaround efficiencies during peak seasons if the firm's offshore locations are positioned such that as one team is working the other is sleeping and vice versa (Shamis et al., 2015). This factor is a proponent for other offices outsourcing to other locations. For example, EU offices may have a different location as the primary location to which they outsource.

Being cognizant of time zone benefits presents an added benefit that can be passed along to clients. Faster turnaround time creates a shorter time span for work to be completed, which positively impacts the client’s budget. Added time or reallocated budgets allow auditors to either complete the audit under budget or enables the auditors to test for lower materiality. Both add benefits that the client and the audit team feel.

Although time zone benefits are largely discussed as a factor when considering expansions, only 28% of firms note it as reason they remain in particular abroad locations (Mancher et al., 2014). This points to the fact, while time difference are beneficial, the public perception is distorted from firm reality. Following sections discuss what factors firms report as highly important. They include offshore supplier performance (72%), inability to realize cost advantage (44%), and customer perceptions (28%) (Mancher et al., 2014). Each criterion has played an important role in understanding firms’ offshore strategic moves.

2.11 Language Impacts

Language impacts the clarity of communication making it a point of consideration not mentioned by many researchers, but frequently noted by interviewees. As a business expands to an international front, employees take up additional languages to ease barriers and thus ease the transition into non-English speaking countries. Noting that English is the official language of business operations in India, communication between onshore and offshore teams is clearer. Though translators and multilingual employees also alleviate the pressure of a multilingual team, directly communicating with a team member is always the preferred option.

2.12 Legislation and Regulation

Since offshoring is a relatively new trend in the accounting industry, legislation from both country governments and accounting governance has yet to be fully developed. Quite understandably, firms are generally not in favor of legislation that hinders offshoring practices (Mancher et al., 2014). Firms currently use their firm's governance to understand and carry out the way they conduct business with their offshore teams. Corporate practices are carried over to the internationally-based teams. Accounting firms closely watch for new governance issues; however, significant governance regulations have not yet been released. Governing bodies are still trying to dictate exactly how regulations for international affiliates will look.

Additionally, firms face complications of making sure that they follow all of the regulations in the country to which they offshore information. This will become even more important as offshoring is integrated into the normal activity of the firm. When a single team is spread between two or more international locations, abiding by country-specific regulations complicates team formations. Firms are responsible for acting in accordance with the regulations set forth by each country in which they operate. Hence, teams closely monitor these regulations to avoid conflicts, lawsuits, or questionable practices. Rather than scattering offshore offices across the globe, firms tend to concentrate their offshoring in a few cities. Ultimately, monitoring these regulations is simplified.

2.13 Risk Management

As clients look to move their businesses into a more global space, these firms must understand the risks and benefits they take upon these moves. External auditors, though they cannot consult on such business decisions for public company audit clients, must be aware of their client changes. Although moving to new international spaces may warrant new risks, these risks may also bring forth new opportunities for growth. Understanding and properly acting on potential is necessary. “Because every company is in business to take risks, every risk management is necessary to the progression of a business entity — taking too little risk can be just as dangerous as taking too much risk” (Williams, 2002, 6). From a global auditor perspective, when businesses significantly change, the auditors must adjust the way financial statements and controls are analyzed. Hence, the time it takes to complete the audit, the audit budget, or the level of materiality at which the auditors evaluate may be at risk as these constraints tighten. Therefore, firms may look to offshore client work to help maintain these levels even with a heavier workload.

2.14 Conclusion

Researchers have time to look more deeply into the causes and effects of offshoring on both the accounting industry and on global economics. Professionals working in the field interact with these topics differently. They physically live out the changes and seek new ways to develop themselves, their teams, and their firm. The next section gives a more thorough look at the auditing field and how offshoring and globalization trends have impacted their occupation.

Interview Review

3.0 Introduction

This section was written after insights from Big Four firm professionals were gathered on offshoring and its effects on their workplace. Interview questions and responses can be found in 7.1 Interview Questions and 7.2 Interview Answers: Chart.

Maintaining a competitive front is the epitome of initiating change in the Big Four firms. If a change will not significantly enhance a competitive front, firms are less likely to pursue the opportunity. Time, efficiency, cost, hiring, and team composition are just a few fronts in which firms look to further enhance their competitiveness within their field.

3.1 Tax versus Audit and their use of Offshoring

The tax field of accounting shifted to offshoring techniques much earlier than their audit field counterparts. Professionals have pointed to a variety of reasons for this difference in timing, including type of work, risk of work, and economics. To understand these effects better, upper management from both sectors were interviewed.

Type of Work

Over the past 20 years, tax work has shifted away from the mundane typical work of filing tax returns to more in-depth studies and research for clients' savings and tax benefits. This shift initiated the need to send tax returns offshore to their international teams. Onshore teams were then able to dedicate more time to research related to their clients' needs.

The audit field made this shift offshore more recently than their tax counterparts because of the type of work each field involves. The auditing field did not reach this growth point until later, when compared to the tax accounting field. Auditors' work entails less consistent forms between most clients, making it more difficult to codify the work. Yet processes among various audits remain consistent, enabling these processes to transfer between clients. Though audit offshoring is still being developed, audit teams typically offshore ticking and tying work, while tax teams typically offshore tax return forms.

Risk of Work

Certain work genres hold different risk factors. Filling out forms consistently between clients retains a low risk profile since these forms are codifiable and/or transparent. Yet, client-specific work or breakthrough research are kept onshore to ensure their accuracy or because of the risk to the firm or the client. Lead partners prefer to have swift access to high risk and important client work. Risk restrictions remain consistent between both the audit and the tax fields.

Economic Downturn

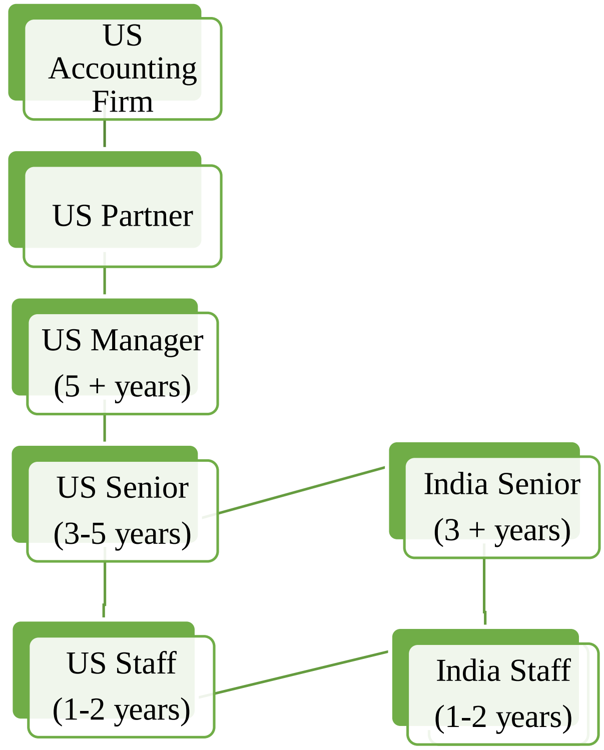
The economic downturn of 2008 prompted corporations across the United States to search for new, economically viable strategies to prevent corporate failure. Moving processes that were codifiable and transparent offshore enabled them to continue serving clients' needs while decreasing the costs associated with each assignment.

Tax accounting preceded the economic downturn in offshoring work as the field had already begun moving offshore prior to 2008. Economic benefits and economic condition still remain key factors as to why tax teams keep certain work offshore; however, it was not the initiator for moving offshore as it was for the majority of audit teams. In tightening economic conditions auditors had to find methods to remain competitive. Auditors had to identify substantive work that, like their tax counterparts, could be easily transferable to offshore teams. The work had to be substantive enough to justify the move to an offshore location.

Many interviewees, when asked about why they have raised their use of offshoring in recent years, pointed towards these three factors. Economically speaking, many partners attributed the economic downturn of 2008 to be a primary contributor to the offshoring movement. "Audits were getting too expensive" one commented. Though this was their initial reason for the shift, the Sarbanes–Oxley Act of 2002 played an equally likely role in the rise to offshoring. Details about the Sarbanes–Oxley Act can be found in 2.4 Sarbanes–Oxley Act.

3.2 Offshore Team Management

Close relational management between team members onshore, offshore, and among all management levels is crucial in maintaining service quality and timeliness to the client. Generally, responsibilities between each level of management are allocated along similar lines in each Big Four firm and international team with minor responsibilities varying by team, client need, and firm culture. The following chart and subsections aim to break down the typical responsibilities by each management level as consistent with the majority of interview responses.



*Communication flow diagram typical of most Big Four accounting firms (Figure 5)

United States Partner

Partners rarely interact with the offshore teams they lead. The offshore team reports back to the lower management that partners oversee. Through the review process, partners will review the offshored work, but they leave the communication to the responsibility of lower management. Partners determine which assignments should be sent offshore versus which assignments should remain onshore.

United States Manager

The exact manager roles depend on the firm and the team functionality. According to most of those interviewed, managers have some interaction with their offshore team, but have very regular contact with their onshore team. Like the role of the senior to run the offshore team, the manager is the primary onshore captain responsible for the team's assignments. The manager will often step into place to assist in important decisions made with the offshore team.

United States Senior

Senior team members are generally the team leaders of the offshore teams. These members often take trips to the offshore location to lead trainings or to hold check-in meetings with team members. Seniors also help supervise the staff on their onshore team.

United States Staff

Roles and expectations of staff level personnel have experienced the most significant changes as a results of the increasing offshoring movement. Within the team daily operations, staff personnel are typically responsible for writing instructions of the work that should be completed by the offshore team. This responsibility is shared with the senior management on the teams. The staff level has the most daily interaction with their Indian teammates.

India Senior

Seniors on the offshore teams are typically the leaders of their team. As offshoring continues to grow, employee experience and expertise levels also advance. Managers from the United States visit their offshore team less than once a year; senior management on the offshore team typically manages the day-to-day work. As these seniors become more established, the offshore managerial structure may undergo a transformation to accommodate for the growth. Increasing manager and senior management positions will allow for more United States-based teams to send more projects to their Indian counterparts.

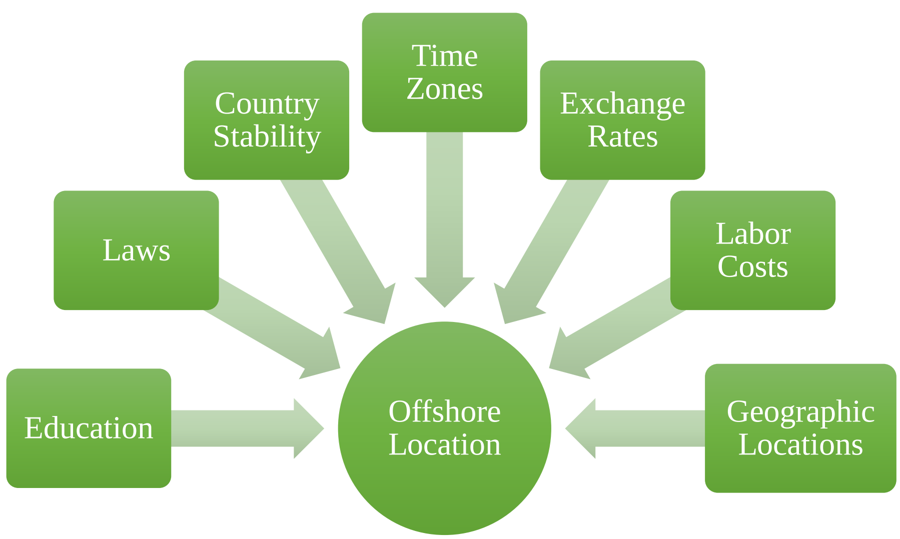
India Staff

The offshore staff personnel complete the bulk of the work sent from the onshore team. As discussed in the 3.9 Criteria for Sending work Offshore and Keeping work Onshore, repetitive work that can easily be transferred or that is codifiable or transparent are often the assignments completed by the Indian staff personnel. They first report to their India-based senior and then to the staff or senior on their United States-based team.

Expectations of onshore and offshore employees are influenced by the roles offshoring plays in office culture. These expectations are heavily supported by industry standards not discussed by the interviewees. Find a discussion on expectations in Sections 4.1 and 4.2.

3.3 Choosing an Offshore Location

When asked about the requirements for identifying potential offshore locations, many industry leaders expressed similar thoughts. "The relative level of education in a particular city, the economy relative to the world, the general and labor laws of the country, and the country stability are key factors my firm considers before making offshoring decisions." Other factors firms consider include: exchange rates/labor costs, time zones, and geographic location.



(Figure 6)

Education

Evaluating the education quality citizens of a particular region receive provide the firm with insights into the employee potential. Education level and quality enable the firm leaders to envision the comprehension/evaluation level, ability, and training required to reap the benefits hoped for from the offshored office.

Exchange Rates and Labor Costs

Accounting for the exchange rates between potential offshore locations and the United States must be noted. Even if labor looks to be cheap based on U.S. standards, labor costs compared to the standards of the host country is debatably more important. Firms need to be sure they are receiving comparable rates for their offshore team even if costs seem lower than U.S. rates. Because of the advantageous exchange rates and low labor costs, U.S. Big Four firms send almost all of their offshore work to India.

Country Stability and Economy

Country stability is crucial in determining the ongoing success of a location. Firms will likely shy away from regions or countries that experience civil unrest, whether economically, politically, or structurally. Oppositely, countries that excel in these areas will attract more business. In this light, India has seen the most growth in the offshoring industry over the past decade. Industry professionals perceive South American countries to be the next hot spot for offshoring growth.

Laws

Local, regional, and country laws play an important factor in determining if firms will be able to adequately perform their desired tasks in the new location. Laws that are unreasonably restrictive may prevent the firm from the work they intended to complete in the given location.

Monitoring the laws that will impact the firm's course of business is essential to the firm's success in adapting to the new location.

Time Zones

When used to effectively, time zones play an integral aspect in gaining a competitive advantage. Given that the auditing field is highly dependent on human labor, though technology is used to speed up such labor-intensive work, firms have the opportunity to stretch working hours to nearly 24 hours a day while not increasing the number of hours worked per professional. In places such as India, onshore offices can send work to their offshore colleagues and receive the completed workpapers before returning to the office the following morning. Put simply, the offshore team works while the onshore team sleeps and vice versa, thus maximizing working hours.

Geographic Location

Where the offshore office is physically located does not play a major role in selecting a country since the majority of the audit work sent offshore is completed remotely. A firm may analyze geographic location for offshore clients if they perceive the benefit of serving local clients near the offshore office as well. Onshore offices reap more benefit by locating near the clients they serve; onshore locations enable them to visit their client and complete the necessary parts of the audit on site. However, work sent to offshore locations entail assignments that do not require the auditor to be physically present at the client. The onshore auditor is the face the client, whereas the offshore auditors complete workpapers in which location is not a factor. Ultimately time zone benefits are the driving advantage in determining an optimal geographic location. The other previously mentioned requirements are more pressing issues than the benefits gained from geographic locations or time zones.

3.4 Current Offshore Locations

Derived from the key components discussed in the previous section, the trends between the Big Four firms for offshore locations closely mirror one another with a few differentiating decisions for less volume-heavy offshore offices. These major offshore locations are discussed below.

Asia: India and the Philippines

Asia has been the hot spot for offshoring over the last decade. Within Asia, India is the primary country where firms establish offices. While the actual city in which each firm locates their offshore work varies, the country remains consistent among nearly all Big Four accounting firms. Indian cities include Bangalore and Delhi. The Philippines was a second country mentioned; only 50% of the interviewees noted that they also knew their firm heavily offshored to the Philippines.

The benefits of India as an offshore location are discussed in 3.5 Benefits in India.

Europe

Beyond India, United States offices also locate offshore activities in countries including Poland, Lithuania, and the Czech Republic. Firms perceive similar benefits in these markets as they do in the Asian markets.

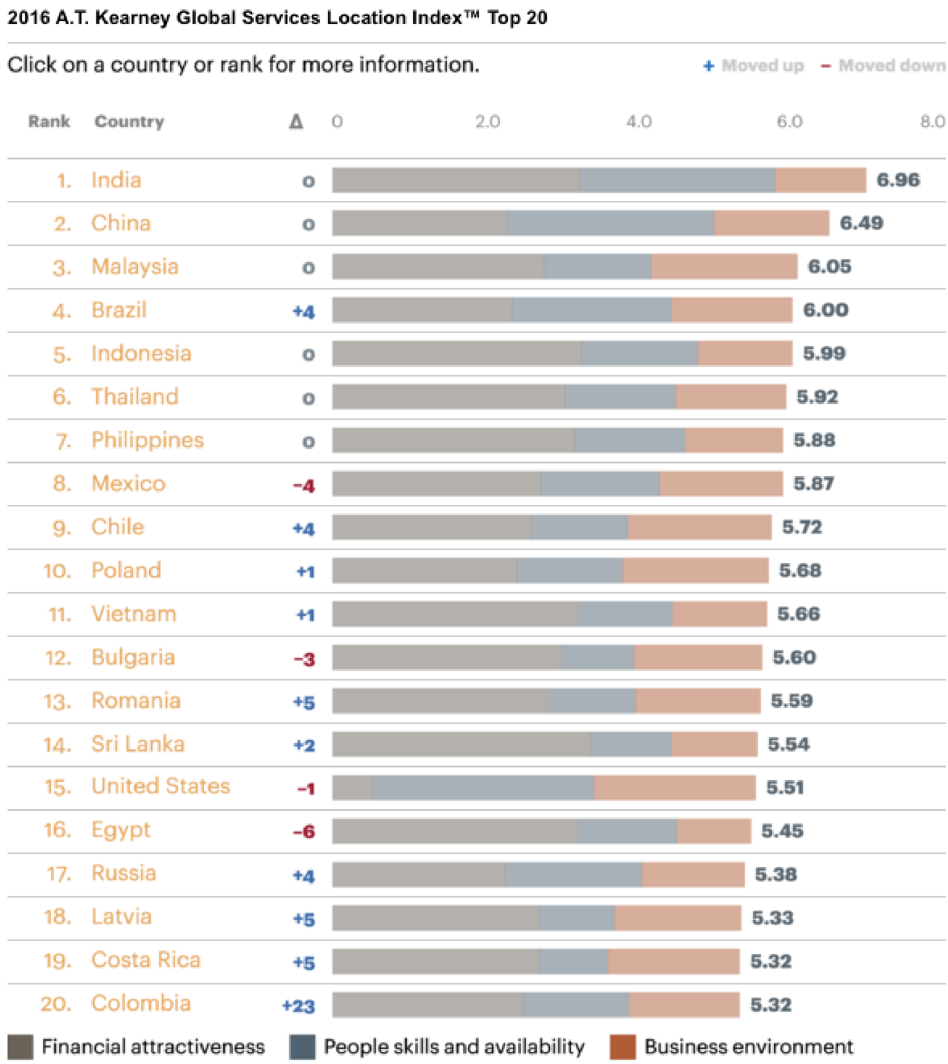
Having the first mover advantage into some of these countries is a huge part of the strategic option in choosing that new location. Particularly for western European locations with a lower cost of living, such as Lithuania (Cost of Living Index: 45.56), Czech Republic (CLI: 41.80) Poland (CLI: 38.53) have a high correlation for success based on the criteria discussed in 3.3 Choosing an Offshore Location (Numbeo, 2016). These European countries have a small presence of offshoring for accounting firms. One partner noted that the Europe countries with lower costs of living and thus lower wages often experience negative effects with youth leaving the country in search for jobs. A first mover advantage can be gained if accounting firms enter these lower cost areas to provide high paying jobs (in relation to the average wage, but possibly lower than the onshore wage) to well qualified individuals. By being the first in such locations, the firm will have the top pick of employees. Moving there not only benefits the firm by low wage and high quality, but it also benefits the country by reversing the labor migration effects they currently experience. If firms enter into already developed markets they lose the advantage of setting wage rates and first pick at highly qualified employees.

The Americas

United States regions specifically mentioned by interviewers included the Midwest and West; South American countries, such as Argentina and Brazil, were also directly mentioned.

A similar phenomenon to that described in western European countries is occurring in the United States in which Big Four firms are looking to move into lower cost of living cities to minimize wage costs but still benefit from the expertise of the country's population.

Melding section 3.3 and 3.4 the chart on the following page expands this discussion to include other offshoring locations that hold qualities often sought in host countries.



(Figure 7)

Chart Vocabulary	**Correlating Paper Vocabulary**
Financial attractiveness	Country Stability, Exchange Rates, Labor Costs
People skills and availability	Education, Time Zone
Business environment	Laws: General and Labor, Country Stability

3.5 Benefits in India

Culturally, the Indian people pride themselves on meticulous work. Since the offshore offices are still not utilized to maximum capacity, offshore teams often have more time to complete a workpaper than their onshore counterpart. This additional time allows them to audit a larger sample, thus ensuring a higher likelihood of accurate workpapers.

Those interviewed also noted that Indians have a mentality that they do not want to submit work that may contain errors. This is a huge benefit to the onshore team as they are able have higher confidence in the work of their offshore team. Minimizing the time workpapers have to be resubmitted because of errors decreases both time and money spent. When the U.S. team can maintain a high confidence in the work being produced and when the work is completed at a lower cost, India becomes the perfect place to offshore from a cost/benefit payout analysis.

Analyzing India against the requirements discussed in 3.3 Choosing an Offshore Location, India demonstrates the qualities of a sound offshore location. 2.7 Cost Efficiency discussed the exchange rate between the United States and India as positively affecting the United States through consistently recognizing additional profits gained in transactions. Further, India has a low cost of living in the 2016 Cost of Living Index with a 24.14 index number, compared to the United States with an index of 74.08, meaning in India it is significantly cheaper to live than in the United States, which accounts for the lower wages firms benefit from when offshoring here (Numbeo, 2016). Further, India has not experienced civil unrest in their recent history and the time zone differences between the United States and India has a positive impact as explained in 2.10 Time Zone Benefits.

3.6 Team Structure, Development, and Training

The structure of teams has helped play a crucial role in the type of work that a team can develop. Individuals shared the types of team they played a role in and in effect, the type of work they were able to complete.

New Teams

When a team first sends work offshore, the onshore teams have to be develop confidence in the new offshore team. Additional trainings must be integrated into newly formed teams both in the United States and in India. Trainings will primarily help merge new teams across borders. New teams within the same country must also be formed to work cohesively. Hosting meetings to understand expectations of communication and behavior is imperative to forming a well-functioning team. As teams become more cohesive, the work quality will improve and the team will better utilize offshore capabilities, which is a feature with which many newly formed teams struggle. Careful coordination and clear lines of communication are necessary to optimize offshoring. Hence, when teams move from a newly-formed function level to a developed-function level, teams will understand how to better leverage the offshoring resources.

Developed Teams

As employees matriculate through the system and become more accustomed to the work and the expectations, the complexity of work each employee is able to complete increases. Onshore teams are able to send more volume and more complicated work while maintaining the confidence that the work will be completed correctly and on time. When communication is clear, trust is formed, and confidence is instilled, onshore teams will optimize resources by sending all feasible work to their offshore colleagues.

For both new and developing teams, training focused on client needs and skill development enhances team cohesiveness. Offshore management usually coordinates the continued training and development of their teams. When large trainings occur, the onshore team may send a senior to lead the training. Because of budgets, teams try to minimize this travel, but when they do travel they extend their visits for multiple weeks. Training of offshore teams looks very similar to training done by onshore teams.

American Teams-Office Structure

As each American office serves a large number of clients, employees typically decide not just in what department they will work, but also which segments within that department. Segments are divided by the industries the firms serve. Employees, while typically able to switch between departments, become specialized in the terminology and detailed industry-specific problems clients may face. The American office structure is largely based on specialization.

Indian Teams-Office Structure

The definition of an Indian team is much looser than that of their American counterparts. Because the office is substantially smaller, employees do not always work on the same type of client. Their opportunity to become specialized in a certain industry is less likely. Indian personnel typically float between a number of different types of clients and are rarely staffed for long periods of time on one client. Work sent offshore is typically chunks of assignments. The team rarely gets the opportunity to see the entirety of a work project; rather they see small bits of many different clients. What they do see largely depends on the onshore team and the needs of their clients.

In some instances, the same teams from both respective sides work together on each client. Some American-based teams do not carry a heavy enough workload for a full Indian team to be kept busy. Rather, they use a few independent offshore teammates as additional support.

The Indian staffing structure looks much different than the American staffing structure, due partially to the fact that the Indian offshore offices have not yet been developed to their maximum potential. As the offices grow, employees move up the managerial ladder. It is not until employees have surpassed the introductory years that the employees begin to develop expertise in a field, another reason why offshore teams rarely interact with clients they service.

3.7 Impact on the Hiring Structure

Some of those interviewed specified that their firm is rethinking their hiring model; as more traditional first year work is sent offshore, teams do not need as many first-year staff members. Leaders in other firms stated that their hiring models remain unchanged despite the increase in offshore work. Other professionals interviewed disputed this claim, noting that the number of first year staff hired has decreased as jobs onshore are swapped for those offshore. “It is simply a better economic decision,” one stated. By hiring the same number or more in the lower staff levels, the firm expands into new industries and new specialties. Firms are only able to develop as far as their employees are able to staff.

Likewise, not all professionals agree that expectations of first and second year staff have changed. However, some noted that their expectations have been raised for entering employees because they are given more responsibility. Others indicated that they are still first years and as such the expectations of first years, no matter the responsibility given, remains unchanged.

Firms have also shifted their focus from strictly hiring accounting majors to hiring more Science, Math, Engineering, and Technology minded individuals. These oriented individuals are placed both on client specific teams and/or hold support functionality for an entire segment. Paired with accounting-minded personnel they can help orient company advancements.

Of those being hired to fulfill client-serving needs, the work given to first year employees has altered as more of the traditional first or second year work goes offshore. They are given more managerial-focused responsibilities rather than the mundane work discussed in 3.9 Criteria for Sending work Offshore and Keeping work Onshore. The level of command has shifted down the management chain, freeing up upper management for more advanced projects.

3.8 Merging Teams and Merging Cultures

Many professionals noted the importance and benefit of working with a multinational team. Not only do varied teams add a new dynamic, but perspectives, life experiences, and cultural differences may lend a hand in the effectiveness of carrying out an audit. Partners that lead such teams noted the importance of allocating resources and time to ensure that team members are aware of cultural differences and to ease the transition to working with teams from other nations.

Rotations to the office site of the collaborative team ease the transition to working with these new teams. Meeting with the team in person versus virtual technology enables the team to learn to work together as people rather than simply names and email addresses.

Similar to accountants in the United States, accountants in India are required to become a Certified Public Accountant in the United States if they have a significant role in the management of the audit. In order to obtain this certification, firms have setup rotational programs that allow and encourage Indian accountants to work on a rotation in the United States. During this time they work on the U.S. side of the team and take the CPA exam. The length of the rotation varies by firm and by program, but most rotations last around three years.

Likewise, the United States teams also send American team members to their Indian offices. These rotations have the dual benefit of training Indian-based teams and understanding the Indian culture. Discussed in 3.6 Team Structure, Development, and Training, senior management makes trips to India to meet and train the teams they will be working with; firms have found these trips to be equally beneficial to have the time to meet the team in person and to get to know them better than just a name on a sheet of paper. In visiting India, or other host countries, the senior gains a better understanding of the culture. Culture plays a significant role in effective communication and acceptance. Naivety of culture may lead to undue expectations or assumptions. In discussing this with one senior, it became clear that trips to India are more important than the meetings for which he/she is traveling.

3.9 Criteria of Sending Work Offshore versus Keeping Work Onshore

There are a few defining characteristics of work American teams usually send to their Indian counterparts. The work sent must be easily explained and transferable to a new team. With all of these factors explored, management may not send the work if it does not add an economic benefit. Offshoring can only be effective if the team derives economic benefits, while meeting client expectations.

Offshore	*Transparent and easily explained* Work that is transparent and easily explained is more likely to be sent offshore. Transparent means that errors are clearly identified within workpapers. To minimize time spent on explaining tasks, the onshore staff personnel are typically instructed to send easily explained work to their offshore colleagues. Not only does this minimize confusion, but easily explained work is often repetitive and transferable from one assignment to the next. This aspect is discussed in the next paragraph. While transparent and easily explained tasks are the most common assignments sent, they are not the only workpapers sent, but they account for the largest volume.	*Repetitive and transferable* Transferable assignments are the most cost and time efficient documents to send offshore because of the lack of changes from one workpaper to the next. When work is repetitive, teams save time by not re-explaining the task. Mundane work, as many partners described it, include items that must be completed for the final audit, but it is often repetitive, tedious, and lengthy. Therefore, such work is sent offshore so that the onshore team has more time for advanced issues. Similarly, auditors are more inclined to send work models or processes that are transferable from one client's workpaper to another workpaper within the same audit file or to a new client's workpapers that require similar methods.
Onshore	*Time constraints* If the assignment will take less than three hours to complete, the assignment will be given to onshore staff personnel. In some cases, the time it would take to explain or send the assignment may be more time-consuming than to simply complete the assignment on shore. Further, if the client needs the job done quickly, the team may be unable to send it to their offshore team for a number of reasons. First, time zone differences may mean that the offshore team is not in the office at the time of the inquiry.	*Expertise* The expertise required for certain client questions or problems may exceed the expertise of the offshore team. As discussed in 3.6 Team Structure, Indian personnel do not have the focused expertise that most American upper management personnel possess. When client questions or problems amount to something beyond the offshore team's abilities, onshore teams will complete the work on their own. The onshore team balances their ability to complete this more detailed work by sending the less detailed work offshore at all opportunities, freeing them up for more time to dedicate to complex issues.

The intention behind sending these sort of assignments is not to send it for less competent people to complete. Rather, the audit relies on these tasks, but because of their mundane nature, it is more beneficial to send the work where it can be done more efficiently at a lower cost and at a higher quality. The whole audit team greatly benefits when the offshore team is optimized.

Even though much of the work seems unnecessary, it is actually the key to ensuring the validity of the financial statements and thus dictates the final audit opinion.

One interviewee stressed the importance of avoiding a culture of "throwing things over the fence" rather than being intimately involved with the offshore team. He noted “having this attitude ultimately turns into a "death spiral" and cuts offshoring out of the picture.” It is no longer good for the firm because they do not meet our (the onshore team) expectations because they are detached from what is happening in their team’s offices. Properly identifying the proper work to be sent offshore is imperative, yet giving priority to constant communication is even more essential.

3.10 Growth in Offshoring

One CPA who is specialized in the public sector expressed the following figures as near estimates of the growth in offshoring he has seen for his industry since the economic downturn in 2008-2009 which gave way to an increase in the offshore practice.

2010- Present: Continuous Improvement			
2010-2011 • Doubled	2012-2013 • 35% increase	2014-2015 • Constant	2015 • Expected to double

(Figure 8)

As this indicates, offshoring continues to grow, lending to the idea that huge potential still remains. Five of the seven professionals indicated that they believe these levels will continue to rise for at least the next ten years.

3.11 The Cap on Offshoring

Even if firms are able and willing to send work offshore, factors beyond their abilities must be considered. The team's budget, the type of work sent, and the percentage of work sent thresholds may be restraints that limit or enhance the amount of work sent offshore. According to many of those interviewed, onshore teams have not yet reached their maximum capacity of work that can be offshored. These factors do not greatly inhibit the team, yet those interviewed noted that as this practice grows, partners will have to pay closer attention to such benchmarks.

Risk

Risk and risk mitigation must always remain at the forefront of any adjustments made to the current offshore mode and to any new ventures firms take to improve their offshoring practice. Among those interviewed, risk and risk management were frequently discussed. The adaptation and growth of the offshore market is slowed in part by the tight constraints on managing risk. Firms minimize risk by making small, calculated adjustments to their offshore practices. One interviewee noted that "the PCAOB regulations around offshoring have not tightened because of heightened use of offshoring, but there have been certain practices that the PCAOB expects from firms from a risk management perspective. These expectations, while they have not changed, are certainly monitored for risk as the field offshores. The scope of what the PCAOB monitors has widened, but the depth at which they evaluate each risk has changed. If anything the standards bar set by the PCAOB has risen across the board, not just in the offshoring risks." Risk remains at the forefront of all decisions. While risk does not cap offshoring's potential, monitoring it slows offshoring growth.

Budget

As long as the budget is benefited and not harmed by offshoring, partners perceive that they will continue to increase their allocated budget per client to their offshore teams. Essentially, this would allow the onshore team to complete a more comprehensive audit while staying within the contracted budget. Currently, the budget does not hinder the way teams plan their audit. Hence, firm leadership will continue to encourage teams to maximize the use of their offshore team so that their budget is also maximized to the fullest potential for the client. When clients feel their money is being spent in the most efficient way possible, they will be satisfied and will be more likely to remain clients to the firm.

Type of Work

As the staff level accountants advance in their career, their knowledge of audits and ability to perform also increases. These advancements in capabilities enable the firm to send more complex, work that is less able to be codified, and less transparent work to their offshore teams. The continual development of both onshore and offshore staff level accountants is incredibly important to maintain the effectiveness of these offshore teams. As the staff level accountants offshore advance in their career, United States based teams may be able to send more complex work to their colleagues. Until these advances are made, however, the United States teams are limited to the type of work they may send while still ensuring high quality from such teams. This concept was discussed further in 3.9 Criteria for Sending work Offshore and Keeping work Onshore.

Partners' work will never be offshored even if there is a partner in the offshore office. In order for the audit to be considered as an American audit done by the United States audit team, the signing partner must reside in country in which the audit was signed and abide by the regulations set forth by that country's auditing board. United States based firms are required to have an American audit. As such, accounting firm's partners must remain in the United States in order to fulfill this demand.

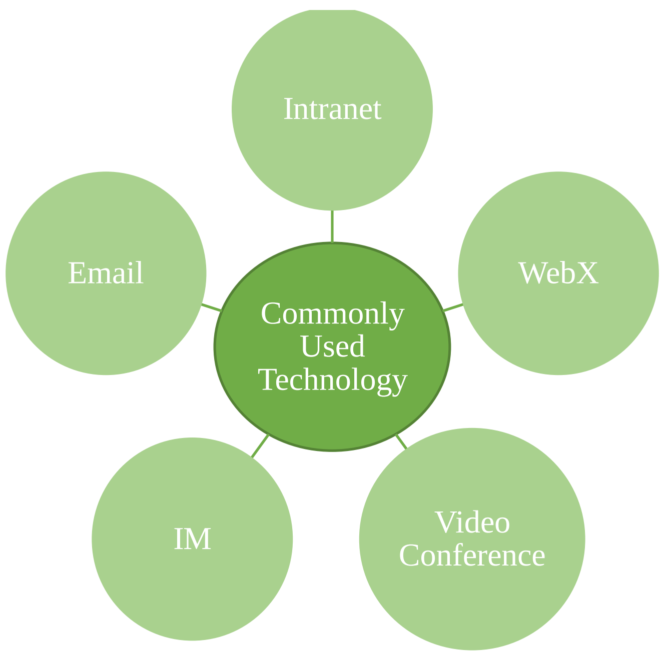
Percentage of Work

Currently approximately 10 percent of work is currently being offshored. According to one partner, ten percent of the work performed by every team in that firm is required to be sent offshore. Some teams still struggle to meet this minimum requirement, while other teams exceed this threshold. More pressure has been added to teams that do not meet this requirement because they are not optimizing their client's budget. Further, they are not maximizing the potential the offshore teams may provide to the team. It is possible that these minimum requirements will be raised to continue to advance the firm's competitiveness with other firms and with clients on the offshoring front. The benefits of increasing work in offshore offices are discussed in 3.15 Benefits to the Client and 3.16 Benefits to the Firm.

When asked about the absolute maximum percentage of a project that would be offshored, responses among those interviewed varied. Discussed above, some firms have identified a minimum offshore requirement. Conversely, not many partners noted that a maximum limit has been set. One partner indicated that he believes his firm will continue to push the offshoring limit for as long as the firm reaps the benefits. Another partner noted that they would never offshore more than fifty percent of a client's work. His reasoning was that in order to maintain the quality and the expertise that the onshore team is able to provide, the majority of the audit should be physically done by his onshore team. As the offshoring trend continues to develop and begins to push the limits on the amount of the audit that must stay onshore, firms and legislative bodies may begin to better define these limits and create regulations that more closely monitor the amount of work completed by each team.

3.12 Technology Efficiencies

Some partners made the argument that if all the technology the firms have available to them were used efficiently; they may not have to use the offshore teams at all. Since the technology department constantly advances, staying up to date across all teams becomes difficult. These technology advancements simultaneously account for the cause and effect of the increased hiring patterns in the technology sector of these major firms. The following are communication avenues heavily impacted by technology.



Prospects on whether or not technology will cause offshored work to be reinstated in the United States differed from each interviewee. Some believed that their firm would indefinitely stay offshore as those offices still hold huge potential. Conversely, some saw that their firm will remain in the offshore location, but over time will restrict work, and eventually pull work back to the U.S., as the local offices are able to support such clients for comparative prices.

3.13 Client's Comfort and Security

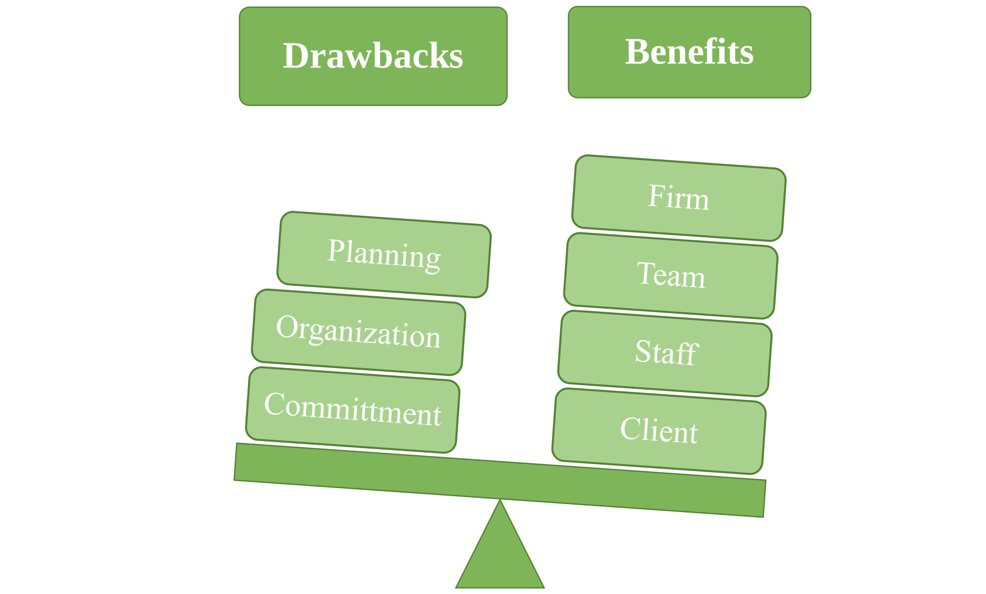
The level of client comfort with their work being offshored varies by client. It should be noted that a positive correlation exists between the client's comfort level and the continual advancements in security, technology, and services provided to them.

Data security is by far clients' and firms' primary concern. If information risks being leaked, the firm will likely lose the client and potentially other clients as well. Therefore information security remains at the forefront of partners' concern whether the work remain onshore or sent offshore.

Clients buy into the offshoring opportunity if they are able to perceive the same or greater benefit than the firm completing the audit entirely on shore. Hence, this perceived benefit increases if work is delivered to the client on time and without any additional and unnecessary disruptions or costs. If the workload on the client's end increases or if costs rise, questions are raised almost immediately and clients will be less likely to agree to such an engagement in the future.

Client culture may also be a factor to consider when discussing the opportunity to offshore work. Cultural norms may not view such transition as positive, thus, firm leadership, if they desire to offshore such work, needs to be able to discuss all risks and benefits the client may face in such an engagement.

Drawbacks and Benefits



(Figure 9)

3.14 Drawbacks of Offshoring

Nearly everyone interviewed had more difficulty identifying the offshoring factors that negatively impact their team or firm. Time, effort, planning, commitment, or organization were commonly noted drawbacks. Partners, nonetheless, described these drawbacks as being far less detrimental than the assets derived from these investments.

(Figure 10)

Significant amount of effort is required of the onshore team to continue to reap the offshore benefits. The required time, commitment, organization, and planning necessary at first glance seems enormous. “Offshoring adds a level of commitments to our onshore team. We have to constantly think ahead of what work can be sent offshore. Clear communication across countries and time zones requires planning. Though offshoring adds this level of sometimes-tedious work, our team is better off by having the offshoring option than not having it. We rely on our staff team members to stay on-top of their end of work to maximize the efficiencies offshoring can bring.” Though a heightened level of communication, organization, and planning is necessary, these extra efforts are minor compared to the benefits firm’s experience. The effort must be put in to ensure the audits still run well, and when audits run efficiently, maximum benefit is derived.

3.15 Benefits to the Client

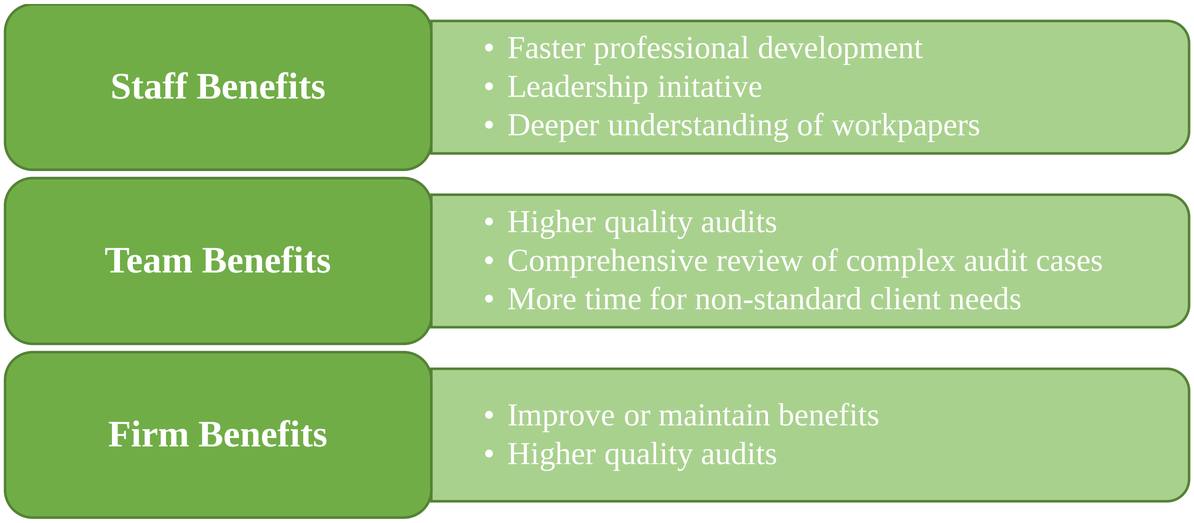
Put simply, the accounting industry is a people business and keeping clients satisfied is the primary goal. When clients are happy, both parties benefit. Offshoring has greatly influenced clients as firms pass the benefits they reap onto their clients. Passing such benefits onto the client is necessary to remain competitive with the other accounting firms.

When the firm gleans more profit from offshore business, the firms can forward these benefits back to their clients through two primary avenues. First, costs saved can be reabsorbed by the client. Firms satisfy their clients when they are able to perform their audit for less than the contracted amount. If the firm runs into difficult auditing procedures or if the firm uncovers issues that require additional testing, the firm may reallocate these recovered funds to cover costs associated with digging deeper into questionable accounts. Often times when firms identify the need to conduct additional account testing, a new, higher budget may need to be sought from the client. The recovered funds may help cut these costs, though in many situations, the recovered amounts will not completely cover the heightened costs. Ultimately, the audit team will be able to produce a higher quality audit or return recovered costs to their client, both of which should satisfy the client

3.16 Benefits to the Firm

Offshoring has turned the way accountants audit in a new direction. Shifting in this new direction has challenged leadership to develop both their business and their employees in new ways. Big Four leadership generally noted that their firm has experienced more benefits than drawbacks in these transitions.

During the course of the interviews nearly every person noted that offshoring has brought with it a new front for competition, especially amongst the Big Four firms. As of late, the Big Four firms are the main competitors in the offshore marketplace. Mid-sized and small firms have not found the need to transition into this market. Until a larger percentage of similar sized firms make the transition, these firms will not feel the pressure of making the transition since they do not directly compete with the larger accounting firms.



(Figure 11)

Staff benefits

Staff are experiencing a positive pressure to develop professionally at a faster pace than their managers were required to when they were staff. Upper management has found this to be an extreme benefit as they are now able to entrust their staff with more complex workpapers than in years prior. When staff is capable, management advance more work to them, freeing management up to conduct other business either for the client or for the firm internally.

A direct effect of staff being challenged earlier on is the fact that they are engaged to find solutions to fix the mundane work. Increasingly, the staff level initiates changes to the workpapers since they most thoroughly dig through the content in the workpapers. In the age in which staff not only work within the workpaper, but also must understand the processes to a proficiency in which they can dictate instructions to their offshore colleagues, staff notice either inefficiencies in the workpapers or repetitive steps. The staff feels empowered to voice concerns or to suggest changes to the auditing process. When staff feel that they have an input in bettering the audit, they are more likely to speak up, thus bettering the team and advancing their learning.

Team benefits

The team has benefited from offshoring as they, as a collaborative team, complete higher quality audits. Offshoring has enabled teams to tackle more challenging audit questions for clients because they have more time to research and investigate issues that arise. The more the team is able to test, the more assurance they are able to provide, which raises partners' confidence in the opinions they issue and heightens the confidence of financial statement users.

Firm benefits

Building off of the former, firm's reliability and overall ratings/reports heighten with the quality of the audits issued each year. Maintaining this reputation attracts new business in the future. Leveraging the capabilities of offshore teams enables the firm to produce more comprehensive and overall better quality audits, which are the epitome of audit business growth.

3.17 Management Notes

When asked directly what the primary benefit offshoring had on his or her team, responses, though varied, typically centered on cost benefits, time zone benefits, and extended workday benefits. These were among the most common responses and each of these benefits were discussed in previous sections (2.6 Value Added from Offshoring, 2.7 Cost Efficiency, and 2.10 Time Zone Benefits). It is important to note that among all of the benefits discussed in this section, these three benefits were key qualities firm leaders noted as the reasons they encourage utilization of the offshore functions.

3.18 Conclusion

Comprising the variety of professional backgrounds, an array of viewpoints were compared to understand the effects offshoring has had on each team, each firm, and on the industry as a whole.

Comparative Analysis

4.0 Introduction

As the dawn of offshoring wears off and normalizes in the assurance practice, the effects of this transition became evident. Firms progress from the initial rockiness that new ventures feel and move into an analysis phase. Here they can evaluate the areas that have influenced the most growth to continue these practices and understand the shortfalls of the processes to build up these functions into more beneficial system.

4.1 New-Hire Expectations

As discussed in the prior sections, both firm leaders and research suggest that team functionality, especially the staff roles, altered as firms update their competitive fronts. Partners indicated that new hires are not expected to know any more than in prior incoming classes of employees. However, higher expectations exist on the level at which the new hires are expected to catch on to new protocol and new assignments. First and second year employees are given a larger quantity of assignments in which they hold leadership responsibilities. Several of those interviewed and outside data noted this expectation. Nonetheless, others observed no immense requirement alteration of first years today compared to first years a few years prior; rather, these changes are incremental adjustments each year.

4.2 Offshore Employee Expectations

Expectations of offshore teams mimic the style of the expectations of new-hires. Offshore employees are not required to start their job knowing much, but onshore teams have increased the amount and complexity of work sent to these employees. Though they do not need to know much entering the position, teams hope that those offshore will quickly catch onto the new procedures and new assignments. Once offshore teams become comfortable with their current tasks, onshore teams send more complex work to advance these employee's knowledge and ability in the types of tasks they are assigned. Offshoring has changed these expectations as onshore teams become more comfortable and more apt to the concept. As these adjustments are made, onshore teams pursue of other tasks that can be sent to these teammates, thus the working environment and standards of offshore members has shifted.

This expectation growth has helped push the envelope on what teams are able to accomplish for their clients and within their allocated budget. The workplace has been affected from the auditing standpoint in that the standards employees hold one another to has risen. People are challenged to know and understand more complex issues at a quicker pace.

4.3 Team Composition

All of these minor changes lend to the greater shift companies participate in to integrate globalization, technology, and better work environment trends. Auditors notice these outside influences most significantly impact the greater picture of their occupation, which matriculate down into their day-to-day work.

Upper management administration styles are becoming more delegation focused. These leaders have the clearest overall picture and understand ways to improve methods to implement procedures to integrate action items to align with new trends. These procedural changes, while often implemented by partners and managers, often begin with younger staff who are deeply involved with the daily work. They notice overlap and repetitive tasks that, if eliminated, could save the firm time or money either through sending to their offshore team or altering the way it is completed onshore. Many teams have shifted towards a flat communication formation rather than a hierarchy formation. This has enabled teams to make progressive changes and to eliminate unnecessary red tape that traditionally slows the decision process.

4.4 Hiring Structure

The hiring structure, specifically the type and volume of new employee being recruited and signing offers, has been heavily influenced by the influx of offshoring. From the collective Big Four stance, firms are looking to hire more STEM (science, technology, engineering, and math) majors onto their teams. This allows teams to better service clients or to better enable teams to serve their clients. Partners, when asked about hiring structures and effects on teams, did not seem to notice a change in the number of people hired. Team sizes have remained nearly the same though people may be more heavily involved in a larger number of teams than in prior years. With this shift, teams are beginning to recognize significant benefits offshoring can have on their team; thus, team members more adamantly encourage offshoring a greater percentage of their workload.

Some argue that the increased use of offshoring has negatively impacted the hiring structure in America. Perhaps more clearly seen in the manufacturing sector, patrons feel as if low-level and blue-collar jobs are diminishing as these jobs are moved to lower-cost countries. Offshoring, as discussed in this paper, relates to the transfer of services within an organization to a lower cost region. While firms also seek the benefits derived from this transition, it does not seem to have the political and social consequences that some manufacturers face. Concievably this is because when accounting firms offshore they typically send work internally to their abroad employees rather than using a third party company. Firms are tied to keeping work in house for the sake of highly confidential data that auditors interact with daily. Manufacturing firms often deal with the pressure brought about when they offshore or outsource to factories with sub-humane working conditions. When retaining work within the company, Big Four employees receive similar benefits no matter where they are located. The primary difference between the work done offshore when compared to the exact same assignment completed onshore is the cost of the labor assigned to each task.

4.5 Lifestyle and Balance

Offshoring has also aided in a more balanced work/life lifestyle. Currently employees in industries that require long working days are pressuring authorities to find a better work/ life fit. While the craziness associated with year-end audits will not likely change, the distribution of work throughout the year has been aided by a stronger offshoring culture. When management is presented with the possibility of offshoring paired with the recent trend of pushing work to interim, teams are able to accomplish more during traditionally slower seasons, thus decreasing their workload during their peak season. Although work is still not fully balanced throughout the year, balancing it entirely is impossible due to the nature of the workload fluctuations. Yet, alleviating additional pressures increases the motivation and stamina of all employees involved even in the midst of busy season.

4.6 Pressures

Resources have indicated a clear increase in total business and overall profit when firms maximize their offshore capabilities. Pressures have been placed on all levels of management to increase the standards for percentage of work offshored each quarter. Teams must meet quotas to contribute their share to the firm's goals of increasing their reliance on offshoring and of maximizing client's money through more thorough audits. Upper management receives pressure to monitor the audit's quality and budget, whereas staff members feel pressure to improve communication, turnaround times, and effectiveness of their colleagues.

These changes impact the workplace in the ways teams approach new and existing clients. All team members are called to re-evaluate their daily work and determine if any of it could be offshored. Teams no longer look at their workpapers as a list of things that must be completed by assigning down the chain of command; rather, these papers are tools for improving audit quality and thus firm quality/ reputation.

4.7 Technology

Offshoring and technology mutually encourage the other to advance. Offshoring cannot advance if the technology is not in existence to support such transfers, yet technology also continues to push the envelope of progressive offshoring. Discussed previously, hiring technology-focused personnel has risen over the past few years, in part to help advance the firm through this new venture.

4.8 Quality and Cost

While costs are arguably the single factor that is most impacted by offshoring activities. An indirect relationship exists between quality and cost when work is sent offshore. As quality remains constant, offshore techniques enable costs to be cut and the total audit to improve. Those interviewed could attest to the depressed costs, but were unable to provide exact figures due to confidentiality requirements.

4.9 Growth and Projection for the Future

Looking forward, partners and seniors alike are very optimistic for the future of offshoring and the benefits it will continue to provide to their firms. Discussed in 3.19 Growth in Offshoring, the offshoring industry has seen very strong positive trends in growth and profitability since its rise in prevalence. Although solely supported by individual management's future forecasts, Big Four leadership anticipates continued and heightened growth in the use of offshore teams. They anticipate that their teams will send a larger variety of work and a larger volume of work per team to their offshore counterparts.

4.10 Conclusion

Overall, research and interview feedback indicated similar responses about views, benefits, and drawbacks of the offshoring trend on the workplace and on audit quality. Although approached from different directions, most drew similar conclusions. As the audit industry evolves and as the offshoring industry advances, the two paths have collided, merged, and influenced the other to analyze new avenues for growth and development.

Conclusion

5.0 Conclusion

As firms search for ways to increase their competitive fronts in the industry, optimizing offshoring capabilities was an answer for many firms. Major competitors in the auditing industry began competing in this space as a way to maximize their workforce and budgets and to improve services already offered to clients. Through research and professional interviews facts point to the general consensus that moving offshore positively impacted the auditing field, the firm's profitability and ability to serve client's needs, and the general work environment for auditors.

The convergence of the Federal Accounting Standards Board criteria with the International Accounting Standards Board paired with the release of the Sarbanes–Oxley Act of 2002 raised auditing standards and protocols, which raised auditing prices to the client and added pressures on firms to abide by such regulations. In the wake of this adjustment, the 2008 financial fall called for firms to adjust their strategies in order to maintain some profitability despite these two major effects. As such, offshoring became a logical strategic move for many of the larger firms that could support the costs and time associated this large transition. Although the Big Four accounting firms make up the majority of the offshoring industry in the accounting segment, other mid-sized and smaller firms may transition in the future. Firms, clients, and professionals alike agree that the benefits derived from offshoring greatly override the costs associated with the transition. Offshoring has pushed the industry to re-evaluate methods and calls professionals to continually improve the way in which they operate their businesses.

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Figure 3:

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Figure 4:

Created from data received in interviews.

Figure 5:

Created from data received in interviews and from research.

Figure 6:

Created from data received in interviews and from research.

Figure 7:
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Figure 8:
Created from data received in interviews and from research.

Figure 9:
Created from data received in interviews and from research.

Figure 10:
Created from data received in interviews and from research.

Figure 11:
Created from data received in interviews and from research.

Appendix

7.0 Appendix

7.1 Interview Request

Honors Capstone Thesis Interview Request

Dear [NAME],

I hope you have been doing well.

I am reaching out to you regarding a research project that I am working on for my Honors Capstone Senior Thesis. I am working under the guidance of Professor Randy Elder of the Whitman Accounting Department. As cultures, industries, and businesses become more globalized, companies seek new ways to advance and compete within their industry. My project focuses on globalization and offshoring and their effects on audits.

Would you be available to assist me in my thesis? I am interested in learning about the future perspectives and the path [Firm] has taken in terms of globalization and offshoring and I am curious to collect data on different firms and top firm leaderships' approaches towards these trends. If you are willing to assist, would it be possible to set up an in-person or phone interview to discuss [Firm's] and your personal views of the outsourcing on a global scale? The interview should last no longer than one hour. If you will be in Syracuse for the Beta Alpha Psi banquet on November 12, perhaps we could meet during your visit. Otherwise, we can coordinate a phone time sometime in the first two weeks of November.

Thank you for your consideration and assistance with my Honors Capstone project. I look forward to speaking with you soon. Should you have any questions or concerns, please feel free to reach out to me. My email address is mpfarnet@syr.edu and my phone number is (678) 817-6467.

Best regards,
Mignon Farnet

Mignon Farnet
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7.2 Interview Questions

Lead in questions

1. How many years have you been with **[Firm]?**
2. What is your title and role in the firm?
3. How do you define offshoring?
4. Describe your opinion on offshoring?

About the Firm—Offshoring trends

5. The trend toward offshoring has rapidly increased over the last several years. When did **[Firm]** first start offshoring work?
6. Many articles reference India as a primary location for service firms to send their off shored work, where does **[Firm]** offshore? Why?
    a. Do all global offices offshore? If even some do, to where do they offshore, same countries?
7. What types of work and/ or what business functions do **[Firm]** offshore/ outsource? Please specify as much as possible.
8. While you may not know exactly, what percent of audit work does **[Firm]** currently offshore?
9. Is the amount of work you offshore on your engagements proportional to the amount of work the firm offshores as a whole?
10. While keeping certain work local is important, is there a maximum percentage of work that **[Firm]** will or can offshore?
11. Considering both last year and this year, what percent of work is do you predict will be offshored next year? An increase, constant, or decrease from the previous years?
12. Many market analyses say that South American countries are the target location for the next phase of offshoring development; do you predict that **[Firm]** will offshore to new locations? If so, where? Why that/those location(s)?

Personal/ Firm Opinion

13. What are the firm's opinions/ perceptions (pros and cons) of offshoring?
14. What are your personal opinions (pros and cons) of offshoring? Do you believe offshoring generally has a positive impact on your team/ **[Firm]**?
15. By naming as many specific examples as possible, how have you seen offshoring benefit (if any) your work? **[Firm's]** work?
16. What are your perceptions and goals for offshoring in the future?

Changes in the workplace

17. As a **[partner]**, have your expectations of staff level employees changed as you offshore more work?
18. How has the work assigned to the staff levels changed since the industry is shifting towards offshoring more work that is typically assigned to a first year?
19. How prepared are first year staff members to perform more advanced audit tasks as you send more of the 'typical' first year work offshore?

Managing Offshored work

20. As the volume of work that is offshored increases, someone on the local team must manage this work. Who typically manages the offshored work?
21. Who reviews the work that is received back?
22. Are the individuals at the offshore location employees of your firm or not?
23. What is the typical background and experience of the people that you offshore work to?
24. How do clients perceive offshoring? Have any of your clients raised concerns about offshoring some of their audit work?
25. How does the firm protect client information from being leaked in the transfer of the information to offshore users? Is there risk and how is the risk controlled?
    Thank you for your time!

7.3 Chart of Interview Responses

See attached PDF